

NEW ISSUE - BOOK-ENTRY ONLY

RATINGS:
Moody's: Applied For
S&P: Applied For
Fitch: Applied For
(See "RATINGS" herein.)

In the opinion of Bond Counsel, named below, assuming continuing compliance by the City after the date hereof with certain covenants contained in the Ordinance authorizing the issuance of the Bonds and subject to the matters described herein, interest on the Bonds under existing statutes, regulations, rulings and court decisions (1) will be excludable from the gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended and (2) will not be included in computing the alternative minimum taxable income of individuals or, except as described herein, corporations. See "TAX MATTERS" herein for a description of the opinion and other tax consequences.



\$135,000,000*
CITY OF SAN ANTONIO, TEXAS
HOTEL OCCUPANCY TAX SUBORDINATE LIEN
VARIABLE RATE DEMAND REVENUE AND REFUNDING BONDS, SERIES 2008

Date: July 1, 2008

Due: August 15, 2034

The \$135,000,000* "City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Revenue Variable Rate Demand Revenue and Refunding Bonds, Series 2008" (the "Bonds") are being issued by the City of San Antonio, Texas (the "City") pursuant to the laws of the State of Texas, including Chapters 1207 and 1371, Texas Government Code, as amended, and Chapter 351, Texas Tax Code, as amended (collectively, the "Applicable Law"); and an ordinance adopted by the City Council of the City (the "City Council") on June 12, 2008 (the "Ordinance") (see "PLAN OF FINANCING – Authority for Issuance" herein).

The Bonds are being issued as Variable Rate Obligations consisting of adjustable rate bonds bearing interest at Weekly Rates during a Weekly Rate Period. The initial Weekly Rates for the Bonds will be determined by the initial purchasers of the Bonds (the "Underwriters"), as shown on the inside cover hereof. Thereafter, while the Bonds accrue interest at Weekly Rates, the Weekly Rates for the Bonds will be determined by Wachovia Bank, National Association, as the initial remarketing agent (the "Remarketing Agent"). For descriptions of the method of determination of the interest rates during the Weekly Mode, changes in Mode and certain other terms applicable to the Bonds in the Weekly Mode, see "THE BONDS – Interest Rate Mode," herein.

The Bonds will be issuable in fully registered form only, without coupons, in denominations of \$100,000 and integral multiples of \$5,000 in excess thereof, if issued in any mode other than the Auction Mode, Term Mode, or Fixed Mode; in denominations of \$50,000 and any integral multiple thereof if issued in an Auction Mode; and in denominations of \$5,000 and any integral multiple thereof if issued in the Term Mode or Fixed Mode. Because the Bonds are issued in a Weekly Mode, they will be issued in denominations of \$100,000 and integral multiples of \$5,000 in excess thereof. The principal of and interest on the Bonds will be paid by Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), while it acts as securities depository for the Bonds (see THE BONDS – Bond Provisions – Book-Entry-Only System" herein).

In addition to the Weekly Mode, the Bonds may also bear interest in a Commercial Paper Mode, Daily Mode, Auction Rate Mode, Term Mode and Fixed Rate Mode. During a Weekly Mode, the Bonds are subject to mandatory tender for purchase on each Purchase Date at the Purchase Price. See "APPENDIX B – Excerpts from the Ordinance" attached hereto. The Bonds are also subject to mandatory tender for purchase at the times and subject to the conditions set forth in the Ordinance and the Bonds.

The Bonds are subject to optional and mandatory redemption and mandatory tender for purchase prior to maturity, all as more fully described herein.

Principal of and interest on the Bonds and the purchase price of Bonds tendered or deemed tendered and not remarketed by the applicable Remarketing Agent are payable from an irrevocable direct-pay letter of credit (the "Letter of Credit") issued by Wachovia Bank, National Association (the "Credit Provider" or the "Bank").

Under the Letter of Credit, the Credit Provider is liable for the Stated Amount of the Letter of Credit as described herein. Subject to certain limitations and conditions described herein under "THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT," an alternate credit facility may be substituted for the Letter of Credit. The Letter of Credit will expire on July 11, 2010, unless otherwise extended or renewed or earlier terminated as described therein.

The purchase of the Bonds on a Purchase Date may be made with the proceeds of the remarketing of such Bonds by the Remarketing Agent.

The Bonds are special obligations of the City payable solely from and equally and ratably secured by a lien on and pledge of the Pledged Revenues which consist primarily of revenues derived by the City from its hotel occupancy tax and other sources and funds, including a Debt Service Reserve Fund. No mortgage of or lien on any of the physical properties forming a part of the City's convention center facilities, or any lien thereon or security interest therein, has been given to secure the payment of the Bonds. The Bonds are limited obligations of the City payable solely from a lien on and pledge of the Pledged Revenues. Neither the ad valorem taxing power of the City, the State of Texas, nor any political subdivision thereof, nor any other funds of the City, are pledged to the payment of the Bonds other than the City's hotel occupancy tax. (See "PLAN OF FINANCING – Security for the Bonds" herein.)

WHILE THE ORDINANCE PROVIDES THAT THE BONDS MAY, UNDER CERTAIN CIRCUMSTANCES SET FORTH THEREIN, BE CONVERTED TO A COMMERCIAL PAPER MODE, DAILY MODE, AUCTION RATE MODE, TERM RATE MODE OR FIXED RATE MODE, THIS OFFICIAL STATEMENT PRIMARILY DESCRIBES THE BONDS ONLY WHILE THEY ARE IN THE WEEKLY MODE. SEE "APPENDIX B – EXCERPTS FROM THE ORDINANCE" ATTACHED HERETO. THE BONDS ARE SUBJECT TO MANDATORY TENDER IN THE EVENT OF ANY SUCH CONVERSION, SEE "THE BONDS - TENDER AND PURCHASE OF BONDS" HEREIN.

SEE INSIDE COVER PAGE FOR MATURITY AND PRICING SCHEDULE AND CUSIP NUMBERS FOR THE BONDS

The Bonds are offered for delivery, when, as, and if issued and received by the Underwriters named below and subject to the approving opinion of the Attorney General of the State of Texas and the legal opinion of Fulbright & Jaworski L.L.P., San Antonio, Texas, as Bond Counsel (see "LEGAL MATTERS" herein). Certain legal matters will be passed upon for the City by the City Attorney and for the Underwriters and the Remarketing Agent by their counsel, Andrews Kurth LLP, Houston, Texas. It is expected that the Bonds will be available for delivery through the services of DTC on or about July 11, 2008.

WACHOVIA BANK, NATIONAL ASSOCIATION

* Preliminary, subject to change.

MATURITY AND PRICING SCHEDULE AND CUSIP NUMBERS

\$135,000,000*

Hotel Occupancy Tax Subordinate Lien Variable Rate Demand Revenue and Refunding Bonds, Series 2008

Initially issued as Variable Rate Bonds bearing interest at
a Weekly Rate consisting of

\$_____ *Term Bonds, Due August 15, 2034, Priced at 100% - CUSIP Prefix⁽¹⁾: _____

<u>Par Amount*</u>	<u>Initial Weekly Rate</u>	<u>CUSIP Suffix⁽¹⁾</u>
\$	%	

* Preliminary, subject to change.

⁽¹⁾ CUSIP numbers have been assigned to the Bonds by Standard & Poor's CUSIP Service Bureau, A Division of The McGraw-Hill Companies, Inc., and are included solely for the convenience of the owners of the Bonds. None the City, the Co-Financial Advisors, nor the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.

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**CITY OF SAN ANTONIO, TEXAS
ADMINISTRATION**

CITY COUNCIL:

<u>Name</u>	<u>Years on City Council</u>	<u>Term Expires</u>	<u>Occupation</u>
Phil Hardberger, Mayor	3 Years	May 31, 2009	Retired, Appellate Court Judge
Mary Alice P. Cisneros, District 1	1 Year, 1 Month	May 31, 2009	Small Business Owner
Sheila D. McNeil, District 2	3 Years, 1 Month	May 31, 2009	Self Employed
Jennifer V. Ramos, District 3	6 Months	May 31, 2009	Self Employed
Philip A. Cortez, District 4	1 Year, 1 Month	May 31, 2009	Community Liaison
Lourdes Galvan, District 5	1 Year	May 31, 2009	Manager of Small Business
Delicia Herrera, District 6	3 Years, 1 Month	May 31, 2009	Self Employed
Justin Rodriguez, District 7	1 Year, 1 Month	May 31, 2009	Attorney
Diane G. Cibrian, District 8	1 Year	May 31, 2009	Small Business Owner President and CEO, of an Engineering Firm
Louis E. Rowe, District 9	6 Months	May 31, 2009	Firm
John G. Clamp, District 10	1 Year, 1 Month	May 31, 2009	Small Business Owner

CITY OFFICIALS:

<u>Name</u>	<u>Position</u>	<u>Years with City of San Antonio</u>	<u>Years in Current Position</u>
Sheryl L. Sculley	City Manager	2 Years, 8 Months	2 Years, 8 Months
Pat DiGiovanni	Deputy City Manager	2 Years, 4 Months	2 Years, 4 Months
A.J. Rodriguez	Deputy City Manager	Appointed June 30, 2008	Appointed June 30, 2008
Frances A. Gonzalez	Assistant City Manager	23 Years, 9 Months	4 Years, 8 Months
Erik J. Walsh	Assistant City Manager	14 Years, 1 Month	2 Years, 5 Months
Penny Postoak Ferguson	Assistant City Manager	1 Year, 10 Months	1 Year, 10 Months
T.C. Broadnax	Assistant City Manager	1 Year 7 Months	1 Year, 7 Months
Sharon De La Garza	Assistant City Manager	4 Years, 2 Months	3 Months
Richard Varn	Chief Information Officer	1 Year, 2 months	7 Months
Michael D. Bernard	City Attorney	2 Years, 9 Months	2 Years, 9 Months
Leticia M. Vacek	City Clerk	4 Years, 1 Month	4 Years, 1 Month
Ben Gorzell, Jr.	Director of Finance	17 Years, 8 months	2 Years, 5 Months
Peter Zaroni	Director of Management and Budget	11 Years, 3 Months	4 Years, 6 Months

CONSULTANTS AND ADVISORS:

Bond Counsel

Fulbright & Jaworski L.L.P., San Antonio, Texas

Co-Certified Public Accountants*

KPMG L.L.P., San Antonio, Texas,
Leal & Carter, P.C., San Antonio, Texas,
and Robert J. Williams, CPA, San Antonio, Texas

Co-Financial Advisors

Coastal Securities, San Antonio, Texas
and Estrada Hinojosa & Company, Inc., San Antonio, Texas

* KPMG L.L.P., Leal & Carter, P.C., and Robert J. Williams, CPA, the City's independent auditors, have not been engaged to perform, and have not performed, since the date of their report included herein any procedures on the financial statements addressed in that report. KPMG L.L.P., Leal & Carter, P.C., and Robert J. Williams, CPA, also have not performed any procedures relating to this Official Statement.

USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

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

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE 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 Preliminary Official Statement. The Underwriters have reviewed the information in this Preliminary Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The Co-Financial Advisors have provided the following sentence for inclusion in this Preliminary Official Statement. The Co-Financial Advisors have reviewed the information in this Preliminary 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 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 APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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

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PRELIMINARY OFFICIAL STATEMENT
Relating to the
\$135,000,000*
CITY OF SAN ANTONIO, TEXAS
HOTEL OCCUPANCY TAX SUBORDINATE LIEN VARIABLE RATE DEMAND REVENUE
REVENUE AND REFUNDING BONDS, SERIES 2008

INTRODUCTION

This Official Statement of the City of San Antonio, Texas (the "City") provides certain information in connection with the sale by the City of its \$_____ * "City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Variable Rate Demand Revenue and Refunding Bonds, Series 2008" (the "Bonds"). This Official Statement describes the Bonds, the Ordinance (defined herein), the City's hotel occupancy taxes, and certain other information about the City and its Convention Center (defined herein). All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Defined terms used herein without definition are defined in the ordinance authorizing the Bonds adopted by the City Council of the City (the "City Council") on June 12, 2008 (the "Ordinance"). See "APPENDIX B – Excerpts from the Ordinance". Copies of such documents may be obtained from the City Finance Department, 111 Soledad, 5th Floor, San Antonio, Texas 78205 and, during the offering period, from the City's Co-Financial Advisors, Coastal Securities, 600 Navarro, Suite 350, San Antonio, Texas, 78205, or Estrada Hinojosa & Company, Inc., 1400 Frost Bank Tower, 100 West Houston Street, San Antonio, Texas 78205, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the final Official Statement will be filed with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314.

In general, this Official Statement describes only the Bonds while they bear interest in the Weekly Mode.

THE BONDS ARE SPECIAL OBLIGATIONS OF THE CITY PAYABLE SOLELY FROM A LIEN ON AND PLEDGE OF THE PLEDGED REVENUES. NEITHER THE TAXING POWER OF THE CITY, THE STATE OF TEXAS, NOR ANY POLITICAL SUBDIVISION THEREOF, NOR ANY OTHER FUNDS OF THE CITY ARE PLEDGED TO THE PAYMENT OF THE BONDS EXCEPT FOR THE SUBORDINATE LIEN ON AND PLEDGE OF THE CITY'S HOTEL OCCUPANCY TAX. NO MORTGAGE OR LIEN HAS BEEN CREATED ON THE PHYSICAL PROPERTIES OF THE CONVENTION CENTER TO SECURE PAYMENT OF THE BONDS.

PLAN OF FINANCING

Purpose

The City is issuing the Bonds for the purpose of (i) refunding its outstanding Hotel Occupancy Tax Subordinate Lien Revenue and Refunding Bonds, Series 2004B, as further described in Schedule I hereto (the "Refunded Bonds"); (ii) renovations to the Lila Cockrell Theatre, including Americans with Disabilities Act compliance improvements, asbestos abatement, renovation of all interior finishes and mechanical, electrical, and plumbing upgrades, as well as other expansion related improvements; and (iii) paying costs of issuance of the Bonds.

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* Preliminary, subject to change.

Sources and Uses

The following is a summary of the application of the proceeds of the Bonds and the sources and uses of funds:

Sources of Funds	
Principal Amount of the Bonds	\$
City Contribution	
Total Sources of Funds	\$ <u> </u>
Uses of Funds	
Escrow Fund Deposit	\$
Reserve Fund	
Underwriters' Discount	
Costs of Issuance	
Total Uses of Funds	\$ <u> </u>

Refunded Bonds

The Refunded Bonds, and interest due thereon, are to be paid on the scheduled interest payment dates or the redemption date, if any, identified on Schedule I (the "Redemption Date") from funds to be deposited with The Bank of New York Trust Company, National Association, Dallas, Texas (the "Escrow Agent") pursuant to an Escrow and Trust Agreement dated as of June 12, 2008 (the "Escrow Agreement") between the City and the Escrow Agent.

The Ordinance provides that the City will deposit certain proceeds of the sale of the Bonds with the Escrow Agent in such amounts which are necessary, when combined with the interest earnings thereon, to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in an escrow fund (the "Escrow Fund") irrevocably pledged to the payment of principal of and interest on the Refunded Bonds and will be used to purchase certain obligations of the United States of America and obligations of agencies or instrumentalities of the United States, including obligations that are unconditionally guaranteed by the agency of instrumentality, that are noncallable and that were, on the date the Ordinance was adopted, rated as to investment quality by a nationally recognized rating firm not less than "AAA" ("Federal Securities"). Under the laws of the State of Texas, particularly Section 1207.062(b), as amended, Texas Government Code, "AAA"-rated obligations of agencies or instrumentalities of the United States may be deposited with the Escrow Agent under the terms of the Escrow Agreement for the payment and defeasance of the Refunded Bonds issued after September 1, 1999. Such maturing principal of and interest on the Federal Securities will not be available to pay the debt service requirements on the Bonds.

Simultaneously with the issuance of the Bonds, the City will give irrevocable instructions to give the required notice to the owners of the Refunded Bonds that the Refunded Bonds will be redeemed prior to the stated maturity on the Redemption Date, on which date the money will be made available to redeem the Refunded Bonds from money held under the Escrow Agreement.

Grant Thornton LLP, Minneapolis, Minnesota (the "Verification Agent"), will verify from the information provided to them the mathematical accuracy as of the date of the closing on the Bonds of (1) the computations contained in the schedules provided by Coastal Securities, in its capacity as co-financial advisor to the City to determine that the anticipated receipts from the Federal Securities and cash deposits listed in the schedules, to be held in escrow, will be sufficient to pay, when due, the principal, interest, and call premium, if any, payment requirements of the Refunded Bonds, and (2) the computations of yield on both the Federal Securities and the Bonds, contained in the provided schedules used by Bond Counsel in its determination that the interest on the Bonds is excludable from gross income for federal income tax purposes. Grant Thornton will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest on the Bonds.

The Escrow Agent will hold and administer the Escrow Fund and will apply the maturing principal of and interest on the Federal Securities to payments of principal of, redemption premium, if any, and interest on the Refunded Bonds. By the deposit of the Federal Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, and in reliance upon the report of the Verification Agent, Bond Counsel is of the opinion that the City will have entered into firm banking and financial arrangements for the final payment and discharge of the Refunded Bonds pursuant to the terms of the ordinance authorizing their issuance and in accordance with applicable Texas law, and that the Refunded

Bonds will be deemed to be no longer outstanding, except for the purpose of being paid from funds held in the Escrow Fund. (See APPENDIX C – Form of Bond Counsel Opinion.)”)

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

Authority for Issuance

The Bonds will be issued under the provisions of applicable laws, including Chapters 1207 and 1371, Texas Government Code, as amended; Chapter 351, Texas Tax Code, as amended (the “Hotel Tax Act” or the “HOT Act”); and the Ordinance. Excerpts from the Ordinance are included in APPENDIX B to this Official Statement.

The City’s Hotel Occupancy Tax

The City’s hotel occupancy tax (the “Hotel Occupancy Tax” or “HOT”), currently levied by the City at the aggregate rate of 9% of the price paid for a room in a hotel, is imposed thereby pursuant to the HOT Act and Ordinance No. 78834, adopted by the City Council on September 30, 1993, and effective as of January 1, 1994, and is comprised of the “Expansion HOT” and the “General HOT.” The Expansion HOT is the HOT imposed by the City on the price paid for a room in a hotel at the rate of 2% more than 7% of the cost of such room. Pursuant to the HOT Act, the Expansion HOT can only be used for expansion of existing Convention Center facilities or the payment of obligations issued for such purpose.

The General HOT is the HOT imposed by the City at the rate of 7% of the price paid for a room in a hotel and is comprised of the “Pledged 5.25% HOT” and the “Pledged 1.75% HOT.” The Pledged 5.25% HOT is equal to 75% of the General HOT (or 5.25%). The Pledged 1.75% HOT is equal to the remaining 25% of the 7% General HOT (or 1.75%). (See “THE HOTEL OCCUPANCY TAX – Funds and Flow of Funds” below.)

Outstanding City HOT Debt

The City has previously issued, and (subsequent to the initial delivery of the Bonds) there are currently outstanding, the following series of obligations payable in whole or in part from the City’s collection of HOT revenues: (i) the “City of San Antonio, Texas Hotel Occupancy Tax Revenue Bonds, Series 1996” (the “Prior Lien Bonds”); (ii) the “City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2004A” (the “2004A Bonds”); (iii) the “City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2006” (the “2006 Bonds” and collectively with the 2004A Bonds, the “Parity Bonds,” and the Parity Bonds, together with the Bonds, the “Bonds Similarly Secured”); (iv) the Hotel Bonds (defined below); and (v) the “City of San Antonio, Texas Hotel Occupancy Tax Surplus Revenue Notes, Series 2007” (the “Subordinate Lien Obligations”). The Prior Lien Bonds are payable from (i) a prior lien on the revenues from the Pledged 1.75% HOT, plus (ii) a prior lien on the revenues from the Pledged 5.25% HOT, plus (iii) a lien on the revenues from the Expansion HOT in such order of priority as hereinafter described (see “PLAN OF FINANCING – Issuance of the Hotel Bonds”), plus (iv) a prior lien on the earnings of the investment of the Pledged 1.75% Account and the Pledged 5.25% Account, the Debt Service Fund” for the Prior Lien Bonds, and the Debt Service Reserve Fund (recognizing that the Debt Service Reserve Fund itself is a common reserve fund securing both the Prior Lien Bonds and the Bonds Similarly Secured). The Bonds similarly secured are payable from (i) a subordinate and inferior lien on the revenues from the Pledged 1.75% HOT, plus (ii) a subordinate and inferior lien on the revenues from the Pledged 5.25% HOT, plus (iii) a first and prior lien on the earnings on the investments of the Debt Service Fund, plus (iv) a subordinate and inferior lien on the earnings of the investment of the Pledged 1.75% HOT Fund and the Pledged 5.25% HOT Fund and the Debt Service Reserve Fund. (See “PLAN OF FINANCING – Security for the Bonds” herein.) The Hotel Bonds are payable from the sources and in the manner described below in “PLAN OF FINANCING – Issuance of the Hotel Bonds.” The Subordinate Lien Obligations are payable from the revenues of the General HOT that remain after the City’s payment of all amounts required by law, ordinance, or contract (whether then or thereafter existing) to be paid therefrom, including debt service and other amounts due and owing with respect to the Prior Lien Bonds and the Bonds Similarly Secured (referred to in the ordinance authorizing the issuance of the Subordinate Lien Obligations as the “Surplus Revenues”)

Issuance of the Hotel Bonds

As used throughout this Official Statement, these capitalized terms are defined as follows:

“6% State HOT” means the tax imposed by the State pursuant to Chapter 156, Texas Tax Code, for the use or possession or for the right to the use or possession of a room or space in a hotel costing \$15 or more each day at a rate equal to 6% (or such higher rate that may be imposed in the future) of the price paid for a room at such hotel.

“6.25% State Sales Tax” means the sales and use tax imposed by the State pursuant to Chapter 151, Texas Tax Code, on taxable items at a rate of 6.25% (or such higher rate that may be imposed in the future) of the sale price of such taxable items.

“1996 Amendatory Ordinance” means the ordinance adopted by the City Council on June 3, 2004, which, among other items, added a first and prior lien pledge of the Pledged 1.75% HOT as additional security for the Prior Lien Bonds, and authorized the use of the Expansion HOT as additional security for the Hotel Bonds in the manner described below.

“Corporation” the City of San Antonio, Texas Convention Center Hotel Finance Corporation, a Texas nonprofit corporation created by the City for the purpose of issuing the Hotel Bonds on the City’s behalf.

“Hotel Bonds” means, collectively, the \$129,930,000 “City of San Antonio, Texas Convention Center Hotel Finance Corporation Contract Revenue Empowerment Zone Bonds, Series 2005A” and the \$78,215,000 “City of San Antonio, Texas Convention Center Hotel Finance Corporation Contract Revenue Bonds, Taxable Series 2005B”, issued for the purpose of providing proceeds for construction of the Hotel Project.

“Hotel Project” means the 1,000 room convention center hotel and related improvements constructed on land located adjacent to the Convention Center facilities.

“Hotel Project General HOTs” means all revenues derived from the General HOT collected at the Hotel Project for so long as any Hotel Bonds (or any refunding bonds therefor) are outstanding that remain after payment of debt service and other requirements relating to the Prior Lien Bonds and the Bonds Similarly Secured.

“Pledged Hotel Operating Revenues” means the net revenues derived from the operation of the Hotel Project that remain after making necessary monthly escrow payments for property taxes; insurance premiums; and furniture, fixtures, and equipment replacements.

“State HOTs” means all revenues received by the City from the State pursuant to Section 351.102(c), Texas Tax Code, which revenues are derived from the 6% State HOT collected at the Hotel Project during the first ten years after the Hotel Project is open for initial occupancy.

“State Sales Taxes” means all revenues received by the City from the State pursuant to Section 351.102(c), Texas Tax Code, which revenues are derived from the 6.25% State Sales Tax collected at the Hotel Project (including from all businesses located within the Hotel Project) during the first ten years after the Hotel Project is open for initial occupancy.

In preparation for its issuance of the Hotel Bonds, the City took multiple proactive actions aimed at providing adequate credit support therefor, while also preserving the revenue streams supporting its existing HOT bond program. The City issued the Prior Lien Bonds on April 3, 1996, in the aggregate principal amount of \$182,012,480.60, securing those bonds with a first and prior lien on both the Expansion HOT and the Pledged 5.25% HOT (at the time of issuance of the Prior Lien Bonds, State law prevented more than 75% of the General HOT to be used as security for debt). (See “THE HOTEL OCCUPANCY TAX -- Allocation of Hotel Occupancy Tax”.)

Anticipating the issuance of the Hotel Bonds, the City adopted the 1996 Amendatory Ordinance for the purpose of altering the security for the Prior Lien Bonds. The City added as additional security therefor a first and prior lien on the Pledged 1.75% HOT, as was then permitted by applicable Texas law as a result of a 2001 legislative amendment. (See “THE HOTEL OCCUPANCY TAX -- Allocation of the Hotel Occupancy Tax”.) With this

additional security now serving as an identical substitute, the City then subordinated the first and prior lien on the Expansion HOT that secured the Prior Lien Bonds, permitting instead a first lien on the Expansion HOT as additional security for bonds issued to provide proceeds for the Hotel Project if and only if other revenues pledged to the repayment thereof were insufficient for such purpose. The City then issued the Parity Bonds in part to provide proceeds to refund 47% of the then-outstanding Prior Lien Bonds, thus reducing the amount of outstanding debt supported by the Expansion HOT.

On June 8, 2005, the City, acting through the Corporation, issued the Hotel Bonds. The Hotel Bonds are secured by a lien on and are payable from the following sources of revenue (in the order of priority given): first, the Pledged Hotel Operating Revenues; second, the State HOTs; third, the State Sales Taxes; fourth, the Hotel Project General HOTs; and fifth, the Expansion HOT revenues (collectively, the "Hotel Bonds Pledged Revenues"). If needed, the Hotel Bonds have a lien on the Expansion HOTs superior to that which secures the Prior Lien Bonds.

The Hotel Project hosted its first guests on March 22, 2008, and was substantially complete on May 30, 2008.

Security for the Bonds

The Bonds are special obligations of the City and, together with the currently outstanding Parity Bonds, are payable from and are equally and ratably secured by a lien on the Pledged Revenues. The Bonds are additionally secured by a parity lien on the Debt Service Fund and the Debt Service Reserve Fund. "Pledged Revenues" consist of (i) a subordinate and inferior lien on the revenues from the Pledged 1.75% HOT, plus (ii) a subordinate and inferior lien on the revenues from the Pledged 5.25% HOT, plus (iii) a first and prior lien on the earnings of the Debt Service Fund, plus (iv) a subordinate and inferior lien on the earnings of the investment of the Pledged 1.75% HOT Fund, the Pledged 5.25% HOT Fund, and the Debt Service Reserve Fund. No revenues received from the Expansion HOT are to be considered "Pledged Revenues"; however, the City may, in its discretion, make certain debt service payments on the Bonds Similarly Secured (which includes the Bonds) from the Expansion HOT (though it is under no obligation to do so).

The City, pursuant to the Ordinance, has granted a lien on the Pledged Revenues, the Debt Service Fund, and the Debt Service Reserve Fund in the order of priority specified therein and described above to secure the payment of principal of, redemption premium (if any), and interest on the Bonds Similarly Secured. The City has not granted any lien on or security interest in, or any mortgage of any of the physical properties of the City, including all or a part of the Convention Center facilities.

THE BONDS DO NOT CONSTITUTE OR CREATE AN INDEBTEDNESS OR GENERAL OBLIGATION OF THE CITY, AND NEITHER THE TAXING POWER OF THE CITY (EXCEPT WITH RESPECT TO THE PLEDGED REVENUES) NOR THE AD VALOREM TAXING POWER OF THE STATE OF TEXAS IS PLEDGED AS SECURITY FOR THE BONDS.

Chapter 1208, Texas Government Code, applies to the issuance of the Bonds and the pledge of the Pledged Revenues thereto, 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 the Pledged Revenues is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code ("Chapter 9"), in order to preserve to the registered owners of the Bonds a security interest in such pledge, the City agrees to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in said pledge to occur.

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DEBT SERVICE REQUIREMENTS

The following schedule reflects the total principal and interest requirements on all outstanding Prior Lien Bonds and Bonds Similarly Secured, taking into account the issuance of the Bonds and excluding the Refunded Bonds.

Estimated Debt Service Requirements *

Table 1

Fiscal Year	Outstanding Prior Lien Debt Serviced	Subordinate Lien Bonds						Projected Subordinate Lien Debt Service	Combined Total Debt Service
		Outstanding ⁽¹⁾ Debt Service	Refunded Bond Debt Service	Series 2008 Bonds			Total Debt Service		
				Principal	Interest	Total			
2008		\$7,657,103	\$5,573,750				\$2,083,353	\$2,083,353	
2009		14,724,405	10,802,500	\$4,000,000	\$7,387,500	\$11,387,500	15,309,405	15,309,405	
2010		15,269,205	11,347,500	1,500,000	6,550,000	8,050,000	11,971,705	11,971,705	
2011	\$6,985,000	8,977,355	5,051,250	495,000	6,475,000	6,970,000	10,896,105	17,881,105	
2012	7,590,000	9,053,655	5,128,750	605,000	6,450,250	7,055,250	10,980,155	18,570,155	
2013	7,915,000	9,074,555	5,151,250	660,000	6,420,000	7,080,000	11,003,305	18,918,305	
2014	7,900,000	9,117,555	5,196,250	745,000	6,387,000	7,132,000	11,053,305	18,953,305	
2015	8,210,000	8,786,405	4,862,500	415,000	6,349,750	6,764,750	10,688,655	18,898,655	
2016	8,055,000	8,889,655	4,968,750	550,000	6,329,000	6,879,000	10,799,905	18,854,905	
2017	7,730,000	9,216,255	5,293,750	935,000	6,301,500	7,236,500	11,159,005	18,889,005	
2018	0	17,004,755	7,026,250	2,895,000	6,254,750	9,149,750	19,128,255	19,128,255	
2019	0	16,926,705	6,945,000	2,950,000	6,110,000	9,060,000	19,041,705	19,041,705	
2020	0	16,862,375	6,886,250	3,030,000	5,962,500	8,992,500	18,968,625	18,968,625	
2021	0	17,830,156	7,848,750	4,245,000	5,811,000	10,056,000	20,037,406	20,037,406	
2022	0	17,759,375	7,781,250	4,380,000	5,598,750	9,978,750	19,956,875	19,956,875	
2023	0	17,659,075	7,682,500	4,490,000	5,379,750	9,869,750	19,846,325	19,846,325	
2024	0	17,583,475	7,603,750	4,630,000	5,155,250	9,785,250	19,764,975	19,764,975	
2025	0	17,520,425	7,543,750	4,795,000	4,923,750	9,718,750	19,695,425	19,695,425	
2026	0	17,408,225	7,426,250	4,905,000	4,684,000	9,589,000	19,570,975	19,570,975	
2027	0	10,473,250	9,953,750	10,875,000	4,438,750	15,313,750	15,833,250	15,833,250	
2028	0	10,383,250	4,793,750	5,730,000	3,895,000	9,625,000	15,214,500	15,214,500	
2029	0	10,309,750	4,723,750	5,940,000	3,608,500	9,548,500	15,134,500	15,134,500	
2030	0	10,251,250	10,251,250	12,330,000	3,311,500	15,641,500	15,641,500	15,641,500	
2031	0	10,096,250	10,096,250	12,775,000	2,695,000	15,470,000	15,470,000	15,470,000	
2032	0	9,928,750	9,928,750	13,235,000	2,056,250	15,291,250	15,291,250	15,291,250	
2033	0	9,748,750	9,748,750	13,695,000	1,394,500	15,089,500	15,089,500	15,089,500	
2034	0	9,581,250	9,581,250	14,195,000	709,750	14,904,750	14,904,750	14,904,750	
Total	\$54,385,000	\$338,093,214	\$199,197,500	135,000,000	130,639,000	265,639,000	\$404,534,714	\$458,919,714	

⁽¹⁾ Variable rate bond debt service estimated at a rate of 5.00%. Excludes Series 2007 Surplus Revenue Tax Note that matures in 2010 and is inferior in lien to the Subordinate and Prior Lien Bonds.

PROJECTED DEBT SERVICE COVERAGE

Projected Debt Service Coverage *

Table 2

Fiscal Year	Prior Lien Debt Service Coverage			Bonds Similarly Secured			Combined Debt Service Coverage	
	Available Pledged Revenue ¹	Outstanding Prior Lien Debt Service	Coverage Ratio	Available Pledged Revenue ²	Outstanding Subordinate Lien Debt Service ³	Coverage Ratio	Combined Outstanding Debt Service ⁴	Coverage Ratio
2008	\$68,271,429			\$53,100,000	\$2,083,353	25.49	\$2,083,353	32.77
2009	70,319,571			54,693,000	15,309,405	3.57	15,309,405	4.59
2010	72,429,159			56,333,790	11,971,705	4.71	11,971,705	6.05
2011	74,602,033	\$6,985,000	10.68	58,023,804	10,896,105	5.33	17,881,105	4.17
2012	76,840,094	7,590,000	10.12	59,764,518	10,980,155	5.44	18,570,155	4.14
2013	79,145,297	7,915,000	10.00	61,557,453	11,003,305	5.59	18,918,305	4.18
2014	79,145,297	7,900,000	10.02	61,557,453	11,053,305	5.57	18,953,305	4.18
2015	79,145,297	8,210,000	9.64	61,557,453	10,688,655	5.76	18,898,655	4.19
2016	79,145,297	8,055,000	9.83	61,557,453	10,799,905	5.70	18,854,905	4.20
2017	79,145,297	7,730,000	10.24	61,557,453	11,159,005	5.52	18,889,005	4.19
2018	79,145,297	0		61,557,453	19,128,255	3.22	19,128,255	4.14
2019	79,145,297	0		61,557,453	19,041,705	3.23	19,041,705	4.16
2020	79,145,297	0		61,557,453	18,968,625	3.25	18,968,625	4.17
2021	79,145,297	0		61,557,453	20,037,406	3.07	20,037,406	3.95
2022	79,145,297	0		61,557,453	19,956,875	3.08	19,956,875	3.97
2023	79,145,297	0		61,557,453	19,846,325	3.10	19,846,325	3.99
2024	79,145,297	0		61,557,453	19,764,975	3.11	19,764,975	4.00
2025	79,145,297	0		61,557,453	19,695,425	3.13	19,695,425	4.02
2026	79,145,297	0		61,557,453	19,570,975	3.15	19,570,975	4.04
2027	79,145,297	0		61,557,453	15,833,250	3.89	15,833,250	5.00
2028	79,145,297	0		61,557,453	15,214,500	4.05	15,214,500	5.20
2029	79,145,297	0		61,557,453	15,134,500	4.07	15,134,500	5.23
2030	79,145,297	0		61,557,453	15,641,500	3.94	15,641,500	5.06
2031	79,145,297	0		61,557,453	15,470,000	3.98	15,470,000	5.12
2032	79,145,297	0		61,557,453	15,291,250	4.03	15,291,250	5.18
2033	79,145,297	0		61,557,453	15,089,500	4.08	15,089,500	5.25
2034	79,145,297	0		61,557,453	14,904,750	4.13	14,904,750	5.31
Total	\$2,103,658,820	\$54,385,000		\$1,636,179,078	\$404,534,714		\$458,919,714	

¹ Includes the 5.25%, 1.75% and the 2.00% hotel occupancy tax revenue, Unaudited estimate for 2008 and grown at an annual rate of 3.00% through 2013. Estimated tax revenue collections provided by the City of San Antonio, Texas.

² Includes the projected 5.25% and 1.75% hotel occupancy revenue.

³ Includes the prior lien bonds and the projected subordinate lien debt service.

Note: to the extent funds are available, the City intends to pay the prior lien and the subordinate lien bonds from the 2.00% hot collections.

Bond debt service has been structured so that the Hotel Occupancy Tax will be sufficient in each year to cover debt service for the Bonds Similarly Secured assuming a 2% annual increase in Hotel Occupancy Tax receipts. See “DEBT SERVICE REQUIREMENTS” above. However, the City has historically applied the Hotel Occupancy Tax receipts to the ongoing activities of the Convention and Visitors’ Bureau and the operating expenses of the Convention Facilities departments of the City and intends to do so in the future with actual payment of the Bonds Similarly Secured (to the extent funds are available) to be made from the Expansion Hotel Occupancy Tax. Operating revenues of the Convention Center Facilities are not pledged to the payment of the Bonds Similarly Secured.

THE BONDS

General Description

The Weekly Rates for the Bonds will be determined by the initial Remarketing Agent, Wachovia Bank, National Association (the “Remarketing Agent”). For descriptions of the method of determination of the interest rates during the Weekly Mode, changes in Mode and certain other terms applicable to the Bonds in the Weekly Mode, see the provisions of this section and APPENDIX B.

The principal of and premium, if any, and interest on the Bonds will be payable in lawful money in the United States of America. In addition to accrued and unpaid interest thereon, the principal and the Redemption Price on each Bond will be payable on its Principal Payment Date, upon surrender thereof at the office of the Paying Agent. The payment of the Purchase Price of Bonds on any Purchase Date or Mandatory Purchase Date, as the case may be, will be made by wire transfer in immediately available funds by the Tender Agent, or if the Registered Owner has not provided Paying Agent wire transfer instructions, by check mailed to the Registered Owner at the address appearing in the books of registration relating to the Bonds kept by the Paying Agent/Registrar (the “Registration Books”).

WHILE THE ORDINANCE PROVIDES THAT THE BONDS MAY, UNDER CERTAIN CIRCUMSTANCES SET FORTH THEREIN, BE CONVERTED TO A COMMERCIAL PAPER MODE, DAILY MODE, AUCTION RATE MODE, TERM MODE OR FIXED RATE MODE, THIS OFFICIAL STATEMENT PRIMARILY DESCRIBES THE BONDS ONLY WHILE THEY ARE IN THE WEEKLY MODE. IF THE BONDS ARE CONVERTED TO A MODE OTHER THAN A WEEKLY MODE, SUCH MODE WILL BE DESCRIBED IN SUBSEQUENT DISCLOSURE IN CONNECTION WITH SUCH CONVERSION. SEE “APPENDIX B – EXCERPTS FROM THE ORDINANCE”. THE BONDS ARE SUBJECT TO MANDATORY TENDER IN THE EVENT OF ANY SUCH CONVERSION. SEE “TENDER AND PURCHASE OF BONDS - MANDATORY TENDER FOR PURCHASE” HEREIN.

Paying Agent/Registrar

The initial Paying Agent/Registrar is The Bank of New York Trust Company, National Association, Dallas, Texas (the “Paying Agent/Registrar”). In the Ordinance, 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 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 the Bonds, the City is required to promptly cause written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class postage prepaid.

Interest Rate Modes

The Bonds will initially be issued in the Weekly Mode and may be converted to a different mode. At the direction of the City, the Bonds may bear interest at a Daily Rate, Weekly Rate, Auction Rate, Commercial Paper Rate, Term Rate, or Fixed Rate described below. Any such conversion (1) will be subject to receipt of an opinion of nationally recognized bond counsel (unless such conversion is from a Daily Mode, Weekly Mode or Commercial Paper Mode to one of the other such three modes) to the effect that such conversion will not adversely affect any exclusion of interest on any Bond from gross income for federal income tax purposes and is authorized by applicable Texas law and

(2) will result in the mandatory tender of affected Bonds or portions thereof for purchase as described below under “Tender and Purchase of Bonds – Mandatory Tender” herein.

When Bonds bear interest at a Daily Rate, Weekly Rate, Commercial Paper Rate, or Bank Rate, interest on such Bonds will be computed on the basis of a 365- or 366-day year, as applicable, for actual days elapsed. When Bonds bear interest at an Auction Rate for interest rate periods of six months or less, interest on such Bonds will be computed on the basis of a 360-day year for actual days elapsed. When Bonds bear interest at an Auction Rate for longer interest rate periods or at a Term Rate or Fixed Rate, interest on such Bonds will be computed on the basis of a 360-day year comprised of twelve 30-day months. Interest accruing on Bonds in each mode will be payable on the dates described below and on the Business Day following the conversion to a different mode. Interest due on each interest payment date will include interest accrued through the preceding day.

Daily Mode. On each day during which Bonds are in a Daily Mode, they will bear interest at the Daily Rate for the Bonds of such series and such day. The Daily Rate for the Bonds is a per annum rate of interest equal to the Market Rate determined by the Remarketing Agent by 10:00 a.m., New York, New York, time, on the applicable day (or, if such day is not a business day for the Remarketing Agent, on the immediately preceding business day), but not more than the Maximum Rate. See “Determination of Market Rates” below.

Interest accrued on Bonds in a Daily Mode will be payable on the first Business Day of each month, and the Record Date (defined herein) for such interest will be the immediately preceding day. While in a Daily Mode, Bonds may be tendered to the Paying Agent/Registrar for purchase on the same Business Day upon the notice described below under “Tender and Purchase of Bonds” herein and they may be redeemed or repurchased on any Business Day on not less than 20 days notice as described under “Tender and Purchase of Bonds” herein and “Redemption of Bonds” below.

Weekly Mode. When Bonds are in a Weekly Mode, they will bear interest at the Weekly Rate, which is a Market Rate determined by the Remarketing Agent for each one-week period, beginning on Wednesday of each week and ending on the Tuesday of the following week, but not more than the Maximum Rate. The Remarketing Agent is required to determine such rate by 4:00 p.m., New York, New York, time, on its last business day before the commencement of such Weekly Mode and on the day before each succeeding Wednesday thereafter (or, if not a business day for the Remarketing Agent, then on such Wednesday, or, if neither is a business day for the Remarketing Agent, then its last business day before such Wednesday, or on such other day as may be specified by such Remarketing Agent after notice to the City and the Bondholders). See “Determination of Market Rates” below.

Interest accrued on the Bonds while they are in a Weekly Mode will be payable on the first Business Day of each month, beginning in August 2008, and the Record Date for such interest will be the immediately preceding day.

While in a Weekly Mode, Bonds may be tendered to the Paying Agent/Registrar for purchase on any Business Day upon seven days written notice as described below under “Tender and Purchase of Bonds”, and they may be redeemed or purchased on any Business Day upon not less than 20 days notice as described under “Tender and Purchase of Bonds” and “Redemption of Bonds” below.

Commercial Paper Mode. During each interest rate period for Bonds in a Commercial Paper Mode, they will bear interest at the Commercial Paper Rate for such interest rate period. The Commercial Paper Rate for an interest rate period in a Commercial Paper Mode is the Market Rate for such interest rate period determined by the Remarketing Agent by 12:30 p.m., New York, New York, time, on or before its first business day in the interest rate period, but not more than the Maximum Rate. The duration of each interest rate period in a Commercial Paper Mode may be from one to 270 calendar days and will be determined by the Remarketing Agent as described below under “Determination of Interest Rate Periods” below.

Interest accrued on Bonds during each interest rate period while they are in a Commercial Paper Mode will be payable on the first Business Day following such interest rate period, and the record date for such interest will be the immediately preceding day.

While Bonds are in a Commercial Paper Mode, they may not be tendered to the Paying Agent/Registrar for purchase at the option of the owner. Bonds in a Commercial Paper Mode will, however, be required to be tendered for purchase on the Business Day following each interest rate period therefor without further notice and otherwise as

described below under “Tender and Purchase of Bonds”. Bonds in a Commercial Paper Mode may only be redeemed on such a mandatory purchase date.

Auction Mode. During the initial interest rate period for Bonds in an Auction Mode, they will bear interest at the Market Rate determined by the Remarketing Agent on the preceding Business Day. During each ensuing interest rate period for Bonds in an Auction Mode, they will bear interest at the clearing rate bid at an auction for such Bonds conducted immediately prior to the rate period as described in the Ordinance. The resulting auction rates may not be less than 45% of reference rates for specified taxable high-grade securities of comparable term described in the Ordinance. If an auction is not held immediately prior to an interest rate period, such Bonds will bear interest at 300% of such reference rates, if a default in payment of the Bonds and under any Credit Facility exists, and otherwise 75-100% of such reference rates, depending on the credit ratings then assigned to the Bonds. If the conditions to an elected change in interest rate period for Bonds in an Auction Mode are not satisfied, they will bear interest at a rate equal to 75-100% of such reference rates, depending on the credit rating then assigned to the Bonds. In no event, however, may Bonds bear interest at a rate greater than 15% per annum in an Auction Mode, including the portion of interest payable to the Auction Agent as a service charge.

The duration of interest rate periods in an Auction Mode may be fixed by the City as daily periods, weekly periods, four-week periods, five-week periods, three-month periods, six-month periods or longer periods. The duration may be changed at the election of the City as described below under “Determination of Interest Rate Periods”.

Interest accrued on Bonds in each interest rate period in an Auction Mode will be payable (i) if a daily rate period, on the next first Business Day of a month following the interest rate period, (ii) if a weekly, four-week, five-week, three-month, or six-month interest rate period, on the first Business Day after the interest rate period, and (iii) if a longer interest rate period, the first Business Day after each thirteenth Tuesday in the period and the first Business Day after the period. The record date for such interest will be the second preceding Business Day.

While in an Auction Mode, Bonds may be required to be tendered for purchase pursuant to auction procedures provided in the Ordinance and as described below under “Tender and Purchase of Bonds”, but are not subject to purchase on demand of the owner.

Term Mode. During each interest rate period during which Bonds are in a Term Mode, they will bear interest at the Term Rate for such interest rate period. The Term Rate for an interest rate period in a Term Mode is the Market Rate for such interest rate period determined by the Remarketing Agent on any day designated by it which is not more than 35 days preceding nor later than its last business day preceding such interest rate period, but not more than the Maximum Rate. See “Determination of Market Rates” below. The duration of the interest rate periods in each Term Mode must be one year or more and will be determined by the City as described below under “Determination of Interest Rate Periods”.

Interest accrued on Bonds during any interest rate period while they are in a Term Mode will be payable semiannually on each February 15 and August 15, and the Record Date therefor will be the last calendar day of the preceding calendar month or the first day of such Term Mode, whichever is later.

While Bonds are in a Term Mode, they may not be tendered to the Paying Agent/Registrar for purchase at the option of the owner. They will, however, be required to be tendered for purchase on the Business Day after each interest rate period as described below under “Tender and Purchase of Bonds”. They will also be subject to mandatory sinking fund and optional redemption at the times and price and in the amounts described herein under “Redemption of Bonds” and to purchase in connection with a mode conversion on any optional redemption date as described under “Tender and Purchase of Bonds – Mandatory Tender – *Mode Changes*” herein.

Fixed Mode. When Bonds are in a Fixed Mode, they will bear interest at the Fixed Rate for such Bonds. The Fixed Rate for Bonds is the Market Rate for such Bonds determined by the Remarketing Agent on any day designated by it which is not more than 35 days preceding nor later than its last business day preceding the Fixed Mode for such Bonds. The Fixed Mode for Bonds, once commenced, will extend to the final maturity of such Bonds and will comprise a single interest rate period.

Interest accrued on Bonds in a Fixed Mode will be payable semiannually on each February 15 and August 15, and the Record Date for such interest will be the last calendar day of the preceding calendar month or the first day of such Fixed Mode, whichever is later.

While in a Fixed Mode, Bonds may not be tendered for purchase at the option of the owner. They will, however, be subject to mandatory sinking fund redemption and optional redemption at the times and price and in the amounts described herein under “Redemption of Bonds”.

Bank Bonds. Tendered Bonds purchased through a Liquidity Facility, if any, and not remarketed (“Bank Bonds”) will bear interest at the Bank Rate, rather than the Daily Rate, Weekly Rate, Commercial Paper Rate, Auction Rate, Term Rate, or Fixed Rate from time to time in effect, but the excess of interest accrued at the Bank Rate over interest that would have accrued at such other rate (“Bank Differential”) will be payable to the Liquidity Bank or its assignees rather than to the registered owner of the Bond as of the Record Date for such interest. Accordingly, payments of interest made through Cede & Co. on interest payment dates or redemption dates, and payments of purchase price due on the tender of Bonds for purchase or in determining the Market Rate, will exclude Bank Differential, whether or not expressly stated elsewhere in the Ordinance. Bank Bonds may be redeemed in whole or in part on any day and are not subject to optional or mandatory tender for purchase.

Determination of Market Rates. The Remarketing Agent is required to make each determination of the “Market Rate” for such Bonds by determining, under prevailing market conditions, the minimum interest rate necessary, in the judgment of the Remarketing Agent, to be borne by such Bonds for the relevant interest rate period to produce a bid for such Bonds equal to 100% of the principal amount thereof plus accrued interest, if any. If for any reason no Remarketing Agent has been appointed under the Ordinance on any rate determination date, the Remarketing Agent fails to determine a Market Rate on such rate determination date, or any Market Rate determined by the Remarketing Agent on such rate determination date is determined by a court of competent jurisdiction to be invalid or unenforceable, the Market Rate to be determined by the Remarketing Agent on such rate determination date will be determined as follows: if the interest rate period during which such Market Rate is to be in effect is greater than one-half year, the Market Rate for such interest rate period will be the percentage of the 11-Bond Municipal Bond Index most recently published by *The Bond Buyer* or any successor publication set forth below under the longest period specified which does not exceed the duration of such interest rate period:

Interest rate period equal to or longer than (in years)						
<u>15</u> 100%	<u>13</u> 97%	<u>10</u> 93%	<u>7</u> 86%	<u>5</u> 80%	<u>2</u> 70%	<u>1/2</u> 65%

If the interest rate period during which such Market Rate is to be in effect is equal to or less than one-half year, the Market Rate for such interest rate period will be the Municipal Swap Index most recently announced by The Bond Market Association. If either of such indices ceases to be published, the most comparable published index designated by the City is required to be used for such Market Rate determination. Notwithstanding any higher determination of a Market Rate, the rate of interest to be borne by Bonds in any interest rate period in any mode may not exceed the Maximum Rate. The “Maximum Rate” is the lesser of 10% per annum or the per annum rate of interest, if any, specified in the Liquidity Facility then in effect under the Ordinance as the rate at which money available to be drawn thereunder to pay interest on the Bonds in the applicable mode has been computed.

Conversion of Interest Modes. The City is permitted to change the mode for all or any portion of the Bonds to a different mode or to an Auction Mode or Term Mode with an interest rate period of different duration (and, if the new interest rate mode is an Auction Mode or Term Mode, to designate the duration of the initial interest rate period). The first day of any mode designated by the City is required to be (i) if the mode then in effect for the Bonds to be converted is a Daily Mode or Weekly Mode, a Business Day, (ii) if the mode then in effect for the Bonds to be converted is a Commercial Paper Mode or Auction Mode, the last interest payment date for all interest rate periods for such Bonds then in effect or, in the case of a Commercial Paper Mode, any Business Day thereafter, and (iii) if a Term Mode is then in effect for the Bonds to be converted, any Business Day on which such Bonds may be redeemed at the option of the City as described under “Redemption of Bonds” below.

The mode, or the interest rate period during any Auction Mode or Term Mode, for Bonds may only be changed upon notice to the Bondholders as described below. No such change may be made unless (i) there is delivered to the

Paying Agent/Registrar on the first day of such mode or interest rate period an opinion of nationally recognized bond counsel stating that the change will not adversely affect any exclusion of interest on any Bond income for federal income tax purposes (unless the change is from a Daily Mode, Weekly Mode or Commercial Paper Mode to another of such three modes), and (ii) by 1:30 p.m., New York, New York, time on the date of such change the Paying Agent/Registrar or the Liquidity Bank has received the purchase price of all Bonds tendered or deemed tendered for purchase on such date in accordance with the procedures set forth under “Tender and Purchase of Bonds” herein (or, in the case of a change in the duration of interest rate periods in an Auction Mode, clearing bids are made on the preceding Auction Date).

Determination of Interest Rate Periods. The interest rate period for a Bond during a Commercial Paper Mode will be determined by the Remarketing Agent, will commence on the first day of such mode for such Bond or on the day immediately succeeding the immediately preceding interest rate period for such Bond, and will not be less than one day nor more than 270 days in duration. No such interest rate period in a Commercial Paper Mode may cause the amount of interest due on all Bonds (other than Bonds in an Auction Mode or Fixed Mode) on the next interest payment date for such Bonds to exceed the coverage then afforded by the Liquidity Facility. In addition, no such interest rate period for any Bond in a Commercial Paper Mode may extend beyond a redemption date for Bonds in the Commercial Paper Mode unless the interest rate periods for at least the amount of the Bonds to be redeemed on such redemption date end on or before such date.

Each interest rate period for a Bond which is in a Term Mode will commence on the first day of such Term Mode or on the day after the immediately preceding interest rate period for such Bond during such mode. The initial interest rate period in each Term Mode will extend to the February 15 specified by the City which occurs at least one year after the effective date of such mode. Each successive interest rate period during such Term Mode will extend to the anniversary of such date which occurs the same number of 12-month periods after the first day of such interest rate period as the number of 12-month periods or portions thereof during the initial interest rate period in such Term Mode, unless the interest rate period for Bonds in such Term Mode is changed by the City as described above under “Interest Rate Modes – Conversion of Interest Modes”.

Notice of Interest Rates and Interest Modes. Not less than 20 days if the affected Bonds are then in a Daily Mode, Weekly Mode, or Auction Mode, not less than 30 days if the affected Bonds are then in another mode, and in either case not more than 60 days prior to the effective date of any change in the method of determining the rate determination date (or maximum rate) for any Bond, to the first day of any Daily Mode, Weekly Mode, Commercial Paper Mode, Auction Mode, Term Mode or Fixed Mode for any Bond, or to the first day of any change in the interest rate period for any Bond or portion thereof in an Auction Mode or Term Mode, the City or Paying Agent/Registrar must give notice of such event or events to the registered owners of such Bonds stating that such change will occur and the effective date of such change.

Bondholders may ascertain the current Daily Rate, Weekly Rate, or Commercial Paper Rate for Bonds by contacting the Remarketing Agent, may ascertain the current Auction Rate for Bonds by contacting the Auction Agent, and may ascertain the current Term Rate or Fixed Rate for Bonds by contacting the Paying Agent/Registrar. The Paying Agent/Registrar is required to provide to each beneficial owner of a Bond in a Daily Mode or Weekly Mode, upon request, the interest rates in effect since the preceding interest payment date.

While the Bonds are registered in the name of Cede & Co., as nominee for DTC, the foregoing notices will be given to Cede & Co. only, which alone will be responsible for providing such notices to the beneficial owners. See “Bond Provisions – Book-Entry-Only System” herein. However, beneficial owners may register to receive such information directly by contacting the Paying Agent/Registrar. See “CONTINUING DISCLOSURE OF INFORMATION” herein.

Effect of Determinations. Each designation of a mode or the duration of an interest rate period and each determination of a Daily Rate, Weekly Rate, Commercial Paper Rate, Auction Rate, Term Rate, or Fixed Rate will be conclusive and binding upon the owners of the affected Bonds, and neither the City nor the Remarketing Agent nor the Paying Agent/Registrar will have any liability for any such determination, whether due to any error in judgment, failure to consider any information, opinion, or resource, or otherwise.

If any proposed change in the mode or interest rate period for any Bond designated by the City may not be effected because of any failure to satisfy the conditions to such change contained in the Ordinance, (1) the mode for

such Bond will change automatically to the Weekly Mode (unless only the duration of interest periods in an Auction Mode is proposed to be changed, in which case the ensuing interest period will be a weekly period), if the preceding mode for such Bond was a Daily Mode, Weekly Mode, or Commercial Paper Mode or in the opinion of nationally recognized bond counsel such change will not adversely affect any exclusion of interest on any Bond from the gross income of the owner thereof for federal income tax purposes, and (2) otherwise the mode (and the interest rate period in any Auction Mode or Term Mode) then in effect for such Bond will remain unchanged and, except for any tender required by the provisions described below under “Tender and Purchase of Bonds – Mandatory Tender”, the owners of the affected Bonds will be restored to their original positions.

Redemption of Bonds

Optional Redemption. The Bonds are subject to optional redemption prior to maturity at the option of the City in whole or in part, at a redemption price equal to 100% of principal amount plus accrued interest, if any, on (i) any Business Day, if the Bonds to be redeemed bear interest at a Daily Rate or Weekly Rate, (ii) any rate adjustment date for the Bonds to be redeemed, if such Bonds are in a Commercial Paper Mode, Auction Mode, or Term Mode, (iii) the first day of the Fixed Mode for the Bonds to be redeemed, and (iv) any date, for Bank Bonds. While in a Term Mode or Fixed Mode, Bonds are also subject to redemption prior to their stated maturity at the option of the City in whole or in part on any date after the no-call period shown below following the first day of the applicable interest rate period, at a price equal to 100% of principal amount plus accrued interest:

<u>Interest Rate Period in Term Mode or Fixed Mode</u>		
<u>Equal to or Greater Than</u>	<u>But Less Than</u>	<u>No-Call Period</u>
12 Years	N/A	10 Years
9 Years	12 Years	8 Years
7 Years	9 Years	6 Years
5 Years	7 Years	4 Years
2 Years	5 Years	Prior to the penultimate 12-month period
0 Years	2 Years	1 Year

The City may change the dates and prices for any such redemption prior to the rate determination date for such interest rate period, if the City receives an opinion of nationally recognized bond counsel to the effect that such change will not adversely affect any exclusion of interest on any Bond from gross income for federal income tax purposes.

Mandatory Sinking Fund Redemption. The Bonds will be subject to mandatory sinking fund redemption by the City prior to their scheduled maturity at a redemption price equal to 100% of the principal amount thereof, without premium, on the first interest payment date for such Bonds on or after August 15 of the years and in the principal amounts indicated below:

<u>Year</u>	<u>Amount</u>
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The City may reduce the amount of Bonds so required to be redeemed on any date by the principal amount of outstanding Bonds which are either (i) purchased and surrendered to the Paying Agent/Registrar by the City for cancellation at least 45 days prior to such date or (ii) selected at least 45 days prior to such date for optional redemption, if in either case such Bonds have not previously served as the basis for any such reduction.

Redemption Procedures. Notice of each redemption of Bonds is required to be mailed not less than 20 days, if the Bonds to be redeemed are in a Daily Mode, Weekly Mode, or Auction Mode, not less than 30 days, if the Bonds to be redeemed are in any other mode, and in either case not more than 60 days prior to the redemption date to each registered owner of the Bonds to be redeemed at the address of such owner recorded in the bond register. If notice of redemption of any Bond is so given, such Bond (or the principal amount thereof to be redeemed) will be due and payable on the redemption date and, if funds sufficient to pay the redemption price are deposited with the Paying Agent/Registrar on the redemption date, will cease to bear interest after such date. While the Bonds are registered in the name of DTC or its nominee, as nominee for the beneficial owners, the foregoing notice will be given to DTC or such

nominee only, which will alone be responsible for providing such notice to the beneficial owners. See “Bond Provisions – Book-Entry-Only System” herein. However, beneficial owners may register to receive such notices directly by contacting the Paying Agent/Registrar. See “CONTINUING DISCLOSURE OF INFORMATION”.

If less than all outstanding Bonds are to be redeemed, the City will redeem all Bank Bonds before redeeming any other Bonds. Except when held by DTC, its nominee, or any substitute securities depository, if less than all the Bonds (other than Bank Bonds) are to be redeemed, the Paying Agent/Registrar must select at random and by lot the Bonds to be redeemed as provided in the Ordinance.

Tender and Purchase of Bonds

Optional Tender Provisions. After the initial Interest Period, the Bonds will be subject to optional tender prior to maturity as provided herein.

The beneficial owners of Bonds in a Daily Mode or Weekly Mode will have the right to have their beneficial interests in such Bonds (or portions thereof equal to, and leaving untendered, an authorized denomination) purchased by the Paying Agent/Registrar, at a purchase price equal to 100% of principal amount plus accrued interest (payable from the limited sources of funds described below), as follows:

Daily Mode. While in a Daily Mode, any Bond (or portion thereof) may be tendered to the Paying Agent/Registrar for purchase, as described above, on any Business Day by:

- (1) delivering notice of such tender as described below by telephone, facsimile or other electronic means to the Remarketing Agent by 11:00 a.m., New York, New York, time, on such Business Day; and
- (2) tendering such Bond (or portion) to the Paying Agent/Registrar as described below by 12:00 noon, New York, New York, time, on the purchase date.

Weekly Mode. While in a Weekly Mode, any Bond (or portion thereof) may be tendered to the Paying Agent/Registrar for purchase, as described above, on any Business Day by:

- (1) delivering notice of tender (which will be irrevocable and effective upon receipt) to the Remarketing Agent and the Paying Agent/Registrar in writing or by facsimile or other electronic means by 4:00 p.m., New York, New York, time, on a Business Day which is at least seven days prior to the purchase date; and
- (2) tendering such Bonds to the Paying Agent/Registrar as described below by 12:00 noon, New York, New York, time, on the purchase date.

Payment for Bonds tendered for purchase is required to be made in immediately available funds by the close of business on the purchase date. Each notice of the optional tender of the Bonds must state the principal amount of the Bonds to be tendered, the mode then in effect for such Bonds, the purchase date, the name of the registered owner (and, while the Bonds are registered in the name of Cede & Co. or any alternate securities depository or its nominee, the name and number of the account to which such Bond is credited by the securities depository). Notice of tender should be delivered to the address of the Remarketing Agent and, if applicable, the Paying Agent/Registrar. The addresses may be changed by notice mailed to the registered owners of the Bonds at their registered addresses.

Mandatory Tender. Each owner of Bonds will be required to tender, and in any event will be deemed to have tendered, such Bonds (or the applicable portion thereof described below) to the Paying Agent/Registrar for purchase at a purchase price equal to 100% of the principal amount plus accrued interest (payable from the limited sources of funds described below), on Substitution of Liquidity Facility or Credit Facility: the last Business Day on or before any proposed release of the Liquidity Facility (unless such Bonds or portions thereof are in an Auction Mode or the Fixed Mode) or any Credit Facility upon replacement with an alternate Liquidity Facility or Credit Facility at the option of the City, Mode Changes: the first Business Day of each new mode for such Bonds or portions thereof designated by the City, whether or not such new mode is effected, Rate Adjustment Dates: the first Business Day of each interest rate period for such Bonds or portions thereof while they are in a Commercial Paper Mode or a Term Mode, and Termination of Liquidity Facility or Credit Facility: the third Business Day prior to the expiration of the Liquidity

Facility (unless such Bonds are in an Auction Mode or the Fixed Mode) or any Credit Facility or prior to the date of termination of the obligation of the Liquidity Bank under the Liquidity Facility (unless such Bonds are in an Auction Mode or the Fixed Mode) or the Credit Enhancer under any Credit Facility on advance notice to the Paying Agent/Registrar.

The Paying Agent/Registrar is required to give notice of mandatory tender (other than mandatory tender at the end of Interest Periods for Bonds in a Commercial Paper Mode) to each registered owner of the Bonds affected thereby by mail, first class postage prepaid, not more than 60 nor less than 20 days, if such Bond is in a Daily Mode, Weekly Mode, or Auction Mode, and not more than 60 nor less than 30 days, if such Bond is in any other mode, prior to each mandatory tender date. While the Bonds are registered in the name of Cede & Co., only Cede & Co. will receive such notice from the Paying Agent/Registrar. See “Bond Provisions – Book-Entry-Only System” herein. However, beneficial owners may register to receive such information directly by contacting the Paying Agent/Registrar. See “CONTINUING DISCLOSURE OF INFORMATION” herein.

The Paying Agent will, at least 15 days prior to the Termination Tender Date with respect to the Bonds in the Term Mode, give notice to the Registered Owners and the Remarketing Agent of the mandatory tender of such Bonds on such Termination Tender Date if it has not theretofore received a notice executed by the City, stating that the event which resulted in the establishment of the Termination Tender Date has been cured.

The Paying Agent will, at least 30 days prior to any Purchase Date or any Mode Change Date for the Bonds while in the Term Mode, give notice to the Registered Owners and the Remarketing Agent of the mandatory tender for purchase of the Bonds on such Mode Change Date.

In the event that any of the Bonds are not converted and remarketed to new purchasers as a result of the mandatory tender, the City will have no obligation to purchase the Bonds tendered, the failed conversion and remarketing will not constitute an Event of Default under the Ordinance, the mandatory tender will be deemed to have been rescinded for that date with respect to the Bonds subject to such failed remarketing only, and such Bonds (i) will continue to be outstanding, (ii) will be purchased upon the availability of funds to be received from the subsequent remarketing of such Bonds, (iii) will bear interest at the [rate of 8% per annum] from the date of the failed remarketing until purchased upon a subsequent remarketing, (iv) will be subject to redemption and mandatory tender for purchase on any date during such period upon which a conversion occurs, and (v) will be deemed to continue in a Term Mode through the next Interest Payment Date. In the event of a failed conversion and remarketing on the date for mandatory tender, the City will cause the Bonds to be converted and remarketed on the earliest reasonably practical date on which they can be sold at par (or above par in the exception described above), in such Mode or modes as the City directs, at a rate not exceeding the Maximum Rate.

Except as otherwise provided in the Ordinance, notice of any mandatory tender of Bonds stating that such Bonds are to be purchased pursuant to the Ordinance will be provided by the Paying Agent or caused to be provided by the Paying Agent/Registrar by mailing a copy of the notice of mandatory tender by first-class mail to each Registered Owner of Bonds at the respective addresses shown on the registration books. Each notice of mandatory tender for purchase will identify the reason for the mandatory tender for purchase, and specify the Mandatory Purchase Date, the Purchase Price, the place and manner of payment, that the Registered Owner has no right to retain such Bonds and that no further interest will accrue from and after the Mandatory Purchase Date to such Registered Owner. Each notice of mandatory tender for purchase caused by a change in the Mode applicable to the Bonds will in addition specify the conditions that have to be satisfied pursuant to the Ordinance in order for the new Mode to become effective and the consequences that the failure to satisfy any of such conditions would have. In the event a mandatory tender of Bonds will occur at or prior to the same date on which an optional tender for purchase is scheduled to occur, the terms and conditions of the applicable mandatory tender for purchase will control. Any notice mailed as described above will be conclusively presumed to have been duly given, whether or not the Registered Owner of any Bonds receives the notice, and the failure of such Registered Owner to receive any such notice will not affect the validity of the action described in such notice. Failure by the Paying Agent to give a notice as provided under this caption would not affect the obligation of the Tender Agent to purchase the Bonds subject to mandatory tender for purchase on the Mandatory Purchase Date.

Tender Procedures. While the Bonds are all registered in the name of Cede & Co., as nominee for DTC, Bondholders may tender Bonds for purchase by giving DTC sufficient instructions to transfer beneficial ownership of such Bonds to the account of the Paying Agent/Registrar against payment.

Untendered Bonds. ANY BOND (OR PORTION THEREOF) WHICH IS REQUIRED TO BE TENDERED AS DESCRIBED UNDER “MANDATORY TENDER” ABOVE OR FOLLOWING NOTICE OF TENDER AS DESCRIBED ABOVE UNDER “TENDER AND PURCHASE OF BONDS – OPTIONAL TENDER PROVISIONS” AND FOR WHICH PAYMENT OF THE PURCHASE PRICE IS DULY PROVIDED FOR ON THE RELEVANT PURCHASE DATE WILL BE DEEMED TO HAVE BEEN TENDERED AND SOLD ON SUCH PURCHASE DATE, AND THE HOLDER OF SUCH BOND WILL NOT THEREAFTER BE ENTITLED TO ANY PAYMENT (INCLUDING ANY INTEREST ACCRUED SUBSEQUENT TO SUCH PURCHASE DATE) IN RESPECT THEREOF OTHER THAN THE PURCHASE PRICE FOR SUCH BOND OR PORTION OR OTHERWISE BE SECURED BY OR ENTITLED TO ANY BENEFIT UNDER THE ORDINANCE.

Bond Provisions

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 Registration Books 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 United States 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 “Book-Entry-Only System” below 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.)

Limitation on Transfer. 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 Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set for in the Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or Ordinance and the City’s obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. Because it is unclear whether the Texas legislature has effectively waived the City’s sovereign immunity from a suit for money damages, bondholders may not be able to bring such a suit against the City for breach of the Bonds or the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City’s property. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues (such as the Pledged Revenues), such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad

discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

Amendments. The City has reserved the right to amend the Ordinance under the conditions described therein. Certain amendments may be made without the consent of any holders of the Bonds. (See “APPENDIX B – Excerpts from the Ordinance”.) Other amendments would require the consent of the holders of at least a majority in aggregate principal amount of the Bonds. For a complete description of the manner in which the Ordinance may be amended, see APPENDIX B attached hereto.

Investment of Funds; Transfer of Investment Income. Money in all funds and accounts created under the Ordinance are permitted to be invested in the manner provided by Texas law in Permitted Investments provided that the money required to be expended from any fund or account will be available at the proper time or times. Money in such funds may be subjected to further investment restrictions imposed from time to time by ordinances authorizing the issuance of Additional Bonds. All such investments will be valued by the City’s auditor at least once a year no later than the last business day of the City’s Fiscal Year at market value, except that any direct obligations of the United States of America - State and Local Government Series will be continuously valued at their par value or principal face amount. For purposes of maximizing investment returns, money in such funds may be invested, together with money in other funds or with other money of the City, in common investments or in a common pool of such investments maintained by the City at an official depository of the City or in any fund or investment vehicle permitted by Texas law, which will not be deemed to be a loss of the segregation of such money or funds provided that safekeeping receipts, certificates of participation or other documents clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such funds are held by or on behalf of each such fund. If and to the extent necessary, such investments or participations therein will be promptly sold to prevent any default. Investments of money in the Debt Service Reserve Fund will have a term of maturity of not greater than five years; provided, however, that investments under any investment agreement may exceed five years.

All interest and income derived from deposits and investments credited to any funds and accounts will be transferred to the designated fund not less frequently than monthly, provided that at any time when the Debt Service Reserve Fund has on deposit an amount less than the Reserve Fund Requirement, all interest and income on from deposits and investments credited to such fund will remain therein.

However, notwithstanding the foregoing, any interest and income derived from deposits and investments of any amounts credited to any fund or account created under the Ordinance may be (1) transferred into any rebate account or subaccount and (ii) paid to the federal government if in the opinion of nationally recognized bond counsel such payment is required to comply with any covenant contained in the Ordinance or required in order to prevent interest on any Bonds or Subordinate Lien Bonds from being includable within the gross income of the registered owners thereof for federal income tax purposes.

So long as any Bonds remain Outstanding, all uninvested money on deposit in, or credited to, the above described funds and accounts will be secured by the pledge of security, as provided by Texas law.

Additional Bonds. The City reserves the right to issue, for expansion of the Convention Center facilities or any other purpose then authorized by law, one or more installments of Additional Bonds payable from and secured on a parity with the Bonds Similarly Secured, however, that pursuant to the Ordinance, no such Additional Bonds will be issued unless:

No Default; Proper Fund Balances. The City’s Director of Finance certifies that, upon the issuance of such Additional Bonds, (i) the City will not be in default under any term or provision of any Bonds then Outstanding or any ordinance pursuant to which any of such Bonds were issued and (ii) the Debt Service Fund will have the required amounts on deposit therein and the Debt Service Reserve Fund will contain the applicable Reserve Fund Requirement or so much thereof as is required to be funded at such time.

Coverage for Additional Bonds. The City’s Director of Finance (or other officer of the City having primary responsibility for the financial affairs of the City) certifies that, for the City’s most recent complete Fiscal Year or for any consecutive 12-month period out of the most recent 18 months, the Pledged Revenues for the above period are equal to at least 150% of the maximum annual Debt Service Requirement on all Bonds Similarly Secured scheduled to

occur in the then current or any future Fiscal Year after taking into consideration the issuance of the Additional Bonds proposed to be issued. In making a determination of the Pledged Revenues, the City may take into consideration an increase in the portion of the HOT pledged and dedicated to the payment of Prior Lien Bonds and Bonds Similarly Secured that became effective during the period for which Pledged Revenues are determined and, for purposes of satisfying the above coverage tests, make a pro forma determination of the Pledged Revenues for the period of time covered by such certification based on such increased portion of the HOT pledged and dedicated to the payment of the Bonds Similarly Secured being in effect for the entire period covered by the certificate.

Ordinance Requirements. In all cases, provision is made in the bond ordinance authorizing the Additional Bonds proposed to be issued for (1) additional transfers into the Debt Service Fund sufficient to provide for the increased Debt Service Requirements resulting from the issuance of the Additional Bonds including, in the event that interest on the Additional Bonds is capitalized and/or to be paid from investment earnings, a requirement for the transfer from the capitalized interest fund or account and/or from the construction fund to the Debt Service Fund of amounts fully sufficient to pay interest on such Additional Bonds during the period specified in the ordinance, and (2) satisfaction of the Reserve Fund Requirement by not later than the date required by the Ordinance or any other ordinance authorizing Additional Bonds.

Refunding Bonds. If Additional Bonds are being issued for the purpose of refunding less than all previously issued Bonds which are then Outstanding, neither of the certifications described above is required so long as the maximum annual and the average annual Debt Service Requirements in any Fiscal Year after the issuance of such Additional Bonds will not exceed the maximum annual and the average annual Debt Service Requirements for all Bonds Outstanding in any Fiscal Year prior to the issuance of such refunding Additional Bonds with respect to the maximum annual Debt Service Requirements and in the prior Fiscal Year with respect to the Average Annual Debt Service Requirements.

Subordinate Lien Obligations. The City will reserve the right to issue or incur, for any lawful purpose, bonds, notes, or other obligations secured in whole or in part by liens on the Pledged Revenues subordinate to the liens on Pledged Revenues securing payment of the Prior Lien Bonds and Bonds Similarly Secured and the revenues pledged to secure the payment of Prior Lien Bonds as disclosed in the 1996 Amendatory Ordinance adopted by the City Council on June 3, 2004.

Defeasance. The City may discharge its obligation to the registered owners of any or all of the Bonds to pay principal and interest, within the meaning of the Ordinance when payment of the principal of and interest on such Bonds to the stated maturity thereof or to the redemption date thereof has been made, by depositing with any permitted entity, as specified in Chapter 1207, Texas Government Code, as amended, for such Bonds: (i) money sufficient to pay the principal amount of such Bonds plus interest thereon to the date of maturity or redemption, (ii) Government Obligations (hereinafter defined) certified by an independent public accounting firm to be of such maturities and bearing interest at rates sufficient to provide for the timely payment of the principal amount and redemption premium, if any, of such Bonds plus interest thereon to the date of maturity or redemption or (iii) a combination of money and Government Obligations together so certified sufficient to make such payment; provided, however, that if any of such Bonds are to be redeemed prior to their respective dates of maturity, provision will have been made for giving notice of redemption as provided in the ordinance authorizing such Bonds. Upon such deposit, such Bonds will no longer be regarded as outstanding or unpaid.

The Ordinance provides that "Government Obligations" means the (i) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by the United States of America; (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency of instrumentality and that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, or (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the City adopts or approves the proceedings and authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent.

Upon such deposit as described above, such Bonds will no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment of the Bonds, whether be reason of maturity or prior redemption, have been made as described above, all rights of the of the City to take action amending

the terms of the Bonds and initiating proceedings to call the Bonds for redemption are extinguished; provided, however, the City has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption at an earlier date those Bonds which have been defeased to their maturity date, if the City (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption, (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Book-Entry-Only System. *The Bonds will be available only in book-entry form. Consequently, purchasers of ownership interests in the Bonds will not receive certificates representing their respective interests in the Bonds. This section describes how ownership of the Bonds is to be transferred and how the payments of principal of and interest on the Bonds are to be paid to and accredited by 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 Co-Financial Advisors, the Underwriters and the City 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 (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission (“SEC”), and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

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

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

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.

Redemption notices 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 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement. With respect to this Official Statement, readers should understand that while the Bonds are in the Book-Entry Only System, references in other sections of this Official Statement to "Registered Owners" should be read to include the person for which the Direct Participant or Indirect Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry Only System and (ii) except as described above, notices that are to be given to registered owners under the Ordinance are required to be given only to DTC.

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

REMARKETING AGREEMENT

[TO COME]

General

Pursuant to the terms of a remarketing agreement (the “Remarketing Agreement”), the City has appointed Wachovia Bank, National Association, as remarketing agent (the “Remarketing Agent”) for the Bonds. The Remarketing Agent is obligated to use its best efforts to remarket Bonds whenever they are tendered for purchase, subject to certain conditions, in consideration of the payment by the City of a quarterly fee based upon the principal amount of Bonds outstanding from time to time. When Bonds are remarketed in connection with the conversion of the interest rate to a different mode, the Remarketing Agreement provides that the City and the Remarketing Agent will agree to a fee specifically for such a remarketing. The Remarketing Agent has also agreed to perform the functions of rate-setting agent for the Bonds by determining the interest rates on, and interest periods for, the Bonds in the manner and for the times specified in the Ordinance.

Disclosure Concerning Tender Process and Sales of Variable Rate Demand Bonds by Remarketing Agent

Conditions for Suspension of Remarketing Efforts.

[The Remarketing Agreement provides that the Remarketing Agent will suspend its remarketing efforts upon the receipt of notice of the occurrence of an event of default under the Bonds, the Ordinance, or the Reimbursement Agreement, or upon a wrongful dishonor of the Letter of Credit or other default of the Credit Provider.

Additionally, the Remarketing Agreement provides that the Remarketing Agent may, in its sole discretion if it determines that its ability to remarket the Bonds will be adversely affected, suspend its remarketing efforts immediately upon the occurrence of any of the following events, which suspension will continue so long as, in the Remarketing Agent’s reasonable judgment, such event continues to adversely affect the Remarketing Agent’s ability to remarket the Bonds: (i) legislation shall have been enacted or introduced by the Congress of the United States or the legislature of the State or legislation shall have been reported out of committee of either body or be pending in committee of either body, or a decision shall have been rendered by a court of the United States or the State or the Tax Court of the United States, or a ruling, resolution, regulation, or temporary regulation, release, or announcement shall have been made or shall have been proposed to be made by the Treasury Department of the United States or the Internal Revenue Service, or other federal or State authority, with respect to federal or State taxation upon revenues or other income of the general character of that to be derived by the City from its operations, or upon interest received on obligations of the general character of the Bonds that, in the Remarketing Agent’s reasonable judgment, materially adversely affects the market for the Bonds, or the market price generally of obligations of the general character of the Bonds; (ii) there shall exist any event or circumstance that in the Remarketing Agent’s reasonable judgment either makes untrue or incorrect in any material respect any statement or information in the Official Statement or any future remarketing memorandum or is not reflected in the Official Statement or any future remarketing memorandum but should be reflected therein in order to make any statement of material fact therein not misleading in any material respect; (iii) there shall have occurred (a) an outbreak or escalation of hostilities involving the United States or the declaration by the United States of a national emergency or war occurs; or (b) the occurrence of any other calamity or crisis or any change in the financial, political, or economic conditions in the United States or elsewhere, if the effect of any such event specified in clause (a) or (b), in the judgment of the Remarketing Agent, makes it impracticable or inadvisable to proceed with the remarketing of the Bonds; (iv) there shall be in force a general suspension of trading on the New York Stock Exchange, or minimum or maximum prices for trading shall have been fixed and be in force, or maximum ranges for prices for securities shall have been required and be in force on the New York Stock Exchange, whether by virtue of a determination by that Exchange or by an order of the United States Securities and Exchange Commission (“SEC”) or any other governmental authority having jurisdiction that, in the Remarketing Agent’s reasonable judgment, makes it impracticable to proceed with the remarketing of the Bonds; (v) a general banking moratorium shall have been declared by federal or state authorities having jurisdiction and be in force that, in the Remarketing Agent’s reasonable judgment, makes it impracticable for the Remarketing Agent to proceed with the remarketing of the Bonds; (vi) legislation shall be enacted or be proposed or actively considered for enactment, or a decision by a court of the United States shall be rendered, or a ruling, regulation, proposed regulation, or statement by or on behalf of the SEC or other governmental agency having jurisdiction of the subject matter shall be made, to the effect that the Bonds or any comparable securities of the City, or any obligations of the general character of the Bonds are not exempt from the registration, qualification or other requirements of the Securities Act of 1933, as amended and as then in effect, or otherwise, or would be in violation of

any provision of applicable securities laws; (vii) there shall have been any material adverse change in the affairs of the City that in the Remarketing Agent's reasonable judgment will materially adversely affect the market for the Bonds; (viii) there shall be established any new restriction on transactions in securities materially affecting the free market for securities (including the imposition of any limitation on interest rates) or the extension of credit by, or a change to the net capital requirements of, the Remarketing Agent established by the New York Stock Exchange, the SEC, any other federal or state agency or the Congress of the United States, or by Executive Order; (ix) a stop order, release, regulation, or no-action letter by or on behalf of the SEC or any other governmental agency having jurisdiction of the subject matter shall have been issued or made to the effect that the remarketing of the Bonds, including all the underlying obligations as contemplated hereby or by the Preliminary Official Statement or future remarketing memorandum, is or would be in violation of any provision of applicable securities laws; (x) any downgrading of the short-term rating of the City below "A-1" or its equivalent or withdrawal of a rating of the Bonds by a nationally recognized rating service, which downgrading or withdrawal, in the reasonable judgment of the Remarketing Agent, materially adversely affects the marketability of the Bonds.]

Remarketing Agent Paid by the City. The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing the Bonds that are optionally or mandatorily tendered to it by the beneficial owners thereof (subject, in each case, to the terms of the Remarketing Agreement). The Remarketing Agent is appointed by the City and is paid by the City for its services. As a result, the interests of the Remarketing Agents may differ from those of beneficial owners and potential purchasers of Bonds.

Determination of Interest Rates by the Remarketing Agent. On each Rate Determination Date, the Remarketing Agent is required to determine the interest rate that will be effective with respect to the Bonds on the Effective Date. That rate is required by the Ordinance to be the lowest rate necessary in the judgment of the Remarketing Agent to remarket the Bonds at par, plus accrued interest on the Effective Date.

Tenders to the Remarketing Agent or the Tender Agent. As described under "Book-Entry-Only-System", while the Bonds are in book entry form, a beneficial owner may give notice to elect to tender its Bonds, through its Participant, to the Remarketing Agent or the Tender Agent, and may effect delivery of such Bonds by causing the Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Remarketing Agent or the Tender Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory tender may be deemed satisfied when the ownership rights in the Bonds are transferred by Participants on DTC's records and followed by a book entry credit of tendered Bonds to the Remarketing Agent's or the Tender Agent's DTC account. Tendering Bondholders will receive par, plus accrued interest, if any, after the required number of days' notice have elapsed. For example, while the Bonds bear interest at the Weekly Rate, tendering Bondholders will receive par, plus accrued interest on the fifth Business Day following their tender to the Remarketing Agent or the Tender Agent. Tendering Bondholders will be paid with the proceeds of the remarketing of the Bonds and, to the extent those proceeds are insufficient, from the proceeds of draws on the Letter of Credit by the Paying Agent/Registrar.

The Remarketing Agent Routinely Purchases Bonds for its Own Account. The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations issued by many issuers and, in its sole discretion, routinely purchases such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered Bonds for its own account and, in its sole discretion, routinely acquires such tendered Bonds in order to achieve a successful remarketing of the Bonds (*i.e.*, because there otherwise are not enough buyers to purchase the Bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase Bonds, and may cease doing so at any time without notice, in which case it may be necessary for the Paying Agent to draw on the Letter of Credit to pay tendering Bondholders.

The Remarketing Agent may also make a secondary market in the Bonds by routinely purchasing and selling Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales must be at fair market value, which may be at, above, or below par. No notice period is required for such purchases. However, the Remarketing Agent is not required to make a secondary market in the Bonds. Thus, investors who purchase the Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Bonds other than by tendering the Bonds in accordance with the tender process.

The Remarketing Agent may also sell any Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Bonds. The purchase of Bonds by the Remarketing Agent may create the appearance that there is greater third party

demand for the Bonds in the market than is actually the case. The practices described above also may result in fewer Bonds being tendered in a remarketing.

Bonds May be Offered at Prices Other Than Par. Pursuant to the Remarketing Agreement, on each Rate Determination Date, the Remarketing Agent is required to determine the interest rate that will be effective with respect to the Bonds on the Effective Date. That rate is required by the Ordinance to be the lowest rate necessary in the judgment of the Remarketing Agent to remarket the Bonds at par, plus accrued interest on the Effective Date. The interest rate will reflect, among other factors, the level of market demand for the Bonds (including whether the Remarketing Agent is willing to purchase Bonds for its own account). There may or may not be Bonds tendered and remarketed on an Effective Date, and the Remarketing Agent may or may not be able to remarket any Bonds tendered for purchase on such date at par. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third-party buyers for all of the Bonds at the remarketing price. If the Remarketing Agent owns Bonds for its own account, in its sole discretion, it may sell those Bonds at fair market value, which may be at prices above or below par only on days other than Effective Dates and Rate Determination Dates after the interest rate for the succeeding Effective Date has been set or, in the case of Bonds bearing interest at a Daily Rate, after 11 a.m. on an Effective Date. The Remarketing Agent may not agree in advance of the Effective Date to sell Bonds to a customer at a price below par.

Under Certain Circumstances, the Remarketing Agent May Be Removed, Resign or Cease Remarketing the Bonds, Without a Successor Being Named. Under certain circumstances the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreement. In the event there is no Remarketing Agent, Bondholders will be required to tender their Bonds to the Tender Agent, as described under “Tender and Purchase of Bonds—Optional Tender Provisions”. In that event, the Bonds will bear interest at the rate set in accordance with the SIFMA, remarketings of the Bonds will cease until a successor remarketing agent has been appointed, and tendering Bondholders will be paid from draws on Letter of Credit.

THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT

[TO BE REVISED TO CONFORM TO LOC]

Introduction

Principal of and interest on the Bonds and the purchase price of Bonds tendered or deemed tendered and not remarketed by the applicable Remarketing Agent are payable from an irrevocable direct-pay letter of credit (the “Letter of Credit”) issued by Wachovia Bank, National Association (the “Credit Provider”). The Letter of Credit will expire on July 11, 2010, unless otherwise extended or renewed or earlier terminated as described therein.

The City will also enter into a Reimbursement Agreement, dated as of June 12, 2008 (the “Reimbursement Agreement”), with the Credit Provider pursuant to which the City will agree to reimburse the Credit Provider for moneys drawn on the Letter of Credit. The City has agreed to perform certain covenants under the Reimbursement Agreement, which are different from the covenants contained in the Ordinance and may be waived or amended from time to time by the Credit Provider without notice to or consent of the Owners of the Bonds. Upon the occurrence of certain events of default under the Reimbursement Agreement, the Bonds will become subject to mandatory purchase on a Mandatory Purchase Date at the option of the Credit Provider. The reimbursement obligations of the City under the Reimbursement Agreement are on a parity with the Bonds Similarly Secured.

The proposed form of the Letter of Credit is attached to this Official Statement as APPENDIX D. Information regarding the Credit Provider is provided under the caption “THE CREDIT PROVIDER” herein.

General Provisions of the Reimbursement Agreement

The following is a brief description of certain provisions of the Letter of Credit and the Reimbursement Agreement with regard to the Bonds and is not to be considered as a full statement of the provisions of such documents. This summary is qualified by reference to and is subject to each such document. Capitalized terms used herein and

not defined shall have the meanings set forth in the Reimbursement Agreement. The provisions of any substitute or replacement letter of credit and related reimbursement agreement may be different from those summarized below.

The Letter of Credit will be in all respects an irrevocable obligation of the Credit Provider. The Letter of Credit will be issued in an amount (the "Original Stated Amount") equal to the aggregate principal amount of the Bonds, plus 45 days' interest on the Bonds, at the rate of 10% per annum. Under the Letter of Credit, the Paying Agent, upon compliance with the terms of the Letter of Credit, is authorized and directed to draw up to (a) an amount sufficient (i) to pay principal of the Bonds (other than Bank Bonds) when due, whether at maturity or upon redemption or acceleration, and (ii) to pay the portion of the purchase price of Bonds (other than Bank Bonds and City Bonds) delivered for purchase pursuant to a demand for purchase by the owner thereof or a mandatory tender for purchase and not remarketed equal to the principal amount of such Bonds, plus (b) an amount not to exceed 45 days' interest on the Bonds at the rate of 10% per annum, to pay interest on Bonds (other than Bank Bonds when due, delivered for purchase pursuant to a demand for purchase by the owner thereof or a mandatory tender for purchase and not remarketed, equal to the interest accrued, if any, on such Bonds.

Upon any drawing, the amount of the Letter of Credit will be reduced automatically by the amount of such drawing. The amount of any drawing for interest due on an interest payment date will be automatically reinstated on the tenth calendar day following the date any interest drawing is honored unless the Credit Facility notifies the Paying Agent prior to such time that an event of default under the Reimbursement Agreement (including the City's failure to reimburse the Credit Provider for such drawing) has occurred and is continuing, in which case the amount of such drawing will not be reinstated. The amount of any drawing upon a tender of the Bonds will be reinstated upon payment to the Credit Provider of the purchase price of any Bonds purchased with the proceeds of such drawing. At any given time the available amount under the Letter of Credit shall be equal to the Original Stated Amount, less (i) the amount of any drawings to the extent such amounts have not been reinstated and (ii) the amount by which the Paying Agent and the City, in a certificate delivered to the Credit Provider, have permanently reduced the amount of the Letter of Credit to the extent such reduction is not already accounted for by a reduction in the available amount pursuant to clause (i) above.

The Reimbursement Agreement requires the City to immediately reimburse the Credit Provider for the full amount of any drawings for interest or principal on the Bonds including upon redemption. It also requires the City to reimburse the Credit Provider for the amount of any drawing upon a tender of the Bonds (each, an "Advance") on the earliest of (i) the date on which the Letter of Credit is replaced by an Alternate Credit Facility pursuant to the terms of the Ordinance, (ii) the date which is the fifth anniversary of the date of such Advance, (iii) the date which is the fifth anniversary of the Stated Expiration Date as in effect as of the date such Advance was made, (iv) the date on which any Bonds purchased with funds disbursed under the Letter of Credit in connection with such Liquidity Drawing are redeemed, prepaid or canceled pursuant to the [CONFIRM: Supplemental Ordinance], (v) the date on which any Bonds purchased with funds disbursed under the Letter of Credit are remarketed pursuant to the Ordinance and (vi) the date which is fifteen (15) days following the Conversion Date on which all of the Bonds are converted to a mode other than the Weekly Mode. The City's obligations to repay each Advance and to pay interest thereon as hereinafter provided shall be secured by the Bank Bonds. Subject to certain exceptions, the City also promises to repay to the Credit Provider interest on the unpaid principal amount of each Advance from the date such Advance is made until it is paid in full, at a rate per annum equal to the Bank Rate from time to time in effect and shall be payable monthly in arrears on the first day of each month for the immediately preceding calendar month (commencing on the first such date to occur after the making of the related Advance), and on the date that the final principal installment of such Advance is payable as herein provided. Unless otherwise paid in full on the date provided above, each Advance shall be payable by the City in semi-annual installments ("Semi-Annual Principal Payments") on each May 15 and November 15 (commencing on the first such date to occur after the making of the related Advance), with the final installment in an amount equal to the entire then outstanding principal amount of such Advance due and payable on the earlier of (x) the date which is the fifth anniversary of the date of such Advance and (y) the date which is the fifth anniversary of the Stated Expiration Date (as in effect as of the date of such Advance) (the period commencing on the date such installment is initially payable and ending on the date that the final principal installment of such Advance is payable as herein provided is herein referred to as the "Amortization Period"). Each Semi-Annual Principal Payment shall be that amount of principal which will result in equal (as nearly as possible) aggregate Semi-Annual Principal Payments over the applicable Amortization Period.

The Letter of Credit, by its terms, will expire on the earliest of (i) July 11, 2010 (as extended from time to time, the "Stated Expiration Date"), (ii) the earlier of (A) the date which is fifteen (15) days following the date on which all of

the Bonds are converted to bear interest in a mode other than the Weekly Mode (the “Subsequent Conversion Date”) or (B) the date on which the Credit Provider honors a drawing under the Letter of Credit on or after the Subsequent Conversion Date, (iii) the date which is fifteen (15) days following receipt from the Paying Agent of a certificate stating that (a) no Bonds (as defined in the Letter of Credit) remain Outstanding within the meaning of the Ordinance (as defined in the Letter of Credit), (b) all drawings required to be made under the Ordinance and available under the Letter of Credit have been made and honored, or (c) a substitute letter of credit has been issued to replace the Letter of Credit pursuant to the Ordinance and the Reimbursement Agreement and, accordingly, the Letter of Credit shall be terminated in accordance with its terms, and (iv) the date which is fifteen (15) days following receipt by the Paying Agent of a written notice from the Agent specifying the occurrence of an Event of Default under the Reimbursement Agreement and directing the Paying Agent to cause a mandatory tender of the Bonds pursuant to the terms of the Ordinance (the earliest of such dates to occur referred to herein as the “Termination Date”).

Events of Default and Remedies Under the Reimbursement Agreement

Certain events shall constitute “Events of Default” under the Reimbursement Agreement. Upon the occurrence and during the continuance of any Event of Default under the Reimbursement Agreement, the Credit Provider, may:

(a) by written notice to the City require that the City immediately prepay to the Credit Provider in immediately available funds an amount equal to the Available Amount, provided, however, that in the case of an Event of Default described in Section 6.1(g) of the Reimbursement Agreement, such prepayment Obligations shall automatically become immediately due and payable without any notice (unless the coming due of such Obligations is waived by the Credit Provider in writing;

(b) by notice to the City, declare all Obligations to be, and such amounts shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the City; *provided* that upon the occurrence of an Event of Default under Section 6.1(g) of the Reimbursement Agreement such acceleration shall automatically occur (unless such automatic acceleration is waived by the Credit Provider);

(c) give notice of the occurrence of any Event of Default or notice of non-reinstatement of an Interest Drawing under the Letter of Credit to the Paying Agent/Registrar directing the Paying Agent/Registrar to cause a mandatory tender of the Bonds pursuant to the terms of the Ordinance, thereby causing the Letter of Credit to expire fifteen (15) days thereafter;

(d) pursue any rights and remedies it may have under the Program Documents; or

(e) pursue any other action available at law or in equity.

Replacement of Letter of Credit

In the Reimbursement Agreement, the City will agree not to replace the Letter of Credit (or to direct the Paying Agent/Registrar to terminate the Letter of Credit without a replacement letter of credit being substituted therefor) prior to the earliest of (a) _____, 200__, (b) the request for and receipt of any payment by any Credit Provider pursuant to the increased costs provisions of the Reimbursement Agreement, or (c) (i) the payment by the City to the ratable account of the Credit Provider of a termination fee in an amount equal to the Facility Fee (based upon a Gross Available Amount in an amount equal to that in effect on the Closing Date) for eighteen calendar months, less the actual amount of Facility Fees the City has previously paid to the ratable account of the Credit Provider, (ii) the payment to the Credit Provider of all fees, expenses and other amounts payable under the Reimbursement Agreement, (iii) the payment to the Credit Provider of all principal and accrued interest owing on any Bank Bonds, and (iv) providing the Credit Provider notice of its intention to do so at least sixty (60) days prior to the date of such termination or replacement.

THE CREDIT PROVIDER

Wachovia Bank, National Association, has furnished the information in APPENDIX D for use in disclosure documents such as this Official Statement. Such information has not been independently verified by the City or the Underwriters. The City and the Underwriters believe such information to be reliable, but neither the City nor the

Underwriters take any responsibility for or makes any representation as to the adequacy or completeness thereof. The proposed form of the Letter of Credit is attached hereto as APPENDIX E. See also "THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT" for information relating to the Letter of Credit.

THE HOTEL OCCUPANCY TAX

General Description of Hotel Occupancy Tax

Pursuant to the provisions of Chapter 351, Texas Tax Code, as amended (the "HOT Act"), the City is authorized to impose the Hotel Occupancy Tax on persons, based upon the price paid, for the use or possession, or right of use or possession, of rooms ordinarily used for sleeping at any hotel in the City. Currently, the Hotel Occupancy Tax may be imposed only for rooms for which the cost of occupancy is at the rate of \$2 or more per day. The municipal Hotel Occupancy Tax of the City currently equals 9% of the consideration paid to the hotel for the right to use or possess the room. Other provisions of the Texas Tax Code authorize the State and counties meeting certain specified qualifications to impose similar hotel occupancy taxes; therefore the total hotel occupancy tax in San Antonio for all entities including the City is 15%. Under the HOT Act, "hotel" means any building or buildings in which the public may, for consideration, obtain sleeping accommodations. The term includes hotels, motels, tourist homes, tourist houses, tourist courts, lodging houses, inns, rooming houses, bed and breakfasts, or other buildings where rooms are furnished for a consideration, but does not include hospitals, sanitariums, or nursing homes. The consideration paid for the room, for purposes of the HOT Act, includes the cost of the room only if the room is one ordinarily used for sleeping, and does not include the cost of any food served or personal services rendered to the occupant of such room not related to the cleaning and readying of such room for occupancy. To be subject to the Hotel Occupancy Tax, the occupant's use, possession, or right to the use or possession of the sleeping room must be for a period of less than 30 consecutive days. Certain housing facilities owned or leased and operated by an institution of higher education are excluded. These amendments are not expected to have any significant impact on the amount of Hotel Occupancy Taxes received by the City. Hotels and other eligible vendors of sleeping accommodations are required to collect the Hotel Occupancy Tax at the time the room charges are received from patrons. The Hotel Occupancy Tax collections for the City are to be turned over to the City with reporting forms in the next succeeding month, a 1% discount for submissions prior to the 20th of such succeeding month is given. Penalties and interest are imposed by the City for delinquent payments and the HOT Act provides for enforcement of collection of the Hotel Occupancy Tax.

Allocation of Hotel Occupancy Tax

Under the then-applicable provisions of the HOT Act, the Prior Lien Bonds were restricted to an allocation of 75% of the 7% hotel occupancy tax (which constituted the General HOT in the Prior Lien Bonds Ordinance) for the acquisition of sites for and the construction, improvement, enlargement, equipping, repairing, operation, and maintenance of convention center facilities. As a result, the City pledged the "Pledged 5.25% HOT" being 75% (or 5.25% in total) of the General HOT into the General Hotel Occupancy Tax Fund for payment of the Prior Lien Bonds.

The Texas Legislature amended the HOT Act in 2001 to remove the 75% restriction on the allocation of the General HOT, allowing the City to now allocate by ordinance the entirety of the General HOT. Pursuant to this new authority, the City has heretofore designated the remaining 25% of the General HOT (or 1.75% in total), known as the "Pledged 1.75% HOT," to the payment of the Prior Lien Bonds on a first and prior lien basis and to the Bonds Similarly Secured on a subordinate lien basis. In addition, the Hotel Bonds are secured in part by a lien on certain of the General HOTs (defined herein as the Hotel Project General HOTs), which lien is subordinate in priority to the lien thereon securing the Bonds Similarly Secured. (See "PLAN OF FINANCING – Issuance of the Hotel Bonds.")

Levy of Hotel Occupancy Tax

In the Ordinance, the City has levied, and has covenanted that it will continue to levy while any Bonds remain Outstanding, the Hotel Occupancy Tax on the cost of occupancy of any qualified hotel room at a rate of at least 9% of the consideration paid by the occupant thereof to the hotel, all as authorized by the HOT Act. The City has further covenanted that it will enforce the provisions of the Ordinance, or any other ordinance levying a HOT, concerning the collection, remittance, and payment of the HOT. Of the \$0.09 City HOT: (i) \$0.02 represents the Expansion HOT, pledged to the payment of the Hotel Bonds and the Prior Lien Bonds in such order of priority as described in "PLAN OF FINANCING – Issuance of Hotel Bonds" (and which may lawfully be utilized to pay the debt service requirements on the Bonds Similarly Secured but is not pledged for such purpose), the collection history of which is set forth below

in Table 3; (ii) \$0.0525 represents the Pledged 5.25% General HOT, pledged as a prior lien to the payment of the Prior Lien Bonds and as a subordinate lien to the payment of the Bonds Similarly Secured, the collection history of which is set forth in Table 4 below); and (iii) \$0.0175 represents the Pledged 1.75% General HOT pledged as a prior lien to the payment of the Prior Lien Bonds and as subordinate lien to the payment of the Bonds Similarly Secured, the collection history of which is set forth in Table 5 below.

Historical Municipal Hotel Occupancy Tax Receipts

Expansion Hotel Occupancy Tax Revenues – 2% Collection Rate ¹ Table 3

Months	Fiscal Year Ended September 30					
	2003	2004	2005	2006	2007*	2008*
October	\$ 573,848	\$ 545,694	\$ 519,437	\$ 877,962	\$ 893,466	\$1,151,896
November	817,218	767,592	999,530	857,751	1,186,179	1,020,536
December	612,502	678,680	692,712	1,036,926	1,229,244	1,173,579
January	591,602	555,197	547,423	767,164	932,351	783,724
February	539,972	679,369	617,210	778,861	828,989	1,333,595
March	774,913	790,353	979,467	1,052,668	917,997	1,564,300
April	1,193,058	1,260,666	1,367,005	1,475,125	1,721,810	1,422,052
May	1,050,796	1,271,436	1,324,661	1,505,624	1,614,192	
June	889,456	890,658	1,172,990	1,318,848	1,240,168	
July	951,731	853,764	1,185,765	1,284,997	1,255,765	
August	1,053,012	1,064,134	1,242,272	1,298,833	1,490,420	
September	870,407	941,564	802,259	1,125,216	871,217	
	<u>\$9,918,515</u>	<u>\$10,299,107</u>	<u>\$11,450,731</u>	<u>\$13,379,975</u>	<u>\$14,181,798</u>	<u>\$8,449,682</u>

* Unaudited.

¹ The Expansion Hotel Occupancy Tax consists of 2% more than 7% of the cost of a room and is currently pledged on a subordinate lien basisto payment of the Prior Lien Bonds and, in the event of insufficiency after other Hotel Bonds Pledged Revenues, the Hotel Bonds (See “PLAN OF FINANCE—Issuance of Hotel Bonds:). The proceeds from the Expansion HOT are not pledged to the payment of the debt service requirements on the Bonds Similarly Secured; however, the City is permitted by law to pay these debt service requirements from such source.

Source: City of San Antonio, Department of Finance

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5.25% Hotel Occupancy Tax Collections ¹

Table 4

Month	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007*	FY 2008*
October	\$ 1,706,034.79	\$ 1,961,532.35	\$ 1,786,334.70	\$ 1,189,584.52	\$ 1,506,351.60	\$ 1,432,438.64	\$ 1,379,829.88	\$ 2,314,815.67	\$ 2,347,043.29	\$ 3,018,518.67
November	2,323,014.48	1,680,740.43	2,094,754.24	2,090,365.52	2,145,198.33	2,014,898.33	2,654,544.45	2,258,100.42	3,118,817.17	2,920,411.89
December	1,223,425.62	1,780,792.71	1,827,798.34	1,532,379.65	1,607,818.26	1,779,431.74	1,819,190.60	2,731,088.65	3,229,222.17	2,844,393.17
January	1,204,667.91	1,790,757.89	1,884,444.19	1,652,623.65	1,552,930.68	1,457,390.61	1,425,767.76	2,018,517.53	2,455,243.82	2,057,345.91
February	1,623,468.92	1,402,813.24	1,324,629.41	1,369,586.10	1,417,577.11	1,783,342.75	1,463,786.75	2,046,848.39	2,177,491.94	3,500,684.88
March	2,180,042.84	2,396,767.26	2,225,097.55	2,439,166.49	2,034,145.82	2,074,683.45	2,482,141.42	2,769,448.57	2,423,591.81	4,106,297.20
April	3,072,815.05	2,998,217.35	3,538,208.05	3,555,088.02	3,131,657.95	3,309,245.71	3,599,946.18	3,874,347.21	4,522,874.78	3,732,891.25
May	2,285,725.81	2,819,826.77	2,650,255.70	2,925,693.78	2,758,337.54	3,337,449.38	3,479,999.93	3,953,453.40	4,243,248.39	
June	2,058,141.67	2,266,924.91	2,146,126.24	2,493,943.82	2,334,819.15	2,337,974.83	3,086,561.64	3,468,925.52	3,265,503.84	
July	2,097,735.24	2,290,183.47	2,515,695.24	2,467,400.42	2,498,291.54	2,241,127.83	3,118,677.38	3,375,155.25	3,299,848.05	
August	2,234,998.64	2,483,877.47	2,548,024.29	2,498,089.06	2,764,154.21	2,793,349.23	3,263,930.78	3,415,729.30	3,916,827.96	
September	<u>1,422,770.09</u>	<u>1,855,681.95</u>	<u>2,330,919.01</u>	<u>2,040,820.33</u>	<u>2,284,845.40</u>	<u>2,471,602.39</u>	<u>2,362,022.88</u>	<u>2,955,734.72</u>	<u>2,289,686.00</u>	
	<u>\$23,432,841.06</u>	<u>\$25,728,115.80</u>	<u>\$26,872,286.96</u>	<u>\$26,254,741.36</u>	<u>\$26,036,127.59</u>	<u>\$27,032,934.89</u>	<u>\$30,136,399.65</u>	<u>\$35,182,164.83</u>	<u>\$37,289,399.00</u>	<u>\$22,180,542.97</u>

* Unaudited.

¹ The 5.25% Hotel Occupancy Tax collections are the portion of the General HOT designated "Pledged 5.25% HOT" in the Ordinance and pledged as a first and prior lien for the payment of the Prior Lien Bonds and a subordinate and inferior lien for the payment of the Bonds Similarly Secured. The Hotel Bonds are secured by a lien on and pledge of that portion of the Pledged 5.25% HOT collected at the Hotel Project (defined herein as Hotel Project General HOTs), which lien and pledge is subordinate and inferior to the one thereon securing the Bonds Similarly Secured.

Source: *City of San Antonio, Department of Finance*

1.75% Hotel Occupancy Tax Collections ¹

Table 5

Month	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007*	FY 2008*
October	\$ 568,678.60	\$ 654,545.60	\$ 595,456.09	\$ 396,539.37	\$ 502,126.60	\$ 452,905.57	\$ 442,126.38	\$ 743,415.51	\$ 782,204.61	\$ 1,006,155.02
November	774,338.23	559,567.05	697,689.73	696,816.87	715,075.20	696,229.43	1,086,649.83	750,373.16	1,039,021.94	973,470.19
December	408,003.86	593,589.15	609,278.24	510,802.77	535,947.06	593,156.19	606,757.52	905,932.85	1,076,099.43	948,130.23
January	401,361.81	596,931.49	628,159.69	550,883.35	517,654.68	485,807.18	490,412.16	671,282.63	817,479.82	685,753.04
February	541,154.76	467,614.65	441,555.29	456,527.55	472,535.30	594,457.73	500,568.30	681,552.81	725,695.26	1,166,895.47
March	726,680.81	798,933.31	741,709.57	813,064.60	678,058.02	691,628.27	829,414.21	921,021.99	806,703.71	1,368,760.64
April	1,024,270.38	999,414.59	1,179,444.75	1,185,037.35	1,043,895.63	1,103,094.21	1,196,129.07	1,290,731.25	1,507,339.39	1,244,293.88
May	761,911.54	939,917.66	883,426.91	975,233.37	919,456.16	1,112,437.07	1,158,737.63	1,317,432.93	1,412,879.76	
June	686,046.53	755,653.60	715,385.75	831,322.54	778,285.06	779,337.57	1,026,409.77	1,153,991.77	1,087,794.15	
July	699,243.22	763,405.38	838,581.71	822,476.04	832,776.46	747,055.40	1,037,544.31	1,124,372.86	1,099,614.22	
August	745,001.47	827,968.51	849,350.34	832,704.31	921,395.30	931,097.24	1,086,997.43	1,137,860.46	1,305,243.61	
September	<u>474,254.32</u>	<u>618,572.50</u>	<u>776,984.38</u>	<u>680,284.02</u>	<u>761,625.50</u>	<u>823,877.57</u>	<u>561,819.59</u>	<u>1,008,895.49</u>	<u>761,262.00</u>	
	<u>\$7,810,945.53</u>	<u>\$8,576,113.49</u>	<u>\$8,957,022.45</u>	<u>\$8,751,692.14</u>	<u>\$8,678,830.97</u>	<u>\$9,011,083.43</u>	<u>\$10,023,566.20</u>	<u>\$11,706,863.71</u>	<u>\$12,421,338.00</u>	<u>\$7,393,458.47</u>

* Unaudited.

¹ The 1.75% Hotel Occupancy Tax collections are the portion of the Hotel Occupancy Tax designated "Pledged 1.75% HOT" in the Ordinance and pledged as a first and prior lien for the payment of the Prior Lien Bonds and a subordinate and inferior lien for the payment of the Bonds Similarly Secured. The Hotel Bonds are secured by a lien on and pledge of that portion of the Pledged 1.75% HOT collected at the Hotel Project (defined herein as Hotel Project General HOTs), which lien and pledge is subordinate and inferior to the one thereon securing the Bonds Similarly Secured.

Source: *City of San Antonio, Department of Finance*

Hotel Occupancy Tax – Top Ten Hotels ¹

Table 6

	Fiscal Year Ended September 30									
	2003		2004		2005		2006		2007	
	Rooms	Total Tax Paid ²	Rooms	Total Tax Paid ²	Rooms	Total Tax Paid ²	Rooms	Total Tax Paid ²	Rooms	Total Tax Paid ²
Marriott Rivercenter*	1,000	\$4,174,290	1,000	\$3,515,664	1,000	\$3,844,758	1,000	\$3,966,514	1,000	\$4,461,991
Hyatt Regency *	633	2,099,108	633	1,823,393	633	2,296,844	633	2,322,324	633	2,776,390
Hyatt Hill Country Resort**	500	1,830,858	500	1,749,513	500	1,978,448	500	2,293,139	500	2,553,698
Westin Riverwalk*	474	1,670,289	474	1,660,244	474	1,945,161	474	1,857,426	474	2,351,345
Westin La Cantera Resort***	508	1,604,983	508	1,486,361	508	1,784,479	508	2,106,976	508	2,313,754
Marriott Riverwalk*	502	2,081,821	502	1,766,221	502	2,032,346	502	2,057,478	502	2,229,260
Hilton Palacio Del Rio*	481	1,537,874	481	1,634,833	481	1,894,692	481	1,946,886	481	2,128,872
La Mansion Del Rio*	337	1,354,798	337	1,351,560	337	1,520,555	337	1,488,371	337	1,595,567
Crowne Plaza Riverwalk*	410	867,775	410	772,270	410	954,768	410	1,039,013	410	1,176,805
Hotel Valencia*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	213	948,428
Holiday Inn Riverwalk*	313	758,148	313	720,945	N/A	N/A	313	928,155	N/A	N/A
Wyndham St. Anthony*	N/A	N/A	N/A	N/A	352	868,293	N/A	N/A	N/A	N/A
Totals	5,158	\$17,979,944	5,158	\$16,481,004	5,197	\$19,120,344	5,158	\$20,006,282	5,058	\$22,536,110

* These hotels are within walking distance of the Henry B. Gonzalez Convention Center.

** This hotel is near SeaWorld San Antonio Adventure Park.

*** This hotel is near the Six Flags Fiesta Texas Amusement Park.

(1) Represents approximately 14.53% of total rooms available in the City and approximately 34.62% of the City's Hotel Occupancy Tax Receipts for fiscal year 2007.

(2) Municipal Hotel Occupancy Taxes were less a one percent discount for payment by the 20th of the following month and include any late charges. This earlier payment discount was discontinued October 1, 2005.

Source: City of San Antonio, Department of Finance.

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Hotel Developments

The Drury Plaza River Walk Hotel and the Grand Hyatt San Antonio, two new hotels, have opened in the downtown area accounting for more than 1,300 hotel rooms. Hotels under construction include the northeast 1000-room JW Marriott, the northwest 500-room Briggs Ranch Grand Vacation Hotel, and the downtown 220-room Courtyard by Marriott, to name a few. In 2008, the city's room supply is expected to grow more than 8 percent. For comparison purposes, the average annual supply increase nationally is just more than 2 percent a year.

San Antonio Hotel Occupancies and Average Daily Rates/History ¹ Table 7

<u>Calendar Year</u>	<u>Room Count</u>	<u>Increase/Decrease</u>	<u>Average Daily Room Rate</u>	<u>Increase/Decrease</u>	<u>Hotel Occupancy</u>	<u>Increase/Decrease</u>
1998	27,919	---	\$79.81	---	64.0%	---
1999	28,894	3.5%	80.65	1.1%	63.5%	(0.8%)
2000	30,017	3.9%	83.68	3.8%	64.0%	0.8%
2001	30,745	2.4%	84.51	1.0%	62.2%	(2.8)%
2002	31,382	2.1%	85.09	0.7%	63.2%	1.6%
2003	32,179	2.5%	82.15	(3.5%)	63.1%	(0.2%)
2004	32,350	0.5%	83.90	2.1%	63.7%	1.0%
2005	32,715	1.1%	88.67	5.7%	68.1%	6.9%
2006	33,321	1.9%	97.01	9.4%	68.3%	0.3%
2007	34,821	4.5%	101.56	4.6%	66.2%	(3.1%)

¹ According to Smith Travel Research (STR) reports dated March 2007 for calendar years 1998 through 2006 and January 2008 for calendar year 2007. STR is the lodging industry's leading information and data provider and maintains the most comprehensive database of hotel performance information nationwide. Information is based on hotels in the San Antonio market. Information is subject to adjustment as hotels submit adjusted data and/or additional hotels begin participating in the STR survey with actual data replacing estimated data. Room count is based on December of each year.

Funds and Flow of Funds

The General Hotel Occupancy Tax Fund is required pursuant to the Ordinance to be maintained as a separate fund or account on the books of the City. The Debt Service Fund, the Debt Service Reserve Fund, and the Facilities Fund are required to be maintained at an official depository bank of the City separate and apart from all other funds and accounts of the City. The Debt Service Fund and the Debt Service Reserve Fund will constitute trust funds held in trust for the registered owners of the Bonds Similarly Secured.

(a) Expansion HOT. The City covenants and agrees that all revenues of the Expansion HOT must be deposited as received in the Expansion HOT Fund and transferred on or before the last Business Day of each month to the following funds in the following order of priority:

(i) First, to the Prior Lien Bonds Debt Service Fund in the amounts and for the uses described in the Prior Lien Bonds Ordinance.

(ii) Second, to the Debt Service Reserve Fund in the amounts and for the uses described in the Prior Lien Bonds Ordinance.

(iii) Third, to the payment of any Subordinate Lien Obligations, including the Bonds Similarly Secured (including Reimbursement Obligations incurred in connection therewith), and reserve funds related thereto, as may be required by any ordinance authorizing the issuance of such Subordinate Lien Obligations.

(iv) Fourth, to the Facilities Fund in the amounts and for the uses described in the Prior Lien Bonds Ordinance.

Notwithstanding the foregoing, as often as the City shall deem necessary, but at least once a month on or before the penultimate Business Day of each month, the City shall determine the amounts necessary from the Expansion HOT to satisfy the foregoing transfers, taking into consideration the money accumulated as of such date in the Debt

Service Fund and the amount necessary to be transferred to the Debt Service Reserve Fund as required herein. After making the aforementioned determination, in the event the revenues from the Expansion HOT are not sufficient to satisfy the payment obligations set forth in clauses First through Third above, the City shall retain in the Expansion HOT Fund any amount necessary (after taking into consideration any lawfully available revenues that may be utilized by the City to pay the debt service requirements on the Hotel Bonds) for the timely payment of the debt service requirements on the Hotel Bonds, and, to the extent funds are available in the Expansion HOT Fund, will first make transfers to the debt service fund and debt service reserve fund as required by the ordinance authorizing the Hotel Bonds. Any money remaining in the Expansion HOT Fund after such transfers and the retention for the payment of the Debt Service Requirements on the Prior Lien Bonds and Bonds Similarly Secured not issued in relation to the Hotel may be transferred to the Facilities Fund to be used by the City for any lawful purpose.

General Hotel Occupancy Tax. The General Hotel Occupancy Tax revenues are required to be deposited as received to the General Hotel Occupancy Tax Fund and allocated as follows: 25% of the General Hotel Occupancy Tax revenues to the Pledged 1.75% Account and 75% of the General HOT revenues to the Pledged 5.25% Account.

(a) Money in the Pledged 1.75% Account may be used as follows:

(i) First, to transfer any necessary amounts to the Prior Lien Bonds Debt Service Fund required by the Prior Lien Bonds Ordinance as amended by the 1996 Amendatory Ordinance secured by a prior lien on and pledge of the Pledged 1.75% HOT;

(ii) Second, to transfer all amounts to the Debt Service Reserve Fund required by the Prior Lien Bonds Ordinance, as amended by the 1996 Amendatory Ordinance, secured by a prior lien on and pledge of the Pledged 1.75% HOT;

(iii) Third, to transfer any necessary amounts to the Debt Service Fund required by ordinances authorizing the issuance of the Bonds Similarly Secured; and

(iv) Fourth, to transfer any necessary amounts to the Debt Service Reserve Fund required by the ordinances authorizing the issuance of the Bonds Similarly Secured.

(b) Money in the Pledged 5.25% Account may be used as follows:

(i) First, to transfer any necessary amounts to the Prior Lien Bonds Debt Service Fund required by the Prior Lien Bonds Ordinance secured by a prior lien on and pledge of the pledged 5.25% HOT;

(ii) Second, to transfer any necessary amounts to the Debt Service Reserve Fund required by the Prior Lien Bonds Ordinance secured by a prior lien on and pledge of the 5.25% pledged HOT;

(iii) Third, to transfer any necessary amounts to the Debt Service Fund required by the ordinances authorizing the issuance of the Bonds Similarly Secured; and

(iv) Fourth, to transfer any necessary amounts to the Debt Service Reserve Fund required by the ordinances authorizing the issuance of the Bonds Similarly Secured.

Investment Proceeds. The investment of the funds created by the Ordinance will be used as follows:

(a) Debt Service Fund earnings will be retained in the Debt Service Fund;

(b) Debt Service Reserve Fund earnings will be retained in the Debt Service Reserve Fund to the extent necessary to restore the Reserve Fund Requirement therein and thereafter transferred to the Debt Service Fund;

(c) Facilities Fund earnings will be retained in the Facilities Fund;

(d) Earnings in the Pledged 5.25% Account and the Pledged 1.75% Account of the General HOT Fund will be retained in each account;

(e) Construction Fund earnings will be retained in the Construction Fund until the Expansion Project is complete and thereafter any surplus in the Construction Fund will be transferred to the Debt Service Fund.

Debt Service Fund. In the Ordinance the City covenants and agrees that prior to each interest payment date, stated maturity date, and mandatory redemption date for the Bonds there must be transferred into the Debt Service Fund from the Pledged Revenues or from other lawfully available funds an amount equal to the amount required to fully pay the amount then due and payable on the Bonds. The City also covenants and agrees in the Ordinance that by each Transfer Date, the Debt Service Fund, plus any amounts retained in the Pledged Account, will be in an amount equal to the accumulation of monthly payments of proportionate monthly payments of the Debt Service Requirement due on the next respective interest or principal payment date of the Bonds. Money credited to the Debt Service Fund is required to be used solely for the purpose of paying principal (at maturity or prior redemption or to purchase Bonds issued as term bonds in the open market to be credited against mandatory sinking fund redemption requirements), interest and redemption premiums on the Bonds, plus all paying agent/registrar charges and other costs and expenses relating to such payment.

Debt Service Reserve Fund. The Ordinance requires that an amount equal to the Reserve Fund Requirement (hereinafter defined) be accumulated and maintained therein in accordance with the Ordinance. The Reserve Fund Requirement is required to be recomputed upon the issuance of each series of Common Reserve Fund Bonds. The City will establish and maintain as hereinafter provided a balance in the Debt Service Reserve Fund equal to the Reserve Fund Requirement for the Common Reserve Fund Bonds. The Reserve Fund Requirements for the Common Reserve Fund Bonds is initially \$_____, \$18,554,620 of which is presently on deposit therein. The Reserve Fund Requirement must initially be funded at the time of issuance and delivery of each series of Common Reserve Fund Bonds from proceeds of the such bonds.

“Common Reserve Fund Bonds” means the Prior Lien Bonds and the Bonds Similarly Secured.

The “Reserve Fund Requirement” means the amount required to be maintained in the Debt Service Reserve Fund. Such amount must be recomputed upon the issuance of each series of Common Reserve Fund Bonds to be the lesser of (i) 10% of the original principal amount of the Common Reserve Fund Bonds or (ii) the maximum annual Debt Service Requirements scheduled to occur in the then-current and each future Fiscal Year for all Common Reserve Fund Bonds then being issued or (iii) 125% of the average Debt Service Requirements scheduled to occur in the then-current and each future Fiscal Year for all Common Reserve Fund Bonds then Outstanding, including any series of additional Common Reserve Fund Bonds then being issued. Any Variable Rate Obligations issued as Common Reserve Fund Bonds will be assumed to bear interest at a tax-exempt municipal bond index rate available at the time of determining the Reserve Fund Requirement that is selected by the City which is acceptable to the [Letter of Credit Bank].

Each increase in the Reserve Fund Requirement resulting from the issuance of Common Reserve Fund Bonds must be funded at the time of issuance and delivery of such series of Common Reserve Fund Bonds by either (i) depositing proceeds of such Common Reserve Fund Bonds or other lawfully available funds, including the Facilities Fund, in not less than an amount to fund the Reserve Fund Requirement upon the delivery of such Common Reserve Fund Bonds, (ii) to the extent permitted by applicable law, providing a Debt Service Reserve Fund Surety Bond sufficient to provide such portion of the Reserve Fund Requirement, or (iii) retaining revenues in the Debt Service Reserve Fund from the Pledged Revenues, or other lawfully available funds, in approximately equal monthly installments, over a period of time not to exceed 12 months from the date of delivery of such Common Reserve Fund Bonds to accumulate the Reserve Fund Requirement.

The Ordinance also provides for the use of a Debt Service Reserve Fund Surety Bond in lieu of a cash deposit under certain circumstances. Each increase in the Reserve Fund Requirement resulting from the issuance of Common Reserve Fund Bonds will be funded at the time of issuance and delivery of such series of Common Reserve Fund Bonds by depositing to the credit of the Debt Service Reserve Fund either (A) proceeds of such Common Reserve Fund Bonds or other lawfully appropriated funds, including the Facilities Fund, in not less than an amount to fund fully the Reserve Fund Requirement; (B) a Debt Service Reserve Fund Surety Bond sufficient to provide such portion of the Reserve Fund Requirement; or (C) retaining revenues in the Debt Service Reserve Fund from the Expansion HOT over a period of time not to exceed 12 months from the date of delivery of such Common Reserve Fund Bonds. The City may not employ any Debt Service Reserve Fund Surety Bond unless the rating either for long term unsecured debt of the provider of such Debt Service Reserve Fund Surety Bond or for obligations insured, secured, or guaranteed by, such provider have a rating in the highest letter category by at least two major municipal securities evaluation services.

If the balance of the Debt Service Reserve Fund contains less than the Reserve Fund Requirement (or so much thereof as then be required to be therein if the City has elected to accumulate the Reserve Fund Requirement for any series of Common Reserve Fund Bonds as described above), or in the event that the City is obligated to repay or reimburse any provider of a Debt Service Reserve Fund Surety Bond (in the event such Debt Service Reserve Fund Surety Bond is drawn upon), the Ordinance requires the City to transfer such amounts as will be necessary to reestablish in the Debt Service Reserve Fund to the Reserve Fund Requirement and satisfy any repayment obligations to the provider of any Debt Service Reserve Fund Surety from the Pledged Revenues, or any other lawfully available funds, in 12 equal monthly installments. After such amount has been accumulated in the Debt Service Reserve Fund and after satisfying any repayment obligation to any Debt Service Reserve Fund Surety Bond provider and so long thereafter as such fund contains such amount and all such repayment obligations have been satisfied, no further transfers are required to be made, and any earnings on the Debt Service Reserve Fund will be transferred to the Debt Service Fund; provided, however, that if and whenever the balance in the Debt Service Reserve Fund is reduced below such amount or any Debt Service Reserve Fund Surety Bond repayment obligations arise, transfers to such Fund must be resumed and continued in the manner described above to restore the Debt Service Reserve Fund to such amount and to pay such reimbursement obligations.

If as a result of the annual valuation of investments in the Debt Service Reserve Fund, the value of the Debt Service Reserve Fund does not equal the Reserve Fund Requirement, the City will be required to replace such investments or transfer Pledged Revenues, or transfer from other lawfully available money or money in the Pledged Account to the Debt Service Reserve Fund to bring the Debt Service Reserve Fund to the Reserve Fund Requirement over a 12 month period in equal monthly deposits.

Money in the Debt Service Reserve Fund must be used to pay the principal of and interest on the Common Reserve Fund Bonds at any time when there is not sufficient money available in the Debt Service Fund for such purpose, to make any payments required to satisfy repayment obligations to providers of Debt Service Reserve Fund Surety Bonds, and to make the final payments for the retirement or defeasance of the Bonds.

General Hotel Occupancy Tax. The City covenants and agrees that all revenues of the General Hotel Occupancy Tax must be deposited as received to the General Hotel Occupancy Tax Fund and immediately upon receipt allocated between the Pledged 1.75% Account, 25% of the General Hotel Occupancy Tax revenues, and the Pledged 5.25% Account, 75% of the General Hotel Occupancy Tax revenues.

Money in the Pledged 1.75% Account and the Pledged 5.25% Account may be used on a parity basis (A) for the payment of the Prior Lien Bonds and (B) for the payment of the Bonds as hereinafter described, and after providing for (A) and (B), to restore the Debt Service Reserve Fund to the Reserve Fund Requirement as required by the Ordinance. As often as the City will deem necessary, but at least once a month on or before the penultimate Business Day of each month the City must determine the amounts necessary from the Pledged Revenues to pay the Prior Lien Bonds and the amounts necessary to pay the Bonds Similarly Secured taking into consideration the money accumulated as of such date in the Debt Service Fund and the amount necessary to be transferred to the Debt Service Reserve Fund as required by the Ordinance. After making the aforementioned determination, the City will transfer the amounts so determined to be necessary to the debt service fund for the Prior Lien Bonds and will retain any amount necessary for the timely payment of the Debt Service Requirements on the Bonds in the Pledged 1.75% Account and the Pledged 5.25% Account, and, to the extent funds are available, will make transfers to the Debt Service Reserve Fund as required by the Ordinance. Any money remaining in the Pledged 1.75% Account and the Pledged 5.25% Account after such transfers and the retention for Debt Service Requirements on the Bonds Similarly Secured may be transferred to the General Account to be used by the City for any lawful purpose. Any money retained in the Pledged 1.75% Account and the Pledged 5.25% Account for Debt Service Requirements on the Bonds Similarly Secured needed for such purpose on any Transfer Date will be immediately transferred to the Debt Service Fund on such Transfer Date.

THE CONVENTION CENTER FACILITIES

Existing Facilities

The Henry B. Gonzalez Convention Center (the "Convention Center") is located in the downtown area of San Antonio on the River Walk. There are approximately 10,667 hotel rooms in the downtown area as well as retail shops, restaurants, and historic amenities. The Henry B. Gonzalez Convention Center was originally built as part of the 1968 HemisFair held in San Antonio. The last expansion and improvement of the Convention Center was completed in June

2001 (other expansions occurred in 1977 and 1987) and this facility contains 440,000 square feet of contiguous exhibit space. The existing Convention Center complex consists of a 28,915 square foot Ballroom A, 21,948 square foot Ballroom B, a 40,000 square foot Ballroom C, and four junior ballroom areas suitable for meetings, dinners, or galas. In addition to the Convention Center, the department's facilities also include the Lila Cockrell Theatre – a 2,536-seat Performing Arts Theatre, and the Municipal Auditorium, a 5,000 seat multi-purpose venue that is located approximately 6 blocks from the Convention Center. After a department merger in October 2006, the department now includes the Alamodome. The Alamodome, which opened in May 1993, is a facility used for sporting events, large assembly groups and other special events. This facility adds another 160,000 square feet of exhibit space to the Convention Center complex.

The Convention, Sports, and Entertainment Facilities Department and the Convention and Visitors' Bureau are separate departments of the City each headed by a Director who reports to the City Manager. A special revenue fund is used to account for the proceeds of the Hotel Occupancy Tax fund (as well as the revenues and commissions of the Convention Center, Municipal Auditorium, and the Alamodome) in order to ensure that legal restrictions with respect to expenditures are met. A separate special revenue fund has also been established for the Expansion Hotel Occupancy Tax. The employees of the Convention Center, Municipal Auditorium, Lila Cockrell Theatre, the Alamodome, and the Convention and Visitors' Bureau are City employees.

Amendment to the Master Plan

As an "eligible central municipality" under the HOT Act, the City adopted an amendment to the capital improvement plan for the expansion of its existing convention center facilities to include a Headquarters Hotel located within 1,000 feet of the Henry B. Gonzalez Convention Center (the "Hotel"), the Alamodome, an office building located within the Convention Center complex, and the Municipal Auditorium. The Municipal Auditorium is a 5,000 seat performing arts center and multi-purpose meeting facility. In that connection, the City intends to eventually pledge, on a subordinate lien basis, the Expansion Hotel Occupancy Tax to provide additional security for the Hotel Bonds. In addition, a portion of the General Hotel Occupancy Tax is intended to be used for maintenance and operation of the Convention Center facilities.

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Convention Activity

San Antonio is one of the top convention cities in the country, and the opening of the new Hotel will allow the City to host more and larger conventions and meetings in the years to come. The City is proactive in attracting convention business through its management practices and marketing efforts. The following table shows both overall City performance as well as convention activity booked and hosted by the City's Convention & Visitors Bureau for the years indicated:

Convention Statistics **Table 8**

Calendar Year	Hotel Occupancy ¹	Revenue per Available		Convention Attendance ²	Convention Room Nights ²	Convention Delegate Expenditures (\$ Millions) ^{2,3}
		Room (RevPAR) ¹	Room Nights Sold ¹			
1998	64.9%	\$53.01	6,064,659	445,151	724,882	\$401.0
1999	64.2%	52.91	6,225,808	406,539	678,014	366.2
2000	64.7%	55.34	6,549,812	389,448	696,215	350.8
2001	62.7%	54.10	6,486,944	419,970	712,189	378.3
2002	63.9%	55.42	6,741,011	483,452	693,921	435.5
2003	63.8%	53.26	6,903,131	429,539	613,747	387.0
2004	64.6%	55.11	7,022,152	491,287	621,640	510.5
2005	69.1%	62.36	7,569,655	503,601	699,932	523.3
2006	69.2%	68.38	7,699,411	467,426	736,659	485.8
2007	67.4%	75.15	7,635,949	455,256	647,386	473.1

¹ Data obtained from Smith Travel Research based on hotels in the San Antonio selected zip code reports dated March 2007 and January 2008.

² Reflects only those conventions booked by the Convention and Visitors Bureau.

³ Beginning in 1998, the estimated dollar value is calculated in accordance with the 1998 DMAI Foundation Convention Income Survey Report conducted by Deloitte & Touche LLP, which reflected the average expenditure of \$900.89 per convention and trade show delegate. Calendar years 2004 and 2005 are based on an average expenditure of \$1,039.20 per convention and trade show delegate, according to a Veris Consulting, LLC study for the DMAI.

Source: City of San Antonio, Convention and Visitors Bureau.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Statistics

The most recent visitor statistics obtained by the Convention and Visitors Bureau showed 26.0 million visitors came to San Antonio in 2006. The research, conducted by D.K. Schifflet & Associates, represents 11 million visitors were overnight leisure travelers and 5.3 million business visitors came to the area for conventions and other business purposes.

Meetings South, a trade publication for meeting planners, in 2004, named the Henry B. Gonzalez Convention Center as the "Best Convention Center" in the industry. *Meetings South* covers the meeting industry in the Southern United States and the Caribbean Islands and is published by Stamats Meetings Media. The survey results however were not limited to only business destinations of the South.

San Antonio's convention and group business is competitive with other strong destinations and is supported by the efforts of the Convention and Visitors Bureau sales staff who in FY 2007, booked more than 509,000 delegates, more than 750,000 room nights, translating into an estimated \$529.4 million direct delegate expenditures.

Hotel Occupancy Tax Revenues

San Antonio's actual Hotel Occupancy Tax collections for FY 2007 are projected at \$50.5 million based on a budget re-estimate as of _____, 2008 (compared to an original FY 2007 budget projection of approximately \$_____ million.) HOT tax revenues in FY 2008 are projected to increase from the FY 2007 re-estimate by 5.1% to \$53.1

million. Nationally recognized events such as the 2008 NCAA Men's Final Four Basketball Championships, and the convention/group business, are contributing to the City meeting its HOT budgeted revenue projections.

Expenditures from Hotel Occupancy Tax

By State statute, 7% out of the 9% HOT that the City collects may be allocated to various operational areas. These areas include a minimum of 50% for tourism, not more than 15% for arts, not more than 15% for history and preservation, and 20% may be used for tourism or project improvements; 2% (the Expansion HOT) is dedicated solely to the construction of convention center facility expansion or to the payment of debt service related to such capital improvements.

INVESTMENTS

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

Legal Investments

Under Texas law, the City is authorized to invest in (1) obligations, including letters of credit of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) certificates of deposit that are guaranteed or insured by the Federal Deposit Insurance Corporation or are secured as to principal by obligations described in the preceding clauses or in any other manner and amount provided by law for City deposits; (8) certificates of deposit and share certificates issued by a state or federal credit union domiciled in the State of Texas that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in the clauses (1) through (6) or in any other manner and amount provided by law for City deposits; (9) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (10) bankers' acceptances with a stated maturity of 270 days or fewer from the date of issuance, or if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (11) commercial paper that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. bank or state; (12) no-load money market mutual funds regulated by the United States Securities and Exchange Commission (the "SEC") that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; (13) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, invest exclusively in obligations described in the preceding clauses, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent; and (14) guaranteed investment contracts secured by obligations of the United States of America or its agencies and instrumentalities, other than the prohibited obligations described in the next succeeding paragraph.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA", "AAA-m", or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisors Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for

the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations, the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Investment Policies

Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; addresses investment diversification, yield, maturity, and the quality and capability of investment management; and includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "investment strategy statement" that specifically addresses each funds' investment. Each investment strategy statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

Additional Provisions

Under Texas law the City is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers' with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (5) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (7) restrict its investment in mutual funds in the aggregate to no more than 15 % of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and to invest no portion of bond proceeds, reserves and funds held for debt service, in mutual funds; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

Current Investments

At March 31, 2008, investable City funds, in the approximate amount of \$1,507,336,264.22, were 92.38% invested in obligations of the United States, or its agencies and instrumentalities, and 7.32% invested in a money market fund, and 0.30% in a repurchase agreement that was fully secured by obligations of the United States or its agencies and instrumentalities, with the weighted average maturity of the portfolio being less than one year. The investments and maturity terms are consistent with State law, and City's investment policy objectives are to preserve principal, limit risk, maintain diversification and liquidity, and maximize interest earnings.

The market value of such investments (as determined by the City by reference to published quotations, dealer bids, and comparable information) was approximately 100.32% of their book value. No funds of the City were 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 which seek substantial damages. That litigation includes lawsuits claiming damages that allege that the City caused personal injuries and wrongful deaths; class actions and promotional practices; various claims from contractors for additional amounts under construction contracts; and property tax assessments and various other liability claims. The amount of damages in most of the pending lawsuits is capped under the Texas Tort Claims Act. Therefore, the amount of \$19.3 million⁽¹⁾ is included as a component of the reserve fund for claims liability as of September 30, 2007. The estimated liability, including an estimate of incurred, but not reported claims, is recorded in the Insurance reserve fund. The status of such litigation ranges from early discovery stage to various levels of appeal of judgments both for and against the City. The City intends to defend vigorously against the lawsuits; including the pursuit of all appeals; however, no prediction can be made, as of the date hereof, with respect to the liability of the City for such claims or the outcome of such lawsuits.

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

Information regarding various lawsuits against the City is included at Note 11, entitled "Commitments and Contingencies:" of the City's Comprehensive Annual Financial Report for the year ended September 30, 2006. In addition, the City provides the following updated information related to certain lawsuits:

Charles and Tracy Pollock, individually and as next friend of Sarah Jane Pollock, a minor child v. City of San Antonio. This case involves allegations that benzene gas emitted from the West Avenue Landfill caused chromosomal damage to a fetus during the period of gestation, resulting in child's contraction of acute lymphoblastic leukemia. Although the jury at trial entered a judgment of more than \$23 million against the City, the trial court immediately reduced the judgment by \$6 million. On appeal, the Fourth Court of Appeals sided with the City and reduced the judgment further by eliminating \$10 million in exemplary damages. The remaining issue is whether personal injuries are recoverable under the theory of nuisance. The City believes they are not and that even if they are recoverable, damages are capped at \$250,000 under the Texas Tort Claims Act. The case was argued to the Texas Supreme Court on October 18, 2006 and the City is still awaiting a ruling.

Brooks Hardee, et al. v. City of San Antonio; Brooks Hardee et al. v. City of San Antonio; Reed Lehman Grain, Ltd. v. City of San Antonio; Reed Lehman Grain, Ltd. v. City of San Antonio; Reed Lehman Grain, Ltd. v. City of San Antonio; Reed Lehman Grain, Ltd. v. City of San Antonio; En Seguido, Ltd. v. City of San Antonio; John M. Schaefer, et al. v. City of San Antonio; VWC Ltd. v. City of San Antonio, et al.; Lakeside Joint Venture, et al. v. City of San Antonio. These are similar cases brought by the same developer/landowner under different entities. These cases all raise complex issues of fact and law and collectively, challenge the City's authority to regulate land development, including but not limited to challenging the City's vested rights determinations for the landowner's projects. There are approximately ten (10) related cases. The City's legal team is confident that many of the allegations are without merit. Nevertheless, it is proceeding carefully and deliberately to defend its regulations and its power to protect the public. The City has coordinated its defense with the San Antonio Water System.

Ricardo Arizpe, Jr. d/b/a Astro Affordable Auto Services, Rufino & Marcela Bombin d/b/a Rumar Manufacturing Co/Resco, Jose & Amelia Castillo, Irene Duque, Adelaida Garcia, Gloria Garcia, Abel Canales Garza, Victor Gil, William & Sixta Hernandez, Zenaida Leos, George & Shannon Molleda, Henry & Maricela Terrazas v. City of San Antonio. This case concerns flooding of a number of properties during November 2001. There was a very heavy localized rain event that produced flooding in a concentrated area. Plaintiffs claim "alteration of a nearby property by Defendant." It appears at this stage that the City did not cause flooding but the damage claims aggregate well over \$100,000. Discovery is ongoing and the City has brought in a third party Defendant.

City of San Antonio v. Interspiro. In this case, the City sued Interspiro for UCC violations related to the purchase of defective breathing units used by firefighters. The City discovered that the goods were defective. The City seeks damages for repayment of fees paid: \$1,636,669.73 for the purchase price; \$1,308,141.83 in overtime payment to officers because of defective equipment and to repair equipment; and \$68,991.00 for the City's testing of equipment. The Defendant has counterclaimed for breach of contract, seeking payment of approximately \$400,000 in outstanding invoices. This case is set for trial in September 2008.

Samantha Rivera v. et al. v. City of San Antonio and San Antonio Police Officers Reynaldo Montes & Rachel Barnes. This is a case involving use of deadly force. Plaintiff claims that Defendant officers entered her home forcibly and with deadly force, killed Plaintiff's decedent husband in violation of his civil rights. Plaintiff alleges federal constitutional violations as well as battery under state law. Plaintiff seeks \$25 million against the City. The case is set for trial on July 21, 2008.

Rebecca Moreau Bordelon & Vernon Paul Bordelon, Jr. v. Jaime Gonzales & City of San Antonio. Plaintiffs claim injuries from an auto accident on November 9, 2004, when a City garbage truck driver allegedly took faulty evasive action to avoid another car. Both Plaintiffs suffered back injuries. Ms. Bordelon underwent a cervical discectomy and fusion and is alleging medical expenses of over \$78,000. She is seeking compensation for past and future medical expenses, pain and suffering, lost wages, lost earning capacity, disfigurement, mental anguish, etc. Mr. Bordelon was hospitalized for heart and blood pressure problems he claims were related to the accident and his medical expenses at this time are over \$15,000. The City's liability is capped at \$250,000. The case is in discovery with no current trial setting.

Cynthia Galvan, Individually, and A/N/F of Sergio Galvan, Minor v. City of San Antonio, et al. On March 23, 2007 Sergio Galvan (deceased) was confronted by San Antonio Police Officers as he was exhibiting erratic behavior and causing property damage. The Defendant Officers reported that he attacked Police and managed to take away a pepper spray canister. A struggle ensued and the officers used tasers to subdue Galvan. Galvan was tasered several times before collapsing and dying. This case is still in the discovery stages, but potential liability is in excess of \$200,000. This matter has been set for trial on May 19, 2008.

Argonaut Southwest Insurance Company v. City of San Antonio. Plaintiff insurance company sued the City alleging breach of an insurance contract related to the Convention Center Expansion Project and failure to pay premiums. Plaintiff claims damages in excess of \$500,000. This case is in preliminary stages.

John Foddrill v. City of San Antonio. Plaintiff was employed as a Telecommunications Manager in the City's Information and Technology Services Department. Plaintiff was terminated in April 2006 for job performance. Plaintiff had previously filed complaints with the City's Municipal Integrity Unit alleging misuse of funds which were unfounded. He filed suit against the City under the Texas Whistleblower Act and seeks damages in excess of \$500,000. This case is set for trial on August 4, 2008.

Ila Faye Miller, et al. v. City of San Antonio. Plaintiffs own property south of San Antonio which was included in a limited purpose annexation that was enacted in 2003 as part of the Southside Initiative. Plaintiffs contend that the annexation and rezoning of their property constituted a takings under the Texas Constitution for which they are entitled to compensation. Plaintiffs seek compensation in excess of \$200,000. This matter is not currently set for trial.

TAX MATTERS

Tax Exemption

The delivery of the Bonds is subject to the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, to the effect that interest on the Bonds for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Bond Counsel's opinion appears in Appendix C hereto.

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

In rendering the foregoing opinions, Bond Counsel will rely upon the report of the independent certified public accountants as disclosed herein under the caption "VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS" and upon representations and certifications of the City made in a certificate of even date with the initial delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Ordinance by the City subsequent to the issuance of the Bonds. The Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the Bonds and the facilities and equipment financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, if required, the calculation and payment to the United States Treasury of any "arbitrage profits" and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

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

Ancillary Tax Consequences

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

Tax Accounting Treatment of Discount Bonds

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

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

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

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

Tax Accounting Treatment of Premium Bonds

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

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

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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

CITY PENSION AND OTHER POSTEMPLOYMENT RETIREMENT BENEFIT LIABILITIES

[UPDATE TO COME]

City Pension Benefit Plans

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

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

Based on actuarial valuations, the City's current fire and police pension plan is funded in accordance with Texas law, and the UAAL as of October 1, 2006 was \$204.4 million. The Texas Municipal Retirement System's UAAL as of December 31, 2006 was \$178.5 million.

Other City Postemployment Retirement Benefits

In addition to the Pension Benefits, the City provides all retired employees with certain health benefits under two postemployment retirement benefit programs. Pursuant to Governmental Accounting Standards Board ("GASB") Statement No. 45, the City will be required to account for and disclose its other postemployment liability for these programs. GASB Statement No. 45 does not become applicable to the City until Fiscal Year 2008 and the City continues to actively review each of these plans and has had actuarial valuations performed for these programs. In addition to the disclosure provided in Note 9 of the CAFR, the following information is provided for each of the City's other postemployment retirement benefit programs.

The first program provides benefits for all non-uniformed City retirees, and for all pre-October 1, 1989, uniformed (fire and police) retirees. This program is funded on a pay-as-you-go basis with a sharing of required costs based on the following targets: 67% by the City and 33% by the retiree. Employees become eligible to participate in this Program based on eligibility for participation in the TMRS Pension Plan. Under the TMRS Pension Plan, employees may retire at age 60 and above with five or more years of service or with 20 years of service regardless of age.

During FY 2006, the City engaged an actuarial consultant to perform an actuarial valuation of this program and assist in a review of the retirement health plan. Based on the actuarial valuation as of January 1, 2006, the UAAL was projected at \$581.3 million. Based on a review, certain changes were made to the retirement health plan and were approved on September 7, 2006, as a component of the City's FY 2007 Adopted Budget. These changes resulted in a reduction of the UAAL from \$581.3 million to approximately \$400 million.

With the adoption of the FY 2008 Budget, additional changes were made to this retirement health plan. For all non-uniformed employees beginning employment on or after October 1, 2007, a revised schedule for sharing of the costs on a pay-as-you-go basis is effective. The revised schedule is as follows: (1) Employees who separate from the City with less than five years of service are not eligible to participate in the Program; (2) Employees who separate with at least five years of service but less than 10 years of service are eligible to participate in the Program but without City subsidy; and (3) Employees who separate from employment with 10 years of service or more will pay for 50% of the pay-as-you-go contributions to the Program and the City will contribute 50%. The ability to participate in the Program remains based on eligibility for the TMRS Pension Plan.

LEGAL MATTERS

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 opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the legal opinion of Bond Counsel to the effect that the Bonds are valid and legally binding obligations of the City and, subject to the qualifications set forth herein under "TAX MATTERS," the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Bonds will also be furnished. Though it represents from time to time the Underwriter and the Co-Financial Advisors in matters unrelated to the issuance of the Bonds, Bond counsel only represents the City in connection with the Bonds. In its capacity as Bond Counsel, Fulbright & Jaworski L.L.P has reviewed the information appearing in this Official Statement under the captions "PLAN OF FINANCING – Refunded Bonds," "THE BONDS" (other than under the subcaptions "Book-Entry-Only System" and "Payment Record" as to which no view will be expressed), "THE HOTEL OCCUPANCY TAX– Funds and Flow of Funds", "TAX MATTERS," "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "LEGAL MATTERS" (except for the last two sentences of the first paragraph thereof, as to which no opinion is expressed.), and "CONTINUING DISCLOSURE OF INFORMATION" to determine whether such information fairly summarizes the material and documents referred to therein and is correct as to matters of law. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for, or an expression of opinions of any kind with regard to the accuracy or completeness of, any of the information contained herein. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on issuance and delivery of the Bonds. The legal opinion of Bond Counsel may be printed on the definitive Bonds, if any, and the form of such opinion is attached hereto as APPENDIX C. 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 counsel, Andrews Kurth LLP, Houston, Texas, whose legal fees are contingent upon the issuance and delivery of the Bonds.

Neither the Attorney General, Bond Counsel, the City Attorney, nor Underwriter's Counsel has been engaged to investigate or verify, and accordingly neither will express any opinion concerning, the financial condition or capabilities of the City or the sufficiency of the security for, or the value or marketability of, the Bonds.

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

RATINGS

The City has made application to Moody's Investors Service ("Moody's"), Standard & Poor's, a Division of The McGraw-Hill Corporation ("S&P"), and Fitch Ratings ("Fitch") for a contract rating on the Bonds [based upon the issuance by _____ of its municipal bond insurance policy relating to each respective series of the Bonds.] An explanation of the significance of such ratings may be obtained from Moody's, S&P, or Fitch. The rating of the Bonds by Moody's, S&P, and Fitch reflects only the views of said companies at the time the ratings are given, and the City makes no representations as to the appropriateness of the ratings. There is no assurance that the ratings will

continue for any given period of time, or that the ratings will not be revised downward or withdrawn entirely by Moody's, S&P, and Fitch if, in the judgment of said companies, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

CONTINUING DISCLOSURE OF INFORMATION

Pursuant to the exemptions set forth in SEC Rule 15c2-12, the Bonds are not subject to continuing disclosure.

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

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

CO-FINANCIAL ADVISORS

Coastal Securities, Inc. and Estrada Hinojosa & Company, Inc. (the "Co-Financial Advisors") are 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 service rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds.

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

VERIFICATION OF MATHEMATICAL ACCURACY

[The arithmetical accuracy of certain computations included in the schedules provided by Coastal Securities, Inc., in its capacity as Co-Financial Advisor to the City relating to (a) computation of anticipated receipts of principal and interest on the Escrowed Securities and the anticipated payments of principal and interest to redeem the Refunded Bonds and (b) computation of the yields on the Bonds were examined by Grant Thornton LLP. Such computations were based solely upon assumptions and information supplied by the Underwriters on behalf of the City. Grant Thornton LLP has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions or the achievability of future events.]

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the City at a purchase price of \$_____ (which represents the par amount of the Bonds plus a net premium of \$_____ and less an Underwriters' discount of \$_____), plus accrued interest.

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

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 effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement, or amendment thereto, for the Bonds, on the date of such Official Statement, on the date of sale of said Bonds and on the date of the delivery, were and are true and correct in all material respects; (b) 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; (c) 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 (d) 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 appearing in the Official Statement.

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 on the date of sale, and the Underwriters will be furnished, upon request, at the time of payment for and the delivery of the Bonds, a certified copy of such approval, duly executed by the proper officials of the City.

* * *

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

Mayor, City of San Antonio, Texas

ATTEST:

City Clerk, City of San Antonio, Texas

**SCHEDULE I
TABLE OF REFUNDED BONDS***

CITY OF SAN ANTONIO, TEXAS

<u>Description of Issue</u>	<u>Original Amount</u>	<u>Amount to be Refunded</u>	<u>Maturities to be Refunded</u>	<u>Interest Rate</u>	<u>Redemption Date</u>
2004B Bonds	106,950,000	106,950,000	2034	5.00%	August 15, 2008

* Preliminary, subject to change.

⁽¹⁾ The refunded bonds have a final maturity of 8/15/2034. The refunded bonds are subject to a mandatory redemption schedule with redemptions scheduled on 8/15/2008 through and including 8/15/2034.

APPENDIX A

CITY OF SAN ANTONIO – GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

APPENDIX A

CITY OF SAN ANTONIO GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

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

Population and Location

The Census 2000, prepared by the United States Census Bureau (“U.S. Census Bureau”), found a City population of 1,144,646. The City’s Department of Planning and Community Development estimated the City’s population to be 1,328,219 at June 1, 2008. The U.S. Census Bureau ranks the City as the second largest in the State of Texas and the seventh largest in the United States.

The City is the county seat of Bexar County, which had a population of 1,392,931 according to the Census 2000. The City’s Department of Planning and Community Development estimated Bexar County’s population to be 1,628,542 at May 1, 2008. The City is located in south central Texas approximately 75 miles south of the state capital in Austin, 140 miles northwest of the Gulf of Mexico, and approximately 150 miles from the United States (“U.S.)/Mexico border cities of Del Rio, Eagle Pass, and Laredo, respectively.

The following table provides the population of the City, Bexar County, and the San Antonio Metropolitan Statistical Area (“MSA”)¹ as of April 1 for the years shown:

Year	City of San Antonio	Bexar County	San Antonio MSA
1920	161,379	202,096	238,639
1930	231,543	292,533	333,442
1940	253,854	338,176	376,093
1950	408,442	500,460	542,209
1960	587,718	687,151	736,066
1970	654,153	830,460	888,179
1980	786,023	988,971	1,088,881
1990	935,933	1,185,394	1,324,749
2000	1,144,646	1,392,931	1,711,703 ¹

¹ As of June 2003, the United States Office of Management and Budget redefined the San Antonio MSA by increasing the number of counties from four to eight: Atascosa, Bandera, Kendall, and Medina Counties were added to its mainstays of Bexar, Comal, Guadalupe, and Wilson Counties. (The 2000 figure reflects the new 2003 redefined eight-county area.)
Sources: U.S. Census Bureau; City of San Antonio, Department of Planning and Community Development.

Area and Topography

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

Annexation

Through annexation, the City has grown from its original size of 36 square miles to its current area of approximately 470 square miles. The current net taxable assessed valuation is approximately \$66 billion. The City

expects to continue to utilize the practice of annexation as a growth and development management tool, as well as an opportunity to enhance the City's fiscal position.

Previous statistics have shown the City limits, through annexation, to be as high as 519 square miles. This included areas fully annexed into the City, as well as areas under "Limited Purpose Annexation." Between 2003 and 2005, approximately 70 square miles were taken into Limited Purpose Annexation. In 2007 and 2008, approximately 49 square miles were released from Limited Purpose Annexation, and the remaining 21 square miles annexed for full purposes. City regulations are extended, but City taxes are not assessed or collected within areas under Limited Purpose Annexation.

Since 2002, the City has experienced a net increase of 24 square miles (from 446 to 470 square miles) within the City limits through Full Purpose Annexation. Approximately 21 square miles were areas that had been previously placed under "Limited Purpose Annexation." The remaining three square miles were a combination of City-initiated and voluntary annexations.

As of February 2008, the City has been engaged in a growth management study to estimate and analyze population growth, locate high growth areas, and identify areas adjacent to the City, and within our extraterritorial jurisdiction, that would be best served through annexation. These areas shall be placed in a new City three-year annexation plan. At the present time, the City does not have a three-year annexation plan in place, but plans to bring one forward by the end of the calendar year.

Three-Year Annexation Plan Process

By City Charter, City Council has the power to annex territory by passage of an ordinance. As of January 2003, state law mandates that municipalities prepare an annexation plan specifically identifying annexations that may occur beginning on the third anniversary of the date such plan was adopted. The City is required to maintain the annexation plan on the City's web site and notify property owners and public entities.

Governmental Structure

The City is a Home Rule Municipality that operates pursuant to the Charter of the City of San Antonio City (the "City Charter"), which was adopted on October 2, 1951 and became effective on January 1, 1952. The City Charter provides for a council-manager form of government, whereby subject only to the limitations imposed by the Texas Constitution and the City Charter, all powers of the City are vested in an elective Council (the "City Council") which enacts legislation, adopts budgets and determines policies. The City Council is comprised of eleven (11) members, with ten (10) members elected from single-member districts, and the Mayor elected at-large. Each member of the City Council serves two (2) year terms, and each member is limited to a maximum of two (2) full terms. The office of Mayor is considered a separate office. The terms of all members of the City Council currently sitting in office expire on May 31, 2009. The City Council also appoints a City Manager who executes the laws and administers the government of the City, and serves as the City's chief administrative officer. The City Manager serves at the pleasure of City Council.

City Charter

Under current Texas law, the City may only hold an election to amend its City Charter every two years. Since its adoption, the City Charter has been amended on six separate occasions; November 1974; January 1977; May 1991; May 1997; November 2001 and May 2004. Significant amendments to the City Charter include the amendment passed in May of 1991, which limited the service by the Mayor and the City Council members to two full terms, each of which is two years in duration. Two separate City Charter review committees sitting in the early and mid-1990's charged with conducting a comprehensive review of the City Charter, resulted in the passage of five propositions, each containing numerous amendments to the City Charter in May 1997.

The amendments to the City Charter that were adopted in 2001 included, among others, provisions creating the position of an independent City Internal Auditor and granting the City Manager the power to appoint and remove the City Attorney upon the City Council's confirmation.

At the May 2004, City Charter election, voters considered four propositions seeking to amend the City Charter as follows: Proposition 1 was to amend the provisions of the City Charter applicable to the term of office and term limits of members of the City Council; Proposition 2 was to amend the provisions of the City Charter applicable to compensation for members of the City Council and the Mayor; Proposition 3 was to amend the City Charter by establishing an independent Ethics Review Board; and Proposition 4 was to amend the City Charter to permit an individual member of the City Council to hire staff who serve at the will of the Councilmember. Of these four propositions, only Proposition 3 establishing an independent Ethics Review Board was approved by the voters.

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 are provided include ad valorem, sales and use, and hotel occupancy tax receipts; grants; user fees; bond proceeds; tax increment financing; and other sources.

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

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. CPS is obligated to transfer a portion of its revenues to the City. CPS revenue transfers to the City for the City’s fiscal year ending September 30, 2007 were \$248,539,890* and include an additional transfer of \$8,294,548*. (See “SAN ANTONIO ELECTRIC AND GAS SYSTEMS” herein.)

Water services are provided by the San Antonio Water System (“SAWS”), San Antonio’s municipally-owned water supply, water delivery, and wastewater treatment utility. SAWS is in its 16th year of operation as a separate, consolidated entity. SAWS operating and debt service requirements for capital improvements are paid from revenues received from charges to its customers. SAWS is obligated to transfer a portion of its revenues to the City. SAWS revenue transfers to the City for the City’s fiscal year ending September 30, 2007 were \$9,147,334*. (See “SAN ANTONIO WATER SYSTEM” herein.)

Economic Factors

The City supports a favorable business environment and economic diversification which is represented by various industries, including domestic and international trade, convention and tourism, medicine and health care, government employment, manufacturing, information security, financial services, telecommunications, telemarketing, insurance, and oil and gas refining. Support for these economic activities is demonstrated by the City’s commitment to its on-going infrastructure improvements and development and its dedicated work force. Total employment in the San Antonio MSA for April 2008 was 903,400, which is 19,700 or 2.23% more jobs than that of April 2007 total of 883,700. Services, trade, and government represent the largest employment sectors in the San Antonio MSA. Finance (including insurance), healthcare and bioscience, tourism, and the military represent the largest industries in San Antonio.

* Unaudited.

Finance Industry

According to a study conducted by the Finance San Antonio Ad Hoc Committee, the finance industry is San Antonio's largest economic generator with an annual economic impact of \$20.5 billion in 2004. The industry employs 50,469 people to whom it pays an average annual wage of \$52,612. Total wages paid in the industry amounted to \$2.66 billion in 2004. As a percent of total employment, the finance industry in San Antonio is the largest of any major metropolitan area in Texas. Compared to the growth in wages and employment in San Antonio overall, the finance industry experienced higher levels of average annual growth in these areas since 2001. Average annual growth in total wages paid by the finance industry for years 2001 through 2004 was 4.5%, compared to 4% for all industries. Average annual growth in employment in the finance industry over this same time period was 2.18%, compared to 0.36% for all other industries.

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

The second largest sector in this industry is banking. Like insurance, San Antonio is also the home of many banking headquarters and regional operation centers such as Frost Bank, Broadway Bank, and USAA Bank. Companies with large regional operations centers in San Antonio include Wachovia, JPMorgan, and Citigroup. Each of these companies has experienced substantial growth since arriving in San Antonio, and they continue to grow today. In addition to this growth, Washington Mutual opened a regional operations center which employs about 2,500 people and is continuing to expand.

Healthcare & Bioscience Industry

The healthcare and bioscience industry remains one of the largest industries in the San Antonio economy. The industry is diversified, with related industries such as research, pharmaceuticals, and manufacturing contributing approximately the same economic impact as health services. According to the *San Antonio's Healthcare and Bioscience Industry Economic Impact Study* commissioned by the Greater San Antonio Chamber of Commerce, the total economic impact from this industry sector totaled approximately \$15.3 billion in 2006. The industry provided 112,762 jobs, or approximately 14.1 percent of the City's total employment. The healthcare and bioscience industry's annual payroll in 2006 approached \$4.4 billion. The 2006 average annual wage of San Antonio workers was \$36,699, compared to \$39,267 for healthcare and bioscience employees. These 2006 economic impact figures represent growth of 7.7 percent over the previous year, or approximately \$1.1 billion.

Health Care. The 900-acre South Texas Medical Center (the "Medical Center") has ten major hospitals and nearly 80 clinics, professional buildings, and health agencies with combined budgets of over \$3.141 billion as of January 2008. Approximately 27,987 Medical Center employees provided care for over 4.8 million outpatients and over 104,671 inpatients. Physical plant values, not adjusted for inflation, representing the original investments in physical facilities and equipment (less depreciation) represents approximately \$2.113 billion. The Medical Center has about 300 acres of undeveloped land still available for expansion. Capital projects planned for the years 2008 through 2012 total approximately \$547 million.

Central to the Medical Center is The University of Texas Health Science Center at San Antonio (the "UTHSC") with its five professional schools awarding more than 63 degrees and certificates, including Doctor of Medicine, Doctor of Dental Surgery, and Doctor of Philosophy in nursing, allied sciences, and other fields. The UTHSC has over 2 million square feet of education, research, treatment, and administrative facilities with a faculty and staff of approximately 5,000. The UTHSC oversees the federally-funded Regional Academic Health Center in the Rio Grande Valley with facilities in Harlingen, McAllen, Brownsville, and Edinburg. Another UTHSC South Texas campus is located in Laredo.

There are numerous other medical facilities outside the boundaries of the Medical Center, including 25 short-term general hospitals, two children's psychiatric hospitals, and two state hospitals. There are three Department of Defense hospitals, one of which is located in the Medical Center (as hereinafter described).

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

Wilford Hall Medical Center (“Wilford Hall”) is the largest medical facility of the U. S. Air Force. In addition to providing health care to military personnel and their families, Wilford Hall is also a Level-one trauma center (the only one in the U.S. Air Force medical care system) that handles emergency medical care for approximately one-fourth of the City’s emergency patients. Wilford Hall provides medical education for the majority of its physician and dental specialists and other health professionals, conducts clinical investigations, and offers bone marrow and organ transplantation.

The San Antonio Military Medical Center (“SAMMC”) will be established as a result of the Base Realignment and Closure (“BRAC 2005”) and will combine key elements of Wilford Hall and BAMC. Wilford Hall will be renamed SAMMC-South and BAMC was renamed SAMMC-North. SAMMC-North will double its Level 1 trauma facility and will incorporate the Level 1 trauma missions from SAMMC-South. SAMMC-South will become an outpatient facility and will receive out-patient missions from SAMMC North.

BRAC 2005 actions will have a major positive impact on military medicine in San Antonio resulting in \$2.2 billion in construction and the addition of over 12,000 personnel in San Antonio by 2011. Currently, all U.S. Army combat medic training is conducted at Fort Sam Houston. As a result of BRAC 2005, all military combat medic training, Army, Air Force, Navy, Marines and Coast Guard will be undertaken at the new Medical Education and Training Campus at Fort Sam Houston.

San Antonio will receive new medical research missions. BRAC 2005 created a Joint Center of Excellence for Battlefield Health and Trauma Research, which will be located at Fort Sam Houston at the U.S. Army Institute of Surgical Research on the SAMMC-North campus. The new mission will continue its cutting edge research in the areas of robotics, prosthetics, and regenerative medicine.

Audie L. Murphy Memorial Veterans Hospital, located in the Medical Center, is an acute care facility and supports a nursing home, the Spinal Cord Injury Center, an ambulatory care program, the Audie L. Murphy Research Services (which is dedicated to medical investigations), and the Frank Tejada Veterans Administration Outpatient Clinic (which serves veterans located throughout South Texas). The two military medical care facilities and the Veterans Hospital partner in a variety of ways, including clinical research and the provision of medical care to military veterans. This partnership is unique and represents a valuable resource to San Antonio and the nation.

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

The Texas Research Park (the “Park”) is the site for the University of Texas Institute of Biotechnology/Department of Molecular Medicine, the Cancer Therapy and Research Center (“CTRC”), and CTRC’s Research Center’s Institute for Drug Development, The Southwest Oncology Group, and dozens of new biotechnology-related companies, whose work involves various stages of the very complicated drug development process. The Park has over \$140 million invested in its facilities. The Park is owned and operated by the Texas Research and Technology Foundation, whose mission includes building a world-class center for life-science research and medical education and promoting economic development through job creation. The Park is also one of five sites throughout the country being considered by the U.S. Department of Homeland Security for the National Bio-Agro Defense Facility. If it is selected as the site, this will result in the construction of a 520,000 square foot facility containing Biosafety Level (“BLS”) 3 and 4 laboratories. It is estimated the construction of the facility will cost approximately \$450 million. The operations of the facility will result in the creation of 350 jobs with an average annual salary of \$75,000.

The Southwest Foundation for Biomedical Research (the “Foundation”), which conducts fundamental and applied research in the medical sciences, is one of the largest independent, non-profit, biomedical research institutions in the U.S., and is internationally renowned. The Foundation has a full time staff of 85 doctoral level employees, a technical staff of 125, and an administrative and supporting staff of approximately 200 persons. Research departments include Departments of Genetics, Physiology and Medicine, Virology and Immunology, and Organic and Biological Chemistry. The Department of Laboratory Animal Medicine maintains the animal care facilities. The Foundation is also home to one of the few BLS 4 labs in the country, and its Genomics Computing is the world’s largest computer cluster devoted to statistical genetic analysis.

The UTHSC has been a major bioscience research engine since its inception, with strong research groups in cancer, cancer prevention, diabetes, drug development, geriatrics, growth factor and molecular genetics, heart disease, stroke prevention, and many other fields. One of its latest achievements is the establishment of the Children’s Cancer Research Center, endowed with \$200 million from the State of Texas’s tobacco settlement. The UTHSC, along with the CTRC, form the San Antonio Cancer Institute, a National Cancer Institute-designated Comprehensive Cancer Center.

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

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

Hospitality Industry

The City’s diversified economy includes a significant sector relating to the hospitality industry. A study by the Greater San Antonio Chamber of Commerce found that in 2006 the hospitality industry had an economic impact of nearly \$10.5 billion. The estimated annual payroll for the industry in 2006 was \$1.88 billion, and the industry employed an estimated 100,294.

In 2007, the City’s overall performance for hotel occupancy decreased by 3.1%. However, this is in light of room supply increasing by 3.5%. Total room nights sold in the destination increased by 0.3%. Average daily room rate (ADR) increased 4.6%, revenue per available room (“RevPAR”) increased by 1.4%, and overall revenue increased 4.9%.

Tourism. During 2006, San Antonio attracted 26 million visitors. Of these, 11 million were overnight leisure visitors, placing San Antonio as one of the top U.S. destinations in Texas. The list of attractions in the San Antonio area includes, among many others, the Alamo, and other sites of historic significance, the River Walk, two major theme parks (SeaWorld of Texas and Six Flags Fiesta Texas), and the professional basketball team, the San Antonio Spurs.

Conventions. San Antonio is one of the top convention cities in the country. The City is proactive in attracting convention business through its management practices and marketing efforts.

Military Industry

The military represents a principal component of the City’s economy providing an annual economic impact for the City of over \$5 billion. Three major military installations are currently located in Bexar County, including Lackland Air Force Base (“Lackland AFB”), Fort Sam Houston Army Base (“Fort Sam”), and Randolph Air Force Base (“Randolph AFB”). In addition, the property of Brooks Air Force Base (“Brooks AFB”), a fourth major military installation, was transferred from the United States Air Force (the “Air Force”) to the City-created Brooks

Development Authority (“BDA”) in 2002, as part of the Brooks City-Base Project (“Brooks City-Base”). Furthermore, the military is still leasing over two million square feet of space at the Port Authority of San Antonio, which is the former Kelly Air Force Base that was closed in 2001.

Port San Antonio. On July 13, 2001, Kelly Air Force Base (“Kelly AFB”) officially closed and the land and facilities were transferred to the Greater Kelly Development Authority (“GKDA”), a City Council-created organization responsible for overseeing the redevelopment of the base into a business and industrial park. The business park is now known as Port San Antonio (“the Port”). The Port has developed a rail port for direct international rail operations, including inland port distribution with the Port of Corpus Christi, and continues to work on establishing international air cargo operations and the expansion and addition of new tenants.

With a stable tenant base of over 65 companies and seven remaining Air Force agencies, the Port has over 8,500 workers which generate an payroll of over \$520 million a year. Two new announcements at the Port include the Boeing Company’s decision to bring their 787 Dreamliner to the Port for final assembly and completion. This new investment will create another 440 aerospace jobs. A decision in mid-2008 by BRAC 2005 will consolidate 2,800 personnel at the Port, half of these workers will relocate to San Antonio, bringing the tenant employee base to 11,740 people. Major commercial employers at the Port include Boeing, Lockheed Martin, General Dynamics, Standard Aero, Pratt & Whitney, Chromalloy, Gore Design Completions, and EG&G.

In September 2007, Boeing was awarded a ten-year, \$1.1 billion contract with the U.S. Air Force to continue providing programmed depot maintenance for the country’s fleet of KC-135 Stratotanker aircraft. Much of this work will be done in Boeing’s facility at the Port resulting in the company hiring an additional 200 employees in San Antonio.

With over 8.8 million square feet of commercial space, the Port is the largest commercial property leasing firm in the San Antonio. In April 2007, the East Kelly Railport opened with a 360,000 square foot speculative building offered by a private developer that today is 100% occupied. The developer, Santa Barbara Development, is preparing to break ground on a second 260,000 sq. ft. speculative building.

Brooks City-Base. Brooks City-Base continues to draw private business investment; however, the military missions will be relocated over the next three to five years as a result of the BRAC 2005 recommendations. Despite the BRAC 2005 decision, Brooks City-Base is continuing its goal of sustainability by creating a Tax Increment Reinvestment Zone (“TIRZ”). The TIRZ has been established and revenues are flowing but a development agreement has not been approved that encompasses the area inside and outside the Brooks City-Base as another tool to assist in its development. As a timeline is determined for the departure of Air Force missions, the BDA will have a better idea how best to redevelop the approximately two million square feet of current total space including lab, office, and light industrial space.

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

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

Vanguard Health Systems, Inc. and its affiliate Baptist Health System (“BHS”) have 28 acres with an option for another 20 acres under contract with Brooks City-Base. The sale of the land is expected to occur in early 2008. BHS plans to relocate Southeast Baptist Hospital to Brooks City-Base. The new hospital will initially be sized for 175 beds, but ultimately, the hospital could grow to more than 400 beds. The new hospital will bring 700 to 800 jobs to the South side of San Antonio and represents a significant economic investment in the community. Ultimately, the hospital will be part of a medical campus with one medical office building being constructed concurrently with the hospital and six additional buildings constructed under a phased timeline.

A \$24.5 million Emergency Operations Center (the “EOC”) began operations at Brooks City-Base in October 2007 and full completion of the facility is expected in December 2007. The EOC was financed through

City and Bexar County proposed bond funds and will be a campus of City, County, Regional, State and Federal departments and/or personnel.

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

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

The BDA Board recently approved a construction contract to build a one-half mile of the New Braunfels extension onto Brooks City-Base, which is expected to be complete in late 2008.

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

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

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

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

San Antonio also received funding for two large projects that serve all of the military branches. On September 11, 2007, it was announced that the Veterans Administration will build a new \$67 million Level-One Polytrauma Center at the Audie Murphy Veterans Administration hospital campus. These hospitals are designed to be the most advanced in the world and are capable of providing state-of-the art medical care to veterans with multiple serious injuries.

San Antonio is also home to the National Trauma Institute (“NTI”), a collaborative military-civilian trauma institute involving BAMC, Wilford Hall, University Hospital, the UTHSC, and the U.S. Army Institute of Surgical Research. The NTI coordinates resources from the institutions to most effectively treat the trauma victims and their families. The NTI received \$1 million in funding from Congressional grants in FY 2007 and is expected to receive \$2 million in FY 2008.

The San Antonio community has 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 that provides a single integrated voice from the community to the military. The MTTF has five committees - Transportation and Infrastructure, Healthcare Delivery and Medical Partnerships, Economic Development, Neighborhood Revitalization and Local Community Impacts, and Public Affairs - each dedicated to working with the community and military on

BRAC 2005 actions. In addition, the MTTF, through the Community Advisory Council, has a seat on the Executive Integration and Oversight Board (“EIOB”) which is the military entity charged with BRAC 2005 implementation in San Antonio. At EIOB meetings, the community can provide input to the military on BRAC 2005.

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

Other Major Industries

Aerospace. The aerospace industry’s annual economic impact to the City is about \$3.3 billion. This industry provides approximately 9,535 jobs, with employees earning total annual wages of over \$406 million. The aerospace industry continues to expand as the City leverages its key aerospace assets, which include San Antonio International Airport, Stinson Municipal Airport, Port Authority of San Antonio, Randolph AFB, Lackland AFB, and training institutions. Many of the major aerospace industry participants have significant operations in San Antonio such as Boeing, Lockheed Martin, General Electric, Pratt & Whitney, Raytheon, Cessna, San Antonio Aerospace – a division of Singapore Technologies, Southwest Airlines, American Airlines, Delta Airlines, Continental Airlines, FedEx, UPS, and others. The industry in San Antonio is diversified with continued growth in air passenger service, air cargo, maintenance, repair, overhaul, and general aviation.

Applied Research & Development. The Southwest Research Institute is one of the original and largest independent, nonprofit, applied engineering, and physical sciences research and development organizations in the U.S., serving industries and governments around the world in the engineering and physical sciences field. Southwest Research Institute has contracts with the Federal Aviation Administration, General Electric, Pratt & Whitney, and other organizations to conduct research on many aspects of aviation, including testing synthetic jet fuel, developing software to assist with jet engine design, and testing turbine safety and materials stability. Southwest Research Institute occupies 1,200 acres and provides nearly two million square feet of laboratories, test facilities, workshops, and offices for more than 2,700 scientists, engineers, and support personnel.

Telecommunications Industry. San Antonio became the headquarters for AT&T, Inc. (“AT&T”) after SBC Communications, Inc. acquired the New Jersey-based company for \$16 billion and took its name in 2005. The merger created one of the largest telecommunications and networking companies in the world and the largest national phone service provider. AT&T has 310,070 employees worldwide as of June 2008.

Information Technology. A study conducted in 2005, indicates that the Information Technology (“IT”) industry in San Antonio registered an overall economic impact of approximately \$5.3 billion and employs about 11,283 people with a total annual payroll of approximately \$632 million. These numbers only include the impact of IT-specific companies. There are also a substantial number of people employed in IT jobs in non-IT companies. For example, the study also found that there are approximately 6,000 IT workers employed in the 13 largest non-IT companies in San Antonio. The IT industry is particularly strong in the areas of information security and government contracting. The Center for Infrastructure Assurance and Security at the UTSA is one of the leading research and education institutions in the area of information security in the country. In 2005, the U.S. National Security Agency (the “NSA”) re-designated the UTSA as a National Center of Excellence in Information Assurance for three academic years. Our Lady of the Lake University also received this designation over the past year. San Antonio is also home to the Air Intelligence Agency, which is the premier IT agency for the U.S. Air Force and the U.S. Department of Defense.

Manufacturing Industry. The manufacturing industry in San Antonio employed 52,786 people in 2006 according to a recent economic impact study. These people earned an average annual wage of \$41,496, and the industry registered an economic impact of \$14.4 billion.

Creative Industry. The creative industry in San Antonio registers a \$1.84 billion economic impact, employs 15,839 people, and pays annual wages of over \$650 million as of 2006. Recognizing the overall impact of this industry, *The Cultural Collaborative: A Plan for San Antonio's Creative Economy*, was created and a strategic plan was developed to provide focus and initiative for the future of this industry. Seventy-eight percent of these strategies have either been fully implemented or are in the process of being implemented.

Sources: The Greater San Antonio Chamber of Commerce; San Antonio Medical Foundation; City of San Antonio, Department of Economic Development and Convention and Visitors Bureau.

Growth Indices

San Antonio Electric and Gas Customers

<u>For the Month of December</u>	<u>Electric Customers</u>	<u>Gas Customers</u>
1998	548,468	301,842
1999	560,628	302,991
2000	575,461	305,181
2001	589,426	305,702
2002	594,945	306,503
2003	602,185	306,591
2004	617,261	308,681
2005	638,344	310,699
2006	662,029	314,409
2007	681,312	319,122

Source: CPS.

San Antonio Water System Average Customers per Fiscal Year

<u>Fiscal Year Ended May 31</u> ^{1,2}	<u>Water Customers</u> ³
1998	270,897
1999	279,210
2000	285,887
2001	293,299
2002	298,215
2003	303,917
2004	311,556
2005	320,661
2006	331,476
2007	341,220

¹ On April 3, 2001, the SAWS Board of Trustees approved the changing of SAWS' fiscal year from a year-end of May 31 to December 31.

² Beginning in year 2001, for the 12 months ending December 31.

³ Excluding SAWS irrigation customers.

Source: SAWS.

Construction Activity

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

Calendar Year	Residential Single Family		Residential Multi-Family ¹		Other ²	
	Permits	Valuation	Permits	Valuation	Permits	Valuation
1998	5,630	363,747,169	85	23,194,475	8,193	892,766,648
1999	5,771	398,432,375	404	157,702,704	9,870	911,543,958
2000	5,494	383,084,509	201	81,682,787	10,781	957,808,435
2001	6,132	426,766,091	449	142,506,920	12,732	1,217,217,803
2002	6,347	435,090,131	246	101,680,895	14,326	833,144,271
2003	6,771	521,090,684	141	2,738,551	13,813	1,041,363,980
2004	7,434	825,787,434	206	7,044,283	14,695	1,389,950,935
2005	8,207	943,804,795	347	5,221,672	20,126	1,772,959,286
2006	7,301	890,864,655	560	13,028,440	19,447	1,985,686,296
2007	4,053	617,592,057	29	4,715,380	13,268	2,343,382,743

¹ Includes two-family duplex projects.

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

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

Total Municipal Sales Tax Collections – Ten Largest Texas Cities

	Calendar Year				
	2007	2006	2005	2004	2003
Arlington	80,701,278	77,179,657	61,983,154	49,344,578	46,483,314
Austin	147,310,525	133,503,393	118,853,520	112,515,478	105,044,871
Corpus Christi	58,502,801	55,663,395	51,046,479	47,647,095	43,498,880
Dallas	223,708,825	217,223,165	199,585,955	192,972,586	184,263,151
El Paso	64,508,591	60,737,389	54,217,823	51,461,838	48,949,656
Fort Worth	98,863,541	92,739,620	83,754,760	76,202,528	72,772,964
Garland	21,661,679	20,990,296	18,204,516	17,163,038	16,902,258
Houston	471,684,021	440,687,609	380,871,932	355,616,488	325,284,697
Plano	63,267,699	62,015,005	53,036,662	49,453,998	46,876,867
SAN ANTONIO	209,599,573	195,966,662	161,951,337	157,284,972	152,360,840

Source: State of Texas, Comptroller's Office.

Education

There are 15 independent school districts within Bexar County with a combined enrollment of 292,479 encompassing 54 high schools, 95 middle/junior high schools, and 268 elementary schools as of October 2007. There are an additional 25 charter school districts with 61 open enrollment charter schools at all grade levels. In addition, Bexar County has 127 accredited private and parochial schools at all education levels. Generally, students attend school in the districts in which they reside. There is currently no busing between school districts in effect.

The six largest accredited and degree-granting universities, which include a medical school, a dental school, a law school, and five public community colleges, had combined enrollments of 94,190 for Fall 2007.

Source: Texas Education Agency.

Employment Statistics

The following table shows current nonagricultural employment estimates by industry in the San Antonio MSA for the period of April 2008, as compared to the prior periods of March 2008 and April 2007.

Employment by Industry

<u>San Antonio MSA¹</u>	<u>April 2008</u>	<u>March 2008</u>	<u>April 2007</u>
Mining	3,700	3,700	3,200
Construction	51,400	51,200	48,600
Manufacturing	48,300	48,400	49,000
Trade, Transportation, and Utilities	150,300	149,900	147,700
Information	21,500	21,600	21,600
Financial Activities	65,300	64,900	64,900
Professional and Business Services	105,800	104,700	104,700
Educational and Health Services	117,600	117,500	112,600
Leisure and Hospitality	99,200	97,900	97,400
Other Services	29,700	29,500	28,300
Government	<u>155,600</u>	<u>155,400</u>	<u>151,200</u>
Total Nonagricultural	848,400	844,700	829,200

The following table shows civilian labor force estimates, the number of persons employed, the number of persons unemployed, and the unemployment rate in the San Antonio MSA, Texas, and the United States for the period of April 2008, as compared to the prior periods of March 2008 and April 2007.

Unemployment Information (all estimates are in thousands)

<u>San Antonio MSA¹</u>	<u>April 2008</u>	<u>March 2008</u>	<u>April 2007</u>
Civilian Labor Force	938.3	932.1	917.2
Number of Employed	903.4	895.4	883.7
Number of Unemployed	33.9	36.7	33.6
Unemployment Rate %	3.6	3.9	3.7
<u>Texas (Actual)¹</u>	<u>April 2008</u>	<u>March 2008</u>	<u>April 2007</u>
Civilian Labor Force	11,675.5	11,632.8	11,461.0
Number of Employed	11,194.0	11,138.3	10,958.1
Number of Unemployed	481.5	494.5	502.9
Unemployment Rate %	4.1	4.3	4.4
<u>United States (Actual)¹</u>	<u>April 2008</u>	<u>March 2008</u>	<u>April 2007</u>
Civilian Labor Force	153,957.0	153,784.0	152,542.0
Number of Employed	146,331.0	145,969.0	145,713.0
Number of Unemployed	7,626.0	7,815.0	6,829.0
Unemployment Rate %	5.0	5.1	4.5

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

**Employers with 500 or More Employees in the San Antonio Metropolitan Area
(Includes Bexar, Comal, Guadalupe, and Wilson Counties)¹**

Firm	Product/Service	Firm	Product/Service
Construction:			
CCC Group, Inc.	Industrial Contractor	Urban Concrete Contractors, Ltd.	Exterior Concrete Contractor
Design Electric	Electrical Contractor	Zachry Group	Industrial General Contracting
Finance, Insurance, & Real Estate:			
American Funds	Mutual Funds & Investments	San Antonio Federal Credit Union	Credit Union/Financial Services
Argonaut Group	Insurance	Security Service Federal Credit Union	Credit Union/Financial Services
Bank of America - San Antonio	Commercial & Individual Banking	The Hartford	Personal Insurance
Frost National Bank	Financial Services & Insurance	The Lynd Company	Real Estate Brokerage
Humana	Medical Insurance Plans	USAA	Insurance/Financial Services
JP Morgan Chase Bank	Commercial & Individual Banking	Washington Mutual Bank	Banking, Financial Services
Pacificare	Medical Insurance Plans	Wells Fargo Bank	Banking, Financial Services
Randolph-Brooks FCU	Credit Union/ Financial Services	Wachovia	Banking, Financial Services
SWBC	Insurance, Residential Mortgages		
Government:			
Bexar County	County Government	Randolph Air Force Base	Military Installation
Brooks City-Base	Military Installation	San Antonio Housing Authority	Public Housing Assistance
City of San Antonio	Municipal Government	Texas Department of Transportation	Highway Construction/Maint.
Education Service Center Region 20	State Education Service Agency	Texas Dept. of Family & Child Protective Services	State Social Services
Fort Sam Houston-US Army Base	Military Installation	Texas Dept. of Health & Human Services	State Social Services
Guadalupe County	County Government	VIA Metropolitan Transit	Urban Public Transportation
Lackland Air Force Base	Military Installation		
Manufacturing:			
Alamo Concrete Products	Concrete Products	Miller Curtain Company	Curtains, Draperies, & Bedspreads
Cardell Cabinetry	Cabinetry	Motorola	Electronics
Clarke American	Check Printing	SAS Shoemakers	Shoes
Coca-Cola Bottling Co. of the SW	Soft Drinks, Beverages	SMI-Texas	Steel
DPT Laboratories, Ltd.	Pharmaceuticals	San Antonio Aerospace	Aircraft Modification/Maint.
Friedrich Air Conditioning Co.	HVAC Systems	San Antonio Express-News	Daily Newspaper
Frito-Lay, Inc.	Snack Foods	Sino-Swearingen Aircraft Co.	Aircraft Design, Marketing/Sales
Kinetic Concepts, Inc.	Specialty Medical Products	Tesoro Corporation	Refining/Sales of Petroleum Prod.
L & H Packing Company	Meat Packing	The Scooter Store, Inc.	Medical & Dental Equipment
Lancer Corporation	Beverage Dispensing Equipment	Valero Energy Corporation	Refining/Sales of Petroleum Prod.
Martin Marietta Materials SW, Inc.	Concrete, Limestone, & Asphalt	Vulcan Materials	Materials, Cement, & Concrete
Medical:			
Advanced Living Technologies	Skilled Nursing Care Facilities	Methodist Healthcare System	General Acute Care Hospitals
Allied Primary Home Care Svcs.	Home Health Care Services	Methodist Specialty & Transplant Hosp.	Specialty Care Hospital
Baptist Health System	General Acute Care Hospitals	Metropolitan Methodist Hospital	General Acute Care Hospital
Brooke Army Medical Center	Military Hospital	Nix Health Care System	Hospital/Health Care Services
Caremark Prescription Service	Mail Order Pharmacy	Outreach Health Services	Home Health Care
Center for Health Care Services	Mental Health/Mental Retardation	San Antonio State Hospital	Mental Health/Mental Retardation
Christus Santa Rosa Health Care	General Acute Care Hospitals	San Antonio State School	Residential Care Facility
Girling Health Care, Inc.	Home Health Care Services	South Texas Blood & Tissue Center	Collect/Distribute Blood & Tissue
Guadalupe Valley Hospital	Hospital/Health Care Services	South Texas Veterans Health Care Sys.	Hospital/Health Care Services
Home Nursing & Therapy Svcs.	Home Health Care	Southwest General Hospital	Hospital/Health Care Services
Interim Healthcare San Antonio	Nurses' Registry	University of Texas Health Science Center at San Antonio	Medical School
McKenna Memorial Hospital	Hospital/Health Care Services	University Health System	Public Hospital/Clinics
Medical Team, Inc.	Home Health Care		
Methodist Children's Hospital	Children's Hospital		
Retail:			
Aaron Rents and Sells Furniture	Office & Residential Furniture	H-E-B Grocery Company	Groceries & Distribution
Ancira Enterprises	Automotive Sales & Service	HOLT CAT	Caterpillar Heavy Equipment
Brylane	Mail Order & Catalog Shopping	QVC San Antonio Inc.	Electronic Retail Sales
CVS/Pharmacy	Pharmacy Stores	R & L Foods, Inc.	Fast Foods
Dillard's Department Stores	Department Stores	Sun Harvest Farms, Inc.	Natural Food Grocery Stores
Eye Care Centers of America, Inc.	Eyewear	Target Stores	Discount Retail Stores
Macy's	Department Stores	Twigland Fashions Ltd.	Women's Apparel
Gunn Automotive Group	Auto Dealerships		

¹ January 2006, The Greater San Antonio Chamber of Commerce Largest Employer's Directory.

(Table continues on next page.)

**Employers with 500 or More Employees in the San Antonio Metropolitan Area
(Includes Bexar, Comal, Guadalupe, and Wilson Counties)¹**

Firm	Product/Service	Firm	Product/Service
Services:			
AT & T Center	Sports/Events Arena	New Braunfels I.S.D.	Public School District
Able Body Labor	Temporary Staffing	Northside I.S.D.	Public School District
Administaff, Inc.	Professional Staffing	Our Lady of The Lake University	Higher Education, Private
Advance'd Temporaries, Inc.	Temporary Staffing	Palo Alto College	Junior/Community College
Advantage Rent-A-Car	Vehicle Rental	Parent/Child Inc.	Early Childhood Development
Air Force Village Foundation	Military Retirement Communities	Pioneer Drilling Company	Oil & Gas Drilling
Alamo Community College District	Public College District	RK Group	Catering
Alamo Heights I.S.D.	Public School District	Regal Cinemas	Movie Theaters
Alamodome	Domed Stadium	San Antonio College	Junior/Community College
Allen Tharp & Associates	Catering	San Antonio I.S.D.	Public School District
American Building Maintenance	Janitorial Contractor	Sanitors, Inc.	Commercial Janitorial
Archdiocese of San Antonio	Catholic Archdiocese	Schertz-Cibolo-Universal City I.S.D.	Public School District
Avance Inc.	Family Support & Education	Schlitterbahn Waterpark & Resort	Resort & Waterpark
Bill Miller Bar-B-Q Ent., Ltd	Restaurants & Catering	SeaWorld San Antonio	Entertainment/Amusement Park
Boeing Aerospace Support Center	Aerospace Support Center	Sears Customer Service Center	Customer Service Center
Cadbeck Staffing	Temporary Staffing	Securitas Security Services USA	Guard/Security Service
Calling Solutions, Inc.	Telemarketing	Seguin I.S.D.	Public School District
Citicorp – U.S. Service Center	Service Center	Six Flags Fiesta Texas	Entertainment/Amusement Park
Comal I.S.D.	Public School District	Somersel I.S.D.	Public School District
East Central I.S.D.	Public School District	South San Antonio I.S.D.	Public School District
Edgewood I.S.D.	Public School District	Southside I.S.D.	Public School District
Employers Resource Management	Temporary Staffing	Southwest I.S.D.	Public School District
Enterprise/Rent-A-Car Company	Vehicle Rental	Southwest Research Institute	Research & Development
Floresville I.S.D.	Public School District	Spectrum Health Club	Health Clubs
Frontier Enterprises	Restaurant Headquarters	St. Mary's University	Higher Education, Private
Goodwill Industries of S.A.	Vocational Training	St. Philip's College	Junior/Community College
Harcourt Assessment, Inc.	Test Publishers	Standard Aero, Inc.	Repair Aircraft Engines
Harlandale I.S.D.	Public School District	Taco Cabana, Inc.	Fast Food Restaurants
Hospital Klean of Texas, Inc.	Hospital Housekeeping	Talent Tree, Inc.	Temporary Staffing
Hyatt Hill Country Resort and Spa	Hotel Resort & Spa	Tansec Inc./Div. of Radio Shack	Alarms & Monitoring
Infonxx	Information Retrieval Services	Treco Services, Inc.	Janitorial, Window Cleaning
Judson I.S.D.	Public Education	Trinity University	Higher Education, Private
Little Caesar's of San Antonio, Inc.	Pizza Take Out Stores	University of Texas at San Antonio	Higher Education, Public
Lockheed Martin Kelly Aviation	Aviation Consultants	University of The Incarnate Word	Higher Education, Private
Luby's Cafeterias, Inc.	Cafeterias	VIP Temporaries	Temporary Staffing
MTC, Inc.	Full Service Restaurants	Waste Management Inc.	Refuse Systems
Marriott Rivercenter/Riverwalk Hotels	Hotels	Wendy's of San Antonio Inc.	Fast Food Restaurants
McDonald's-Haljohn, Inc.	Fast Food Restaurants	Westaff	Temporary Staffing
Mi Tierra Cafe & Bakery, Inc.	Restaurant & Bakery	Whataburger of Alice	Fast Food Restaurants
Morningside Ministries	Retirement & Nursing Homes	YMCA of Greater of San Antonio	Health & Wellness
Transportation, Communications, & Utilities:			
AT&T, Inc.	Voice, Data, Telecommunications	Time Warner	Voice, Data, Telecommunications
CPS Energy	Natural Gas & Electric Service	U.S. Postal Service	Postal Delivery
San Antonio Water System	Water Services	United Parcel Service	Parcel Delivery
Southwest Airlines	Air Transportation		
Wholesale:			
Advantage Sales & Marketing	Sales & Marketing	SYGMA Network, Inc.	Distributor - Groceries
CARQUEST Auto Parts	Automotive Replacement Parts	San Antonio Auto Auction	Auto Auction
Color Spot Nurseries/SW Division	Plant Nurseries	Tyson Foods, Inc.	Poultry Slaughtering & Packing

¹January 2006, The Greater San Antonio Chamber of Commerce Largest Employer's Directory.

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San Antonio Electric and Gas Systems

History and Management

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

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

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

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

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

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

Service Area

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

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

In addition to the area served at retail rates, CPS sells electricity at wholesale prices to the Floresville Electric Light & Power System, the City of Hondo, and the City of Castroville. These three wholesale supply agreements have remaining terms ranging from less than one to ten years until expiration, although all of the agreements provide for extensions. Discussions are ongoing with all three entities to renew their respective long-term wholesale power agreements. Additionally, CPS has recently entered into several one-year to three-year wholesale supply agreements with other various municipalities and cooperatives. CPS will seek additional opportunities to enter into long-term wholesale electric power agreements in the future. The requirements under the existing and any new wholesale agreements would be firm energy obligations of CPS.

The CPS gas system serves the City and its environs, although there is no certificated CPS gas service area. In Texas, no legislative provision or regulatory procedure exists for certification of natural gas service areas. As a result, CPS competes against other gas supplying entities on the periphery of its service area. Pursuant to the authority provided by Section 181.026, Texas Utilities Code, among other applicable laws, the City has executed a license agreement (“License Agreement”) with the City of Grey Forest, Texas (“Licensee”), dated as July 28, 2003, for a term through May 31, 2028. Pursuant to this License Agreement, the City permits the Licensee to provide, construct, operate and maintain certain natural gas lines within the boundaries of the City which it originally established in 1967 and to provide extensions and other improvements thereto upon compliance with the provisions of the License Agreement and upon the payment to the City of a quarterly license fee of 3.0% of the gross revenues received by the Licensee from the sale of natural gas within the Licensed Area (as defined in the License Agreement). Thus, in the Licensed Area, CPS is in direct competition with Grey Forest Utilities as a supplier of natural gas.

CPS also has 20-year franchise agreements with 28 incorporated communities (“Suburban Cities”) in the San Antonio area. These franchise agreements permit CPS to operate its facilities in the cities' streets and public ways in exchange for a franchise fee of 3% on electric and natural gas revenues earned within their respective municipal boundaries. Of these 28 agreements, 24 expire in 2010; the others expire in 2011, 2017, 2023, and 2024, respectively.

Retail Service Rates

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

the Municipal Utility with the exception of electric wholesale transmission activities and rates. Unless and until the City Council and CPS Board choose to opt-in to electric retail competition, CPS retail service electric rates are subject to appellate, but not original rate regulatory jurisdiction by the PUCT in areas that CPS serves outside the City limits. To date, no such appeal to PUCT of CPS retail electric rates has ever been filed. CPS is not subject to the annual PUCT gross receipts fee payable by electric utilities. (See “Electric Utility Restructuring in Texas; Senate Bill 7” herein.)

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

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

Base rate changes over the past 17 years have consisted of; a 4.0% combined electric and gas base rate increase effective January 31, 1991; a 3.5% electric base rate adjustment; effective May 19, 2005 that was more than offset by a reduction in fuel costs, resulting from the purchase of an increased interest in STP 1 & 2; a 12.15% gas base rate adjustment effective June 26, 2006; and a 3.5% system average electric and gas base rate increase to become effective September 1, 2008. The City Council approved this latest 3.5% base rate increase on May 15, 2008. CPS had initially requested a 5% system average electric and gas base rate increase. The City Staff reviewed CPS Energy's rate case for several months and the City Staff recommended to City Council that Council approve a 5% increase for gas and electric rates that would be implemented on June 1, 2008. City Council unanimously approved a 3.5% rate increase to take effect on September 1, 2008. CPS staff is evaluating with its Board the impacts that the lower and delayed rate increase will have on its business planning and budgeting process and CPS will make adjustments in its near-term plans to budget within the rate increases that have been approved. CPS expects to continue to periodically seek similar electric and gas base rate increases during the next five to seven years.

The 2005 electric rate adjustment was intended to offset the incremental costs to be incurred due to acquiring an additional 12% share in the South Texas Project. This acquisition was completed in May 2005. CPS projects that the net effect of the base rate adjustment and fuel cost savings from additional nuclear-fueled generation will result in lower overall bills for CPS' electric customers (See “Electric System – Generating System” herein). CPS also offers a monthly contract for renewable energy service (currently this is wind-generated electricity) under Rider E15, which became effective May 2000. The rate for Rider E15 was reduced to its current level effective on September 30, 2002. A rider to the SLP rate, the Economic Incentive Rider E16, became effective March 10, 2003, and offers discounts off the SLP demand charge for a period up to four years for new or added load of at least 10 megawatts (“MW”). Under certain conditions, the discount may be extended an additional three years. Customers that choose Economic Incentive Rider E16 must also meet City employment targets and targets for purchases of goods or services from local businesses in order to qualify. CPS also has rates that permit recovery of certain miscellaneous customer charges and for extending lines to provide gas and electric service to its customers. In May 2005, the CPS Board adopted a change to its policies for both miscellaneous customer charges and line extensions, which became effective January 1, 2006, to increase charges that had not been raised since 1986. On December 15, 2005, the City Council adopted Ordinance Nos. 101819 and 101820 approving certain of the price changes in the CPS Board-approved policy; however, the City ordinance prevented recovery of increased line extension charges from developers of affordable housing and the City delayed implementation of certain miscellaneous customer charges until April 1, 2006 (fees for disconnection, reconnection, and field notification).

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

Each of CPS' retail and wholesale rates contains an electric fuel adjustment or gas cost adjustment clause, which provides for current recovery of fuel costs. The fuel cost recovery adjustments are set at the beginning of each CPS billing cycle month.

Transmission Access and Rate Regulation

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

The 1999 Texas Legislature amended the PURA95 to expressly authorize rate authority over Municipal Utilities for wholesale transmission and to require that the postage stamp method be used exclusively for pricing wholesale transmission transactions. The PUCT in late 1999 amended its transmission rule to incorporate fully the postage stamp pricing method which sets the price for transmission at the system average for ERCOT. CPS' wholesale open access transmission charges are set out in tariffs filed at the PUCT, and are based on its transmission cost of service approved by the PUCT, representing CPS' input to the calculation of the statewide postage stamp pricing method. The PUCT's rule, consistent with provisions in PURA §35.005(b), also provides that the PUCT may require construction or enlargement of transmission facilities in order to facilitate wholesale transmission service. Pursuant to P.U.C. Docket No. 31540, "Proceeding to Consider Protocols to Implement a Nodal Market in the Electric Reliability Council of Texas Pursuant SUBST. R. 25.501", the PUCT has made substantial progress in evaluating the shift from postage stamp pricing to nodal pricing for transmission transactions. Until the PUCT takes final action on nodal pricing, it will not be possible to predict the effects on CPS' transmission costs or its ability to recover costs from other participants in ERCOT. Additional information on recovery of ERCOT transmission fees is discussed in "CUSTOMER RATES – Governmentally Imposed Fees, Taxes or Payments" and with respect to the transition to the nodal market is discussed in "Post Senate Bill 7 Wholesale Market Design Developments" herein.

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

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

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

SYSTEMS – Service Area” herein.

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

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

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

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

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

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

Among other provisions, SB 7 provides that nothing in that act or in any rule adopted under it may impair any contracts, covenants, or obligations between municipalities and bondholders of revenue bonds issued by municipalities and that nothing in that act may impair the tax-exempt status of municipalities or compel them to use facilities in a manner that violates any bond covenants or other exemption of interest or tax-exempt status. The bill also improves the competitive position of Municipal Utilities by allowing local governing bodies, whether or not

they implement retail choice, to adopt alternative procurement processes under which less restrictive competitive bidding requirements can apply and to implement more liberal policies for the sale and exchange of real estate. Also, matters affecting the competitiveness of Municipal Utilities are made exempt from disclosure under the open meetings and open records acts and the right of municipal utilities to enter into risk management and hedging contracts for fuel and energy is clarified.

During its 79th Legislative Session in 2005, the Texas Legislature reviewed the mission and performance of the PUCT, as required by the Texas Sunset Act. This act provides that the Sunset Commission, composed of legislators and public members, periodically evaluate a state agency to determine if the agency is still needed, and what improvements are needed to ensure that tax dollars are appropriately utilized. Based on recommendations of the Sunset Commission, the Texas Legislature ultimately decides whether an agency continues to operate into the future.

The 79th Legislature in its review of the PUCT reauthorized the agency until 2011. Reforms were enacted to increase the accountability of ERCOT, including added regulatory scrutiny and governance changes that add independence while preserving input from industry experts. An “independent market monitor” selected by and reporting to the PUCT, was institutionalized to help guard against manipulation in the Texas wholesale electric market. No significant, direct impact on CPS is anticipated as a result of this legislation.

Post Senate Bill 7 Wholesale Market Design Developments. In the summer of 2003, the PUCT adopted rules requiring that ERCOT transition from a zonal to a nodal wholesale market by October 1, 2006, and requiring that new protocols to accomplish this transition be submitted to the PUCT for review. Implementation of the nodal market will include, among other elements: direct assignment of the costs of local transmission congestion to market participants that cause the congestion; implementation of an integrated, financially binding day-ahead market; and nodal energy prices for resources and zonal energy prices for loads. Consistent with the rule, ERCOT and industry stakeholders have developed and submitted to the PUCT protocols and proposed energy load zones to implement these market design elements, together with an independent cost-benefit analysis. The PUCT in 2005 reaffirmed its intent to implement the nodal market in ERCOT, but modified the implementation date to January 1, 2009. In December 2005, the PUCT conducted a hearing on the nodal protocols submitted by ERCOT, and in April 2006, it issued an order approving the implementation of the nodal market. In response to the PUCT implementation date, ERCOT established an earlier implementation date of December 1, 2008. ERCOT has completed its process of design specification and is currently early in the implementation phase of its nodal systems. Market participants, including CPS, are also in the implementation phase for the upgrade of their systems necessary to operate in the nodal market. On May 20, 2008, ERCOT issued a press release stating that it would not meet its targeted initiation date of December 1, 2008 due to delayed software deliveries. A new implementation date has not been determined. In its press release, ERCOT stated that it would meet with the PUCT, market participants and vendors over the next few weeks to arrive at an updated project schedule. See “SAN ANTONIO ELECTRIC AND GAS SYSTEMS – Transmission Access and Rate Regulation” herein.

The 80th Texas Legislative Regular Session adjourned on May 28, 2007. While certain legislation was enacted, CPS believes that this legislation will have no material adverse impact on the EG Systems, including its financial and other operations.

Environmental Restrictions of Senate Bill 7 and Other Related Regulations. SB 7 contains specified emissions reduction requirements for certain older electric generating units, which would otherwise be exempt from the Texas Commission on Environmental Quality (“TCEQ”) permitting program by virtue of “grandfathered” status. Under SB 7, annual emissions of nitrogen oxides (“NO_x”) from such units were reduced by 50% from 1997 levels, beginning May 1, 2003. These emissions have been reported on a yearly basis and CPS has met the requirements of its NO_x cap for the applicable units for the past three compliance years. CPS has final Electric Generating Facility (“EGF”) State permits from the TCEQ for its four older electric generating plant sites, comprising 11 gas-fired units. CPS may require future additional expenditures for emission control technology.

Although SB 7 instituted many of the changes to environmental emission controls which affect grandfathered electric generating plants, another TCEQ regulation, Chapter 117, is directed at all units in the state, including CPS' coal plants. These regulations required a 50% reduction in NO_x emissions statewide beginning May 1, 2005 and system-wide on an annual basis. The first reporting period for CPS' power plants subject to the Chapter

117 cap was for the compliance period of May 1, 2005 to April 2006. CPS has met the Chapter 117 cap for each compliance period. As a result of the J.K. Spruce Plant Unit 2 (“JKS 2”) air permitting process, CPS has committed to tighter NO_x emission limitations than what is required under Chapter 117 at the Calaveras Lake site once the JKS 2 unit comes on line. The final Clean Air Interstate Rule (“CAIR”) has imposed even more NO_x restrictions on CPS power plants. Changes to environmental emission controls may have the greatest effect on coal plants. For example, mercury emission limits while initially finalized by the Environmental Protection Agency (“EPA”), are now subject to additional EPA review and which may require new controls at the coal plants in the near future. Further statutory changes and additional regulations may change existing cost assumptions for electric utilities. While it is too early to determine the extent of any such changes, such changes could have a material impact on the cost of power generated at affected electric generating units.

SB 7 established the State’s goal for renewable energy in 1999 but made no special provisions for transmission to interconnect renewable resources. The rapid development of wind power in west Texas since 2001 has shown that wind farms can be built more quickly than traditional transmission facilities; however, this timing difference poses a dilemma for planning as it is difficult to know whether a new line will be needed if the generation facilities do not yet exist, but a wind farm is difficult to finance if there is no certainty that sufficient transmission will be available to deliver generated electricity. Senate Bill 20, enacted by the Texas Legislature in 2005 (“SB 20”), authorized the PUCT to regulate in this area, and specifically authorized the PUCT to identify an area with sufficient renewable energy potential, known as competitive renewable energy zones (“CREZs”) and pre-designate the need for transmission facilities serving the area even if no specific renewable generation projects exist or are under construction. The designation of CREZs in regions with developable renewable resources would be partially based on financial commitments of wind project developers desirous of building in the CREZ. The PUCT has voted to create one or more CREZs in west Texas and the Panhandle, though a final rule is pending.

Wind-powered resources account for 90% of the 6,301 MW of installed renewable capacity. About 2.1% of the electricity generated in Texas during 2006 came from renewable energy resources, up from 1.5% for all of 2005. Within the ERCOT power region, renewable resources provided 2.1% of peak-period generation during 2006 (up from 1.5% in 2005), and 3.2% of off-peak generation (up from 2.2% in 2005). Significant amounts of wind energy have created challenges for those who manage the ERCOT system. On February 26, 2008, ERCOT implemented the second stage of its emergency grid procedures (out of 4 stages) following a sudden drop in the system frequency. The drop in system frequency was attributed to a combination of events including a drop in wind energy production at the same time the evening electricity load was increasing, accompanied by multiple power providers, other than CPS, falling below their scheduled energy production. The loss of wind energy also resulted in congestion in certain parts of the ERCOT transmission system. Implementing the stage two emergency procedures stabilized ERCOT system frequency. Other than interruptible loads, no other customers in the ERCOT region lost power due to the event. Because of the challenges associated with scheduling wind energy, ERCOT has chosen to count only 8.6% of nameplate wind capacity toward ERCOT’s reserve margin requirements.

The Legislature increased the State’s renewable energy goal in 2005 with the enactment of SB 20. As amended by SB 20, PURA directs that the cumulative installed renewable capacity in the State must total 2,280 MW by January 1, 2007; 3,272 MW by January 1, 2009; 4,264 MW by January 1, 2011; 5,256 MW by January 1, 2013; and 5,880 MW by January 1, 2015. Further, the PUCT is directed to establish a target of 10,000 MW by January 1, 2025. The legislation includes a target of 500 MW from renewable resources other than wind power. In addition, SB 20 requires the PUCT to designate CREZs to expedite transmission planning. In addition, on April 2, 2008, ERCOT filed a report with the PUCT concerning wind power and the transmission facilities that may be necessary to transfer the electric power across the State.

Response to Competition

Strategic Planning Initiatives. CPS has a comprehensive corporate strategic plan that is designed to make CPS more efficient and competitive, while delivering value to its various customer groups and the City. On August 22, 2005, the Board approved a new strategic plan, developed by a cross-functional team. The plan built on the CPS mission, vision, and core values as well as long-term goals adopted in 2004 as part of the Vision 2020 process. The strategic plan has evolved to formulate plans for its wholesale, retail, transmission and distribution, gas, and shared services business units. Each plan will be the responsibility of the business unit and will focus on market tactics, organizational development, business information, process improvement, legal/regulatory issues, and financial

accomplishment. The senior executive for each business unit has accountability for development and delivery of the plan. The CPS Board reviewed and approved business unit plans, consistent with the corporate strategy, during the 2007 review cycle. An update to the plans will be presented to the Board for approval during the June 2008 Strategic and Financial Plan presentation.

Major initiatives and key action plans necessary to accomplish the objectives and meet or exceed the targets are also included in each plan. Status reports on strategies, risks and market changes are provided to the Board and senior management on a regular basis. An oversight team, appointed by senior management, ensures consistency with the corporate vision and directs the resolution of cross-business unit issues.

Debt and Asset Management Program. CPS has developed a debt and asset management program (the “Debt Management Program”) for the purposes of lowering the debt component of energy costs, maximizing the effective use of cash and cash equivalent assets, and enhancing financial flexibility. An important part of the Debt Management Program is debt restructuring through the prudent employment of variable rate debt and possible interest rate swap contracts. It is anticipated, however, that the variable rate exposure of CPS will not exceed 25% of total outstanding debt. The program also focuses on the use of unencumbered cash and available cash flow 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.

Electric System

Generating System. CPS operates 19 electric generating units, three of which are coal-fired and 16 of which are gas-fired. Some of the gas-fired generating units may also burn fuel oil, which provides greater fuel flexibility and reliability. With the acquisition of an additional 300 MW purchased from AEP Texas Central Company on May 19, 2005, CPS has a 40.0% interest in STP’s two nuclear generating units. The nuclear units supplied 36.8% of the electric system load during fiscal year 2007 - 08.

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

While more work is needed to complete this year’s evaluation, it initially appears that the costs of all physically constructed infrastructures are increasing. Material and labor costs, for all types of generation, continue to rise. Additionally, regulatory charges may also raise the costs of operating plants, such as those that have been proposed for units that use carbon-based fuels.

To mitigate the pressure on new generation construction requirements, CPS management is expanding its efforts towards expanding community-wide energy efficiency and conservation. These mitigation efforts are increasingly 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 intends to explore opportunities with San Antonio City Council for potential changes in ordinances, codes and administrative regulations focused on encouraging commercial and residential utility customers, builders, contractors and other market participants to implement energy conservation measures.

CPS expects that it will complete its current assessment of various generation construction options by the summer or early fall of 2008. Before a commitment would be made to fully construct the next layer of new generation facilities, CPS management will pursue several objectives. These objectives include the pursuit of additional public input; expanded community education about the long-term energy and conservation needs of the San Antonio community; continued option analyses and evaluations, including CPS’ own formalized cost estimates; additional Board approval to move forward; and expanded presentations to the San Antonio City Council, which governs the related rate increases and bond issuances required to support any generation construction project.

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

Ownership
Effective February 2, 2006

<u>Participants</u>	<u>%</u>	<u>MW</u>
NRG Energy	44.0	1,188
CPS	40.0	1,080
City of Austin-Austin Energy	<u>16.0</u>	<u>432</u>
	<u>100.0</u>	<u>2,700</u>

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

STP Units 1 and 2 each have a 40-year NRC license that expires in 2027 and 2028, respectively. No firm decision has been made with respect to license extension; however, under NRC regulations, the STP owners may not make a license extension request until the plant licenses are within 20 years of the license expiration date.

During the twelve-months ended January 31, 2008, the STP Units 1 and 2 operated at approximately 107.6% and 94.9% of net capacities, respectively. Unit 1 and Unit 2 completed normal refueling outages in the fall of 2006 and in the spring of 2007, respectively. The replacement of low pressure turbines and other plant upgrades during these outages improved plant efficiency and yielded an average increase in electrical output of approximately 68 MW in each unit.

Used Nuclear Fuel Management. Under the Nuclear Waste Policy Act, 42 U.S.C. 10101, et seq. (“NWP”), the 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 have entered into a standard contract under which the owner(s) pay a fee to DOE of 1.0 mill per kilowatt hour (1M/kWh) electricity generated and sold from the power plant along with additional assessments. In exchange for collecting this fee and the assessments, DOE undertook the obligation to develop a high-level waste repository for safe long-term storage of the fuel and, no later than January 31, 1998, to, transport, and dispose of the used fuel. That date came and went and no high-level waste repository has been licensed to accept used fuel.

According to the filings in one recent suit brought against DOE, at least sixty-six cases have been filed in the Court of Federal Claims against DOE related to its failure to meet its obligations under the NWP by the existing owners or operators of nuclear facilities seeking damages related to ongoing used nuclear fuel storage costs. On August 31, 2000, in *Maine Yankee Atomic Power Company, et. al. v. US*, the United States Court of Appeals for the Federal Circuit affirmed that DOE has breached its obligations to commercial nuclear power plant owners for failing to live up to its obligations to dispose of used nuclear fuel. Subsequent to that decision, DOE has settled with certain commercial nuclear power plant owners and agreed to provide funds to pay for storage costs while DOE continues to develop a permanent high-level waste repository. STP is concurrently participating in litigation to cover its long-term storage costs and negotiating to obtain a reasonable settlement that would provide for those costs.

Until DOE is able to fulfill its responsibilities under the NWP, the NWP has provisions directing the NRC to create procedures to provide for interim storage of used nuclear fuel at the site of a commercial nuclear reactor. Currently, STP has adequate space in its on-site spent fuel storage pools to provide for storage of all of its used fuel. If DOE is unable to take the used fuel from STP, sometime late in the next decade STP management expects to start the process of planning, licensing, and building an on-site independent spent fuel storage facility (“ISFSI”). That ISFSI is expected to have sufficient capacity to provide safe interim storage for used nuclear fuel from the current and future reactors at the STP site.

Additional Nuclear Generation Opportunities. This section describes some of the initial CPS management investigation, study, analysis, and work product that has been undertaken to explore one type of possible generation infrastructure, additional nuclear capacity. CPS has received Board of Trustee approval to participate in the early development phase of two nuclear projects, both with third-party partners. In providing this preliminary approval, a spending cap of \$216 million, covering an approximate two-year period, was established. The relevant spending period is expected to extend through January 31, 2009.

The first possible nuclear project has been scoped as the development of two additional reactors at the current STP site. These new units are referred to preliminarily as STP 3 & 4. The second possible nuclear project would be a new two-unit facility tentatively located in Victoria County, which is also located in south Texas. Either or both projects, if fully developed by CPS, would deliver a portion of its power for use by San Antonio customers in the ERCOT market.

At this time, CPS' Board of Trustees has not committed to complete the development of either project and has capped nuclear development spending at \$216 million. In addition, the City Council has not yet received CPS management's formal assessments and evaluations of these options compared to other possible new generation types. As noted previously, the completion of that information is expected by the late summer or early fall of 2008.

In the interim, the preliminary phases of the nuclear projects continue under their current scopes and general status information is available as follows:

- In June 2007, STP Nuclear Operating Company had signed a technical services agreement with Toshiba Corporation, a major Japanese manufacturer of heavy electrical equipment and developer of ABWRs in Japan. Under this agreement, Toshiba agreed to perform early engineering and procurement work for STP Units 3 and 4. STPNOC, NRG, and CPS are engaged in continuing negotiations with Toshiba, its potential consortium members, and with other vendors about a definitive engineering, procurement and construction agreement. Concurrently, STP Nuclear Operating Company is in the process of reserving the major, long-lead components for STP Units 3 and 4. STP Nuclear Operating Company has already made a reservation for the Unit 3 reactor pressure vessel forgings. Rights and obligations in the agreements with GE-H, Toshiba and other vendors for long-lead equipment and services are now shared with CPS under the terms of the NRG-CPS Supplemental Agreement.
- Regarding the first project, on September 24, 2007, NRG and CPS signed the South Texas Project Supplemental Agreement ("Supplemental Agreement") under which CPS elected to participate in the preliminary development of two new nuclear units at the STP nuclear power station site, STP Units 3 and 4, pursuant to the terms of the current participation agreement among the STP owners. CPS could own up to 50% of STP Units 3 and 4. The Supplemental Agreement provides for CPS to reimburse NRG for its pro rata share, based on its ownership percentage, of initial project costs incurred and to pay its pro rata share of future development costs. The Supplemental Agreement also provides CPS and NRG with preferred rights of first refusal in the event of certain types of transfers of either NRG's or CPS' interests in STP.
- Also on September 24, 2007, CPS, subsidiaries of NRG, and the STP Nuclear Operating Company filed a combined construction and operating license application ("COLA") with the NRC to build and operate STP Units 3 and 4. The COLA for STP Units 3 and 4 was the first complete application for new commercial reactors to be filed with the NRC in nearly thirty years. In the COLA, the owners propose to use advanced boiling water reactor ("ABWR") technology, which has been proven in four operating units in Japan. The total projected rated capacity of STP Units 3 and 4 is expected to equal or exceed 2,700 MW. On November 29, 2007, the NRC announced that it had accepted the COLA for review.

In order to develop the COLA and to provide on-going licensing support, STP Nuclear Operating Company had entered into an interim services agreement with General Electric Company ("GE"). Subsequent to entering into that agreement, GE entered into a joint venture in which it transferred its nuclear business to a company called GE-Hitachi Nuclear Company ("GE-H"). GE assigned its responsibilities under the interim services agreement to GE-H. Despite its obligations in the interim services agreement, GE-H suspended licensing support for the COLA soon after it was filed with the NRC. CPS and NRG are

continuing to hold discussions with vendors, including GE-H, to develop STP Units 3 and 4. Until these vendor issues are resolved, STP Nuclear Operating Company asked the NRC to limit its review of the COLA to environmental and other generic issues and the NRC has suspended closure of the public intervention period.

- Turning to the second project, in December 2007, CPS and Exelon Generation Company LLC (“Exelon”) signed an agreement granting CPS an option to participate in a possible joint investment in a nuclear-powered electric generation facility in southeast Texas (“Exelon Project”). Preliminary plans indicate that the Exelon Project would be located in Victoria County and would involve the development of two Economic Simplified Boiling Water Reactors, nominally rated at 1,550 megawatts each. Under this agreement, CPS has the option to acquire between a 25% and a 40% ownership in the Exelon Project. Exelon is continuing its due diligence and development of a COLA for the Exelon Project. Exelon is expected to make its decision on whether to build the Exelon Project sometime in late 2009.

Qualified Scheduling Entity. CPS operates as an ERCOT Level 4 Qualified Scheduling Entity (“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. 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 will update systems and prepare personnel to accommodate the newly designed ERCOT “Nodal” Market design. See “Post Senate Bill 7 Wholesale Market Design Developments”. The new market design will vastly change the procedures to dispatch generation and schedule bilateral transactions. CPS is currently designing new processes and systems to continue to operate as a QSE in the new market.

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

Distribution System. The distribution system is supplied by 73 substations strategically located on the high voltage 138 kV transmission system. The central business district of the City is served by nine underground networks, each consisting of four primary feeders operated at 13.8 kV, transformers equipped with network protectors, and both a 4-wire 120/208 volt secondary grid system and a 4-wire 277/480 volt secondary spot system. This system is well designed for both service and reliability.

Approximately 7,580 circuit miles (three-phase equivalent) of overhead distribution lines are included in the distribution system. These overhead lines also carry secondary circuits and street lighting circuits. The underground distribution system consists of 348 miles of three-phase equivalent distribution lines, 83 miles of three-phase Downtown Network distribution lines, and 4,323 miles of single-phase underground residential distribution lines. Many of the residential subdivisions added in recent years are served by underground residential distribution systems. At January 31, 2008, the number of street lights in service was 76,988. The vast majority of the lights are high-pressure, sodium vapor units.

Gas System

Supply Pressure System. The supply pressure system consists of a network of approximately 200 miles of steel mains that range in size from 4 to 30 inches. The entire system is coated and cathodically protected to mitigate corrosion. The supply pressure system operates at pressures between 50 pounds per square inch gauge (“psig”) and 274 psig, and supplies gas to 266 pressure regulating stations throughout the gas distribution system which reduce the pressure to between 9 psig and 59 psig for the distribution system. A Supervisory Control and Data Acquisition computer system (“SCADA”) monitors the gas pressure and flow rates at many strategic locations within the supply pressure system, and most of the critical pressure regulating stations and isolation valves are remotely controlled by SCADA.

Distribution System. The gas distribution system consists of approximately 4,841 miles (including the supply pressure system). The system consists of 2 to 16-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 59 psig. All steel mains are coated and cathodically protected to mitigate corrosion. The vast majority of the gas services are connected to the distribution system, and the gas normally undergoes a final pressure reduction at the gas meter to achieve the required customer service pressure. Critical areas of the distribution system are remotely monitored by SCADA.

Implementation of New Accounting Policies

For the fiscal year ended January 31, 2008, CPS implemented:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The statement establishes additional guidance for financial reporting for other postemployment benefit plans (“OPEB”). It provides standards for the measurement, recognition, and display of OPEB expense and the related balance sheet items. Disclosure requirements have been incorporated into Note 9 – Other Postemployment Benefits.

Prior to Fiscal Year (“FY”) 2008, the City Public Service Disability Income Plan, Group Life Insurance Plan, and Group Health Plans (“Employee Benefit Plans”) were reported as component units of CPS, and their financial results were blended with those of CPS. In order to properly implement GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*, the Employee Benefit Plans have been removed as component units from the CPS financial statements for FY 2008. Additionally, the FY 2007 financial statements have been restated with the removal of these component units for ease of comparability to current-year results. The financial statements of the Employee Benefit Plans are separately audited and reported.

- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. The statement provides guidance on how to account for sales and pledges of receivables. As of January 31, 2008, CPS had not engaged in this type of activity.
- GASB Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*. The statement establishes more extensive disclosure requirements for pension plans similar to the OPEB disclosure requirements in GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, implemented in FY 2007 by the Employee Benefit Plans. Disclosure requirements for the employer have been incorporated into Note 8 – Employee Pension Plan.

Other than the aforementioned changes, there were no additional significant accounting principles or reporting changes implemented in the fiscal year ending January 31, 2008. Other accounting and reporting changes that occurred during the prior reporting year continued into the fiscal year ending January 31, 2008.

Recent Financial Transactions

On December 1, 2007, CPS redeemed \$5,000,000 and remarketed for a three-year term rate, \$152,000,000 of obligations designated as City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Bonds, Series 2004.

On May 29, 2008, City Council authorized CPS to issue approximately \$300,000,000 in tax-exempt revenue bonds. The bond proceeds are expected to be received June 26, 2008, and will be utilized for general system improvements.

City Public Service Historical Net Revenues and Coverage

	Fiscal Years Ended January 31, (Dollars in Thousands)				
	2004	2005	2006	2007	2008
Gross Revenues ¹	\$ 1,526,904	\$ 1,473,254	\$ 1,754,927	\$ 1,822,230	\$ 1,943,313
Maintenance & Operating Expenses	942,471	882,508	1,057,035	1,104,037 ²	1,177,337
Available For Debt Service	<u>\$ 584,433</u>	<u>\$ 590,746</u>	<u>\$ 697,892</u>	<u>\$ 718,193</u>	<u>\$ 765,976</u>
Actual Principal and Interest Requirements:					
Senior Lien Obligations ³	<u>\$ 230,250</u>	<u>\$ 245,984</u>	<u>\$ 256,442</u>	<u>\$ 271,931</u>	<u>\$ 290,954</u>
Junior Lien Obligations ⁴	<u>\$ 2,111</u>	<u>\$ 4,386</u>	<u>\$ 10,964</u>	<u>\$ 15,006</u>	<u>\$ 15,179</u>
Actual Coverage-Senior Lien	2.54x	2.40x	2.72x	2.64x	2.63x
Actual-Senior and Junior Lien	2.52x	2.36x	2.61x	2.50x	2.50x

¹ Calculated in accordance with the ordinances.

² FY 2007 restated for ease of comparability to FY 2008 due to the implementation of GASB 45.

³ Net of accrued interest where applicable.

⁴ Series 2003 Junior Lien Obligations were issued May 15, 2003. Series 2004 Junior Lien Obligations were issued November 18, 2004. Actual interest payments.

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San Antonio Water System

History and Management

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

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

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

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

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

Service Area

SAWS provides water and wastewater service to the majority of the population within the corporate limits of the City and Bexar County, which totals approximately 1.6 million residents. SAWS employs approximately 1,600 personnel and maintains over 9,500 miles of water and sewer mains. The tables that follow show historical water consumption and water consumption by class for the fiscal years indicated.

*Historical Water Consumption (Million Gallons)*¹

<u>Fiscal Year</u> <u>Ended</u>	<u>Daily Average</u>	<u>Peak Day</u>	<u>Peak Month</u>	<u>Metered</u> <u>Usage</u>	<u>Metered Water</u> <u>Revenue</u>
12/31/2003	150	303	August	50,576	\$ 76,913,150
12/31/2004	144	295	August	49,366	\$ 77,113,717
12/31/2005	172	278	July	55,005	\$ 98,869,037
12/31/2006	182	269	July	57,724	\$110,219,280
12/31/2007	172	224	November	49,511	\$ 96,187,080

¹ Unaudited.
Source: SAWS.

Water Consumption by Customer Class (Million Gallons) ¹

	December 31, 2007	December 31, 2006	December 31, 2005	December 31, 2004	December 31, 2003
Residential	26,782	33,374	31,114	27,173	27,760
Commercial	12,038	13,379	12,991	11,746	11,730
Apartment	7,843	8,102	8,004	7,663	7,794
Industrial	2,178	2,133	2,122	2,089	2,473
Wholesale	90	623	121	99	136
Municipal	580	113	652	596	683
	<u>49,511</u>	<u>57,724</u>	<u>55,004</u>	<u>49,366</u>	<u>50,576</u>

¹ Unaudited.
Source: SAWS.

SAWS System

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

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

Waterworks System. The City originally acquired its waterworks system in 1925 through the acquisition of the San Antonio Water Supply Company, a privately owned company. Since such time and until the creation of SAWS in 1992, management and operation of the waterworks system was under the control of the City Water Board. The SAWS’ waterworks system currently extends over approximately 620 square miles, making it the largest water purveyor in Bexar County. SAWS serves more than 80% of the water utility customers in Bexar County and provides potable water service on average to approximately 341,220 customers, which includes residential, commercial, multifamily, industrial, and wholesale accounts. To service its customers, the waterworks system utilizes 24 elevated storage tanks and 39 ground storage reservoirs, of which 13 act as both, with combined storage capacities of 166 million gallons. As of December 31, 2007, the waterworks system had in place 4,673 miles of distribution mains, ranging in size from 6 to 61 inches in diameter (the majority being between six and 12 inches), and 25,004 fire hydrants distributed evenly throughout the SAWS service area.

Wastewater System. The San Antonio City Council created the City Wastewater System in 1894. A major sewer system expansion program began in 1960 with bond proceeds that provided for new treatment facilities and an enlargement of the wastewater system. In 1970, the City became the Regional Agent of the Texas Commission on Environmental Quality (“TCEQ”) (formerly known as the Texas Water Commission and the Texas Water Quality Board). The Regional Agent boundary encompasses approximately 360 square miles within Bexar County. In 1992, the wastewater system was consolidated with the City’s waterworks and recycle water system to form the System.

SAWS serves the residents of the City, 18 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 517 square miles. SAWS also coordinates with the City for wastewater planning for the City’s total

planning area, ETJ, of approximately 956 square miles. The population for this planning area is approximately 1.2 million people. SAWS currently provides wastewater services to approximately 380,000 customers.

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

The wastewater system is composed of approximately 4,877 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 a combined treatment capacity of 225.7 million gallons per day. The permitted flows from the wastewater system's three regional treatment plants represent approximately 98% of the municipal discharges within the ETJ.

The System has applied to the TCEQ to expand its Certificates of Convenience and Necessity ("CCN") or service areas for water and sewer from the existing boundaries to the ETJ boundary of the City of San Antonio. When the TCEQ grants a CCN to a water or sewer purveyor, it provides that purveyor with a monopoly for retail service. By expanding the CCN's to the ETJ, developments needing retail water and sewer service within the ETJ must apply to SAWS. Service can then be provided according to System standards and small, undersized systems can be avoided. The System's CCN application for water covers about 60,000 acres and the application for sewer about 435,000 acres. The expansion of the CCN to the ETJ also supports development regulations for the City. Within the ETJ, the City has certain standards for development. These standards somewhat insure the City that areas developed in the ETJ and then annexed by the City, will already have some City development regulations in place. The applications are currently proceeding through the TCEQ administrative and legal processes.

Recycling Water System. SAWS is permitted to sell Type I (higher quality) recycled water from its wastewater treatment plants and has been doing so since 2000. The water recycling program is designed to provide 35,000 acre-feet per year of recycled water to commercial and industrial businesses in San Antonio. This system is comprised of two north/south transmission lines. Approximately 80-miles of pipeline delivers highly treated effluent to 82 customers consisting of golf courses, parks, and commercial and industrial customers throughout the city. The system was also designed to provide baseflows in the upper San Antonio River and Salado Creek, and the result has been significant and lasting environmental improvements for the aquatic ecosystems in these streams.

Chilled Water and Steam System. SAWS owns and operates eight thermal energy facilities providing chilled water and steam services to governmental and private entities. Two of the facilities, located in the City's downtown area, provide chilled water and/or steam service to 23 customers. Various City facilities, that include the Convention Center and Alamodome, constitute approximately 75% of the downtown system's chilled water and steam annual production requirements. The remaining six thermal energy facilities, owned and operated by SAWS, provide chilled water and steam services to large industrial customers located in the Port Authority of San Antonio industrial area. SAWS' chilled water producing capacity places it as one of the largest producers of chilled water in South Texas. SAWS also operates and maintains the thermal energy plants at Brooks City Base under an agreement with the Brooks Development Authority. Together, chilled water and steam services produced \$13,242,594 in revenues in fiscal year 2006.

Stormwater System. In September 1997, the City created its Municipal Drainage Utility and established its Municipal Drainage Utility Fund to capture revenues and expenditures for services related to the management of the municipal drainage activity in response to Environmental Protection Agency-mandated stormwater runoff and treatment requirements. The City, along with SAWS, has the responsibility, pursuant to the "Authorization to Discharge under the National Pollutant Discharge Elimination System" (the "Permit"), 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 fiscal year 2008 is \$4,210,843, for which SAWS is reimbursed \$3,358,241 from the stormwater utility fee imposed by the City.

Water Supply

In August 2005, the System completed a comprehensive analysis of its existing water supply projects and developed a series of conservation and water resource strategies that will enable it to provide adequate water supplies, even during critical drought periods; postpone dependence on more costly resources, when possible; promote greater use of non-Edwards Aquifer supplies in the long-term; fulfill the needs of San Antonio customers, while providing the Bexar County region with the option to utilize the System as a regional wholesale provider; and recognize the reality that future water supplies must be affordable.

These strategies are outlined in the 2005 Update to the System's Water Resource Plan (the "2005 Update"). The 2005 Update is a continuation of the process that began in 1996 to develop a fifty-year plan. In 1996, the City Council appointed a 34-member citizen's committee to develop strategic policies and goals for water resource management. The Citizens Committee on Water Policy report, entitled "A Framework for Progress: Recommended Water Policy Strategy for the San Antonio Area," was unanimously accepted by City Council, becoming the foundation for the System's "Water Resources Plan." On November 5, 1998, the City Council accepted the Water Resources Plan "Securing Our Water Future Together" as the first comprehensive widely-supported water resource plan for San Antonio. The 1998 plan established programs for immediate implementation, as well as a process for developing long-term water resources. In October 2000, the City Council created a permanent funding mechanism (known as the Water Supply Fee) for water supply development and water quality protection through Ordinance No. 92753. The Water Supply Fee provides a specific fund for the development of water resources.

In August 2005, the System's Board of Trustees unanimously approved the 2005 Update. The 2005 Update is a comprehensive review of the assumptions governing population and per capita consumption projections in Bexar County through 2050. The 2005 Update includes an analysis of each water supply alternative available for meeting future needs and demonstrates the System's commitment to increasing the diversification of its water inventory. The estimated cost opinion for the water supply projected identified in the 2005 Update totaled approximately \$2.8 billion. Recent cost opinion updates have now estimated this amount at approximately \$3.5 billion.

Edwards Aquifer

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

Much of the Edwards Aquifer region consists of agricultural land, but it also includes areas of population ranging from communities with only a few hundred residents to the City, which serves as a home for well over one million residents. In 2007, the Edwards Aquifer will supply 93% of the water for municipal, domestic, industrial, commercial, and agricultural needs in the greater San Antonio area. Naturally occurring artesian springs, such as the Comal Springs and the San Marcos Springs, are fed by Edwards Aquifer water and are utilized for commercial, municipal, agricultural, and recreational purposes, while at the same time supporting ecological systems containing rare and unique aquatic life.

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

In 1993, the Texas Legislature created the Edwards Aquifer Authority (“EAA”) to manage groundwater withdrawals from the Edwards Aquifer through a permitting system and to provide for appropriate springflow during drought periods. As a consequence of the EAA’s permitting regime, the System’s access to Edwards Aquifer supplies is now limited to its historic use and subject to regulation during periods of drought.

As part of its long-term water supply plan, the System has initiated a program to acquire up to 60,000 acre-feet of additional Edwards Aquifer groundwater withdrawal rights by the purchase of these groundwater withdrawal rights in the open market. The direction outlined in the 2005 Update contemplated the acquisition of Edwards Aquifer water rights by purchase only. Due to variations in market conditions, SAWS acquisition effort has evolved into a program that is a mix of purchases and leases. The combined total of Edwards Aquifer groundwater rights added to the Systems inventory since 2005 is approximately 27,000 acre-feet. This includes leases that are expiring and those that have been added. This number is dynamic primarily due to the fluctuations in lease inventory in any given year.

In 2007, the Texas Legislature passed Senate Bill 3 on the final day of the 80th legislative session, establishing a cap on annual pumping from the Edwards Aquifer of 572,000 acre-feet and placing restrictions on supply availability during drought periods. The System currently has access to 40% of this figure. Senate Bill 3 incorporates restrictions on supply availability during drought periods into state statute, thus making these restrictions state law. In addition, to support ongoing efforts to identify and evaluate methods to protect threatened and endangered species, the Texas Legislature prescribed in detail a Recovery Implementation Plan (“RIP”) for the Edwards Aquifer region. The RIP, which will be undertaken in coordination with U.S. Fish and Wildlife Service, is intended to help the region meet the needs of endangered species, while respecting and protecting the legal rights of water users.

Edwards Aquifer Recharge Initiatives

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

The Nueces, San Antonio, and Guadalupe River Basins are favorable for development of recharge projects. Of the three basins, the Nueces Basin is the most prolific in terms of recharge effectiveness. With assistance from the U.S. Army Corps of Engineers and other regional partners, studies are currently under way within the Cibolo Creek Watershed, and the Nueces River Basin. The results of these studies will identify which sites will have the most potential for recharge enhancement. With the recharge structures tentatively identified, the 2005 Update predicated a yield of 13,400 acre-feet per year. This project will cost an estimated \$118 million in capital cost and \$1.7 million in annual operation and maintenance.

The System is evaluating the feasibility of the development of recharge structures in the Cibolo Creek Watershed and the Nueces River Basin in concert with a host of local agencies, including the Guadalupe-Blanco River Authority, San Antonio River Authority, and the U.S. Army Corps of Engineers. In 2007, feasibility analyses continued to refine sites for potential dams, evaluate surface water storage potential, and prepare for environmental permitting.

Oliver Ranch (Massah Corporation) and BSR Water Company (Sneckner Partners Ltd.) Projects

The System reached a milestone in February 2002 with the introduction of the first non-Edwards drinking water supply from the Lower Glen Rose/Cow Creek formation of the Trinity Aquifer in northern Bexar County. The System has wholesale contracts with Massah Corporation (Oliver Ranch) and Sneckner Partners, Ltd. (BSR Water Company) for delivery of up to 5,000 acre-feet per year of non-Edwards groundwater from the Trinity Aquifer from two properties located in north-central Bexar County. The construction cost to produce and deliver this water supply is approximately \$12 million. Initial delivery of water from the Oliver Ranch project began in February 25, 2002 with BSR Water Company wells 1 and 2 production in July 2003. The BSR Water Company

project was fully operational in June 2004 with the connection of BSR Water Company wells 3 and 4 to the System's distribution system.

In 2007, production from Oliver Ranch and BSR projects was 3,126 acre-feet. In 2008, production from these combined projects is expected to total approximately 3,500 acre-feet.

Western Canyon Project

The System, Comal and Kendall County Participants, and the Guadalupe-Blanco River Authority ("GBRA") are working together on the Western Canyon Project for the delivery of water from Canyon Lake Reservoir. GBRA is required through the contract to divert, treat and deliver the water to a certain point into the System's delivery system. The System will initially receive over 9,000 acre-feet per year for service to northern Bexar County. Over time, this amount will decline to 4,000 acre-feet, as GBRA's in-district participants in the project complete infrastructure necessary to enable them to obtain supplies and growth allows the participants to utilize their full allotment of reserved water.

The System began receiving water from this project in April 2006. In 2006, the System received 4,957 acre-feet of supplies from this project. In 2007, the System produced approximately 6,956 acre-feet of supplies from this project, in addition to completing the addition of a storage tank and integration pipeline to facilitate delivery of this supply into our distribution system. In 2008, 9,500 acre-feet is the anticipated delivery from this project. Pursuant to the terms of the contract with GBRA, this contract will terminate in 2037, with an option to extend until 2077 under new payment terms.

Brackish Groundwater Desalination Project

The 2005 Update includes a recommendation that the System develop a brackish groundwater desalination project. This project involves the development of a moderately sized water supply facility with the capacity to treat at least 20 mgd. Such a project is well suited for the south central Texas region, which contains more than 4,000,000 acre-feet of brackish groundwater. Hydrologic research on the sustainability of supply and water quality parameters began in December 2005.

In 2007 and 2008, the System continued its hydrogeologic evaluation on four (4) test sites in the saline portions of the Edwards and Wilcox Aquifers in Atascosa and Bexar Counties. The hydrogeologic evaluation involves the construction of test and monitoring wells that will provide an indication of the firm supply of water available for the project and the impacts of the System's production on the Carrizo-Wilcox Aquifer system. The data obtained from the tests and monitoring wells will support the evaluation of various pre-treatment, treatment, and concentrate management strategies.

The majority of feasibility work for the brackish water desalination project will be completed by June 2008. Raw water quality is favorable for development of a desalination facility that would be sustainable for over 50 years. The treatment plant would be a Reverse Osmosis plant and is projected to be located in southern Bexar County on property currently owned by the System. Water from the desalination plant would be integrated by pipeline into the northwest portion of San Antonio. Pilot testing of the reverse osmosis membranes that would be utilized in the treatment plant (required for facility permitting) is currently underway. It is currently anticipated that concentrate disposal will be accomplished using deep well injection. Further data will be developed in preparation for required permitting of the concentrate injection wells through the Texas Commission on Environmental Quality.

This technical analysis is being accompanied by an evaluation of the potential benefit and feasibility of applying innovative procurement methods, such as Design Build, Design Build Operate, and Design Build Own Operate Transfer strategies. In 2007, the System supported efforts to enable Design Build to be used for water and wastewater projects. During the 80th Legislative Session, the Texas Legislature passed HB 1886, which authorized design build for water and wastewater projects.

Carrizo Aquifer Projects

In 2008, the System continues the development of plans to deliver and treat up to 56,200 acre-feet of groundwater from the Carrizo Aquifer in Gonzales and Wilson Counties. The project will be developed in phases, with delivery of water from the first phase (22,600 acre-feet) planned for 2013. Phases I and II have an estimated capital cost of approximately \$228.3 million. If all three phases of the project are completed, the combined capital costs are approximately \$406.6 million.

Development of the Carrizo Aquifer projects depends upon issuance of permits for groundwater drilling, production, and transport from local groundwater conservation districts. The System submitted an initial, consolidated permit application, for production and transportation, for 11,687 acre-feet to the Gonzales County Underground Water Conservation District (the "GCUWD") in June 2006. Pursuant to GCUWD rules, production permits have a term of two years, after which a new permit may be issued upon application, subject to the notice and hearing requirements applicable to permit applications. The applications were declared administratively complete on July 12, 2006 and contested by several parties on October 10, 2006.

Throughout 2007 and continuing into 2008, the System participated in several public hearings and multiple mediation sessions as part of the contested case hearing process. Resolution is anticipated in 2008 with construction activities commencing soon after permits are issued.

Lower Colorado River Authority Project

The Lower Colorado River Authority-San Antonio Water System (LCRA-SAWS) Water Project would conserve, develop, and make available up to 150,000 acre-feet per year of surface water supplies for San Antonio by 2025 while firming up water supplies in the Colorado River basin. In February 2001, a Memorandum of Agreement with LCRA outlining the terms for a future binding contract was signed. That same year, legislation was passed to authorize LCRA to sell water outside its statutory boundary to the System. The System and LCRA executed a definitive agreement (2002) outlining LCRA's and the System's obligations consistent with the Memorandum of Agreement. The System and LCRA are now entering the fifth year of the study period to assess the environmental, engineering, and cost impacts. Finalization of studies and obtaining appropriate permits for the project are expected to be complete between 2013 and 2015. The estimated project cost, including study period costs, design, and construction, is approximately \$2.3 billion.

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

Bexar County Aquifer Storage and Recovery

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

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

In 2006, the ASR was an integral component of the System's drought management strategy. By the end of the first quarter 2006, the System was able to amass more than 26,000 acre-feet of water stored since the project's inception. Approximately 5,800 acre-feet of supplies were withdrawn primarily during the hot, dry summer months in order to reduce peak demand during the drought period. Effective scheduling and use of this additional inventory enabled the System to ensure its compliance with the EAA's rules for groundwater withdrawals.

In 2008, the System continues capital improvements to complete Phase II of the project, which involves well field expansion through the completion of thirteen additional wells, the addition of a 7.5 million gallon tank, and the addition of various pumping facilities, among other improvements. The \$55 million Phase II expansion is on schedule for completion in June 2008 and will effectively double the System's ability to inject or recover Edwards Aquifer to 60,000 acre-feet per year. While underway, the System has continued to store water in the ASR. At the end of 2007, the total ASR storage volume was approximately 41,000 acre-feet. The System ASR facility was recognized in 2007 by the National Groundwater Association as the "2007 Outstanding Groundwater Project."

An additional clause of the 2002 agreement with the Evergreen District gives the System the ability to withdraw up to 2 acre-feet of Carrizo Aquifer water per surface acre of land owned or leased. This equates to roughly 6,400 acre-feet of Carrizo Aquifer production per year. Thus, in 2006, the System initiated the Local Carrizo Program with dual goals in mind. The first was to provide the System with access to the aforementioned quantity of Carrizo Aquifer water, while the second was to counter the natural down dip drift of the stored Edwards Aquifer water away from the ASR wellfield.

The \$17 million Local Carrizo program is being constructed in two phases: an onsite phase and an offsite phase. The onsite phase is scheduled for completion in August 2008, with the offsite phase anticipated to be complete by January 2010.

Water Reuse Program

The System owns the treated effluent from its wastewater treatment plants and has the authority to contract to acquire and to sell non-potable water inside and outside the System's water and wastewater service area. The System has developed a water reuse program utilizing the wastewater stream. Currently, approximately 23,000 acre-feet are under contractual commitment and 12,600 acre-feet are on-line. The System will deliver up to 35,000 acre feet per year of reuse water for non-potable water uses including golf courses and industrial uses that are currently being supplied from the Edwards Aquifer. This represents approximately 20% of the System's current usage. Reuse water will be delivered for industrial processes, cooling towers, and irrigation, which would otherwise rely on potable quality water. Combined with the 45,000 acre-feet per year used by CPS, this is the largest reuse water project in the country. The System has a contract with CPS through 2030 for provision of such reused water. The revenues derived from the CPS contract have been excluded from the calculation of Gross Revenues, and are not included in any transfers to the City.

Conservation

Beginning in 1994, the System progressively implemented aggressive water conservation programs, which have reduced total per capita water production and use by 43.2%, going from 213 gallons-per-capita-per day (gpcd) in 1994 to approximately 121 gpcd in 2004. Given these accomplishments, the 2005 Update to the System's fifty-year Water Resource Plan set a new goal for conservation that includes the provision to reduce per capital consumption to 116 gpcd during normal-year conditions and 122 gpcd during dry-year conditions by 2016. This will be accomplished through a variety of means including implementation of the City water conservation ordinance (Ordinance 100322, passed January 20, 2005), pricing, education, and rebates for water efficient technologies; and system improvements to prevent water loss and other measures.

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

Indoor Residential Conservation

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

"Toilet Retrofits," which involve the distribution of high-efficiency toilets, provide a substantial water savings for San Antonio. The System sponsors activities like the "Season to Save Community Challenge," which tests the idea that non-profit organizations are effective at motivating ratepayers to participate in resource management programs. In 2007, the System distributed 27,000 high-efficiency toilets, in comparison to its annual goal of 16,900 high-efficiency toilets.

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

Outdoor Residential Conservation

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

"Irrigation Check-Ups" provide the System's ratepayers with a free analysis of their in-ground irrigation system. Trained conservation technicians visit homes to review each component of irrigation systems to determine maintenance needs to make suggestions for improving efficiency. Customers are invited to participate in the review process to get the maximum benefit from the site visit. A report that outlines any necessary maintenance repairs, suggestions for design improvements and how much water the system uses is mailed to customers. The report includes rebate incentive amounts available for making suggested design improvements.

"Seasonal Irrigation Program (SIP)" is a free information service provided to customers who want expert advice on how to water their lawns. The irrigation advice is based on evapotranspiration ("ET") data calculated from a local weather station. Horticulture experts from the Texas Cooperative Extension use the ET data to make weekly irrigation recommendations for recommended grass varieties. Customers receive the advice through e-mail, recorded phone message, the local newspaper, a SIP hotline, or the System's web site. Volunteers from the Bexar County Master Gardeners and Garden Volunteers of South Texas have been trained on lawn care and the SIP program. They help market the program through neighborhood workshops, local events, corporate brown bags and other speaking opportunities. Several thousand people are in the SIP database to receive the free SIP messages each week. More will be added as customers learn about the program from the trained volunteers.

Commercial and Industrial Programs

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

“Commercial Toilet Distribution Program” allows apartments and other businesses with older, high-flow toilets to replace them by receiving free toilets from the System. Upon completion of all retrofits, we provide a rebate of \$25 per toilet to program participants. This program also provides participants replacing more than 50 high-flow toilets a \$50.00 per retrofit incentive if all retrofits are completed within 30 calendar days from the date in which the toilets were provided to the customer. If the toilets are elongated, a \$25.00 rebate applies.

“Restaurant Certification Program” is the result of the System working with the San Antonio Restaurant Association. Participating restaurants receive replacement spray valves for their kitchen, have older toilets replaced, and learn about other ways they can reduce their water bills. The program has been very popular with restaurants. To date, 1,200 restaurants have been certified, with the replacement of 2,200 high-flow pre-rinse spray valves and 687 high-flow toilets. Total water savings associated with this program equates to 577 acre-feet per year. A list of the Certified WaterSavers Restaurants is available on the System's website.

“Large-scale Retrofits Program” allows large-scale water users to apply on a case-by-case basis for a rebate for installation of water conserving equipment. The rebate may be for up to one-half of the cost of the retrofit, depending on the amount of water to be saved and other factors. The program requires a pre-audit, a pre-inspection, and on-going verification of water savings.

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

Water Quality

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

Research on the Edwards Aquifer is conducted as part of the Edwards Aquifer Optimization program. This is a comprehensive program that identifies and evaluates technical options to increase available yield from the Edwards Aquifer and to attempt to use the aquifer's storage capacity more efficiently. In 2007, the System continued its investigative studies concerning the freshwater/saline-water interface of the Edwards Aquifer. The goal of these studies is to gain a better understanding of the hydrogeologic framework, chemical and hydraulic characteristics, and ground water flowpaths of the freshwater-saline water interface of the Edwards Aquifer. In the fall of 2007, the System also commenced an evaluation of the hydrogeology and water balance of San Marcos Springs, in support of the scientific efforts to be initiated for the Edwards Aquifer Recovery Implementation Program. The goal of this study is to define and characterize sources for recharge and local flowpaths to San

Marcos Springs. In addition, the study will determine local influences and contributions to the San Marcos Springs from the Edwards Aquifer, Trinity Aquifer, as well as from streams and rivers in the area.

In October 2000, the City Council created a permanent funding mechanism (The “Water Supply Fee”) to be used for water supply development and water quality projection. The Water Supply Fee is assessed on all potable water service for water usage in every instance of service for each month or fraction thereof.

A listing of scheduled water supply fees for years 2001 through 2005 is provided in the following table:

Year	Approved Incremental Charge Per 100 Gallons	Total Approved Charge Per 100 Gallons	Actual Assessment
2001	\$0.0358	\$0.0358	\$0.0358
2002	0.0350	0.0708	0.0708
2003	0.0230	0.0938	0.0844
2004	0.0190	0.1128	0.1100
2005	0.0250	0.1378	0.1378

Source: SAWS, approved by City Council.

On November 17, 2005, the City Council approved the following Water Supply Fee effective January 1, 2006 to remain in effect until amended by City Council. The fee assessed per 100 gallons is \$0.1487.

Capital Improvement Plan

The following is a proposed five-year Capital Improvement Program for SAWS. It is the intention of SAWS to fund the program with tax-exempt commercial paper, impact fees, system revenues, and future bond issues. SAWS budgeted the following capital improvement projects during calendar year 2008:

- \$21.8 million for the wastewater treatment program to repair, replace, or upgrade treatment facilities;
- \$47.9 million for the wastewater collection program to fix deteriorated components of the collection system, and provide capacity for future growth;
- \$29.0 million to replace sewer and water mains;
- \$40.3 million for the governmental replacement and relocation program;
- \$5.3 million to construct new production facilities;
- \$10.3 million for the water distribution program to fix deteriorated components of the distribution system, and provide capacity for future growth; and
- \$56.1 million for water supply development, water treatment, and water transmission projects for new sources of water.

SAWS anticipates the following capital improvement projects for the five fiscal years listed:

	Fiscal Year Ended December 31,					Total
	2008	2009	2010	2011	2012	
Water Supply	\$ 72,301,160	\$ 207,913,048	\$ 220,657,144	\$ 70,309,908	\$ 66,128,149	\$ 637,309,409
Water Delivery	60,305,837	77,598,862	76,752,283	76,030,736	73,054,536	363,742,254
Wastewater	98,282,473	87,400,000	90,022,000	92,722,660	95,504,340	463,931,473
Heating and Cooling	3,024,000	188,240	190,424	192,674	194,991	3,790,329
Total	<u>\$ 233,913,470</u>	<u>\$ 373,100,150</u>	<u>\$ 387,621,851</u>	<u>\$ 239,255,978</u>	<u>\$ 234,882,016</u>	<u>\$1,468,773,465</u>

Source: SAWS. Project Funding Approach

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

	Fiscal Year Ended December 31,					
	2008	2009	2010	2011	2012	Total
Revenues	\$ 46,830,862	\$ 35,670,454	\$ 27,414,762	\$ 30,866,341	\$ 41,132,923	\$ 181,915,342
Impact Fees	36,634,866	78,812,111	44,315,511	33,390,430	33,390,430	226,543,348
Debt Proceeds	150,447,742	258,617,585	315,891,578	174,999,207	160,358,663	1,060,314,775
Total	<u>\$233,913,470</u>	<u>\$373,100,150</u>	<u>\$387,621,851</u>	<u>\$239,255,978</u>	<u>\$234,882,016</u>	<u>\$1,468,773,465</u>

Source: SAWS.

San Antonio Water System Summary of Pledged Revenues for Debt Coverage ¹

	Fiscal Year Ended December 31, 2007	Fiscal Year Ended December 31, 2006	Fiscal Year Ended December 31, 2005	Fiscal Year Ended December 31, 2004	Fiscal Year Ended December 31, 2003
Revenues					
Water System	\$ 90,710,364	\$ 104,810,450	\$ 93,419,939	\$ 72,888,054	\$ 65,163,910
Water Supply	102,361,689	118,490,848	108,045,245	78,546,461	76,044,416
Wastewater System	124,163,787	124,689,938	113,333,959	99,224,713	87,683,794
Chilled Water and Steam	13,101,371	13,242,594	13,370,759	12,027,528	12,193,646
Non Operating Revenues	24,442,293	20,818,616	11,167,861	7,060,677	7,308,979
Adjustments for Pledged Revenues	(7,382,397)	(7,221,456)	(6,668,991)	(5,437,557)	(5,591,341)
Total Revenues	<u>\$347,397,107</u>	<u>\$374,830,990</u>	<u>\$332,668,772</u>	<u>\$264,309,876</u>	<u>\$242,803,404</u>
Maintenance and Operating Expenses	<u>\$188,180,245</u>	<u>\$179,842,724</u>	<u>\$173,489,890</u>	<u>\$153,859,964</u>	<u>\$152,742,554</u>
Net Available for Debt Service	<u>\$159,216,862</u>	<u>\$194,988,266</u>	<u>\$159,178,882</u>	<u>\$110,449,912</u>	<u>\$ 90,060,850</u>
Maximum Annual Debt Service Requirements - Total Debt ²	\$102,879,692	\$ 91,174,993	\$ 94,992,353	\$ 84,941,122	\$ 76,075,114
Maximum Annual Debt Service Requirements - Senior Lien Debt ²	\$86,138,019	\$ 78,372,649	\$ 78,372,649	\$ 67,203,188	\$ 61,511,375
Coverage of Total Debt	1.55X	2.14 X	1.68 X	1.30 X	1.18 X
Coverage of Senior Lien Debt	1.85X	2.49 X	2.03 X	1.64 X	1.46 X

¹ Unaudited.

² As of the end of the fiscal year shown, excludes Tax Exempt Commercial Paper.

Source: SAWS.

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The Airport System

General

The City's airport system consists of the San Antonio International Airport (the "International Airport" or the "Airport") and Stinson Municipal Airport ("Stinson") (the International Airport and Stinson, collectively, the "Airport System"), both of which are owned by the City and operated by its Department of Aviation (the "Department").

The International 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 International Airport consists of three runways with the main runway measuring 8,502 feet and able to accommodate the largest commercial passenger aircraft. Its two terminal buildings contain 24 second level gates. Presently, the following domestic air carriers provide service to San Antonio: American, American Connection (Trans States), Continental, Delta, ASA, Comair, Skywest, ExpressJet, Frontier, Midwest, Northwest, Pinnacle (Northwest Connect), Compass (Northwest Connect), Southwest, Spirit, United, Go Jet (United Express), Mesa (United Express), US Airways, and Air Tran. Aeromexico and Mexicana are Mexican airlines that provide passenger service to Mexico.

An Airport Master Plan for the International Airport was completed in 1998 for the purpose of facilitating Airport expansion in anticipation of meeting projected demand. The Airport Master Plan design allows for an increase from 24 to 55 gates. It is estimated that current gate facilities are being used at 100% of capacity (see "THE AIRPORT SYSTEM – Capital Improvement Plan" below).

The International Airport is considered a medium hub facility by the FAA. For the calendar year ended December 31, 2007, the International Airport enplaned approximately 4,009,776 passengers. Airport management has determined that of the Airport's passenger traffic, approximately 88% is origination and destination in nature (which is important because it demonstrates strong travel to and from the City independent from any one airline's hubbing strategies). A variety of services are available to the traveling public from approximately 245 commercial businesses including nine rental car companies which lease facilities at the International Airport and Stinson (as described in more detail below).

Stinson, located on 300 acres approximately 5.2 miles southeast of the City's downtown business district was established in 1915 and is one of the country's first municipally owned airports. It is the second oldest continuously operating airport in the U.S. and is the FAA's designated general aviation reliever airport to International Airport. An Airport Master Plan for Stinson was initiated in March 2001 to facilitate the development of Stinson and to expand its role as a general aviation reliever to the International Airport. The Texas Department of Transportation ("TxDOT") accepted the Master Plan in 2002 and has recommended \$16.0 million in grant funding for capital improvements over the next ten to fifteen years. The expansion of Stinson's facilities is also needed to take advantage of new, complementary business opportunities evolving with the synergy between Brooks City-Base, Port of San Antonio, and Stinson. A Targeted Industries Study was completed in 2003 as part of the master planning process. The study helped facilitate development of Stinson properties through the identification of industries and businesses considered to be compatible for locating at Stinson.

Capital Improvement Plan

In order to meet future airport capacity requirements, the Airport Master Plan for the International Airport was completed in 1998. This plan made recommendations to expand terminal and airfield capacity in an orderly manner to coincide with projected growth in passenger volume and aircraft operations. In fiscal year 2002, the City commenced implementation of a ten-year "Capital Improvement Plan" (the "CIP"). As part of the overall CIP, the fiscal year 2007 through fiscal year 2012 Capital Plan, including the Air Transportation Program, commenced in 2006. Included in the program are projects planned or currently under construction at the Airport and Stinson. The six-year program totals \$609 million. The projects are consistent with the Airport Master Plan and are necessary to accommodate the expected continued growth in the aircraft and passenger activity at the Airport and to replace or rehabilitate certain facilities and equipment at the Airport and Stinson. The CIP is scheduled to conclude in fiscal year 2012; however, due to the terrorist attacks of September 11, 2001, the timing of some projects has been adjusted, and the ultimate completion of the CIP is expected to extend beyond that date. The CIP addresses both terminal and airfield improvements, including the removal of the existing Terminal 2, parts of which are over 50

years old, and the addition of two concourses with corresponding terminal space, public parking facilities, roadway improvements, and extension and improvement to a runway along with supporting taxiways and aircraft apron. Over the next five years, the CIP addresses primarily terminal-related improvements, parking, roadway improvements, and airfield improvements. The anticipated sources of funding for the Airport's CIP per the City's Adopted Capital Budget for fiscal years 2007 through 2012 are as follows:

<u>Funding Sources</u>	<u>Anticipated Funding</u>
Federal Grants	
Entitlements/ General Discretionary	\$114,190,064
Noise Discretionary	31,487,531
TxDOT Grant	10,086,667
	7,137,040
Passenger Facility Charges ("PFCs")	
Pay-As-You-Go	43,743,514
PFCs Secured Bonds	191,352,137
Other Funding	
Airport Funds	46,577,067
Airport Revenue Bonds	<u>164,472,700</u>
Total	<u>\$609,047,260</u>

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

<u>Improvement</u>	<u>Amount</u>
International Airport	
Terminal/Gate Expansion	\$236,105,644
Airfield Improvements	75,695,625
Parking	62,677,317
Acoustical Treatment	39,359,414
Roadway / Utilities Improvements	38,979,745
Apron	27,345,000
Land Acquisition	21,766,667
Program Management	18,900,000
Cargo Facilities	11,320,000
Central Utilities	11,361,655
Other Projects (Building Imp., Drainage, etc.)	54,264,022
Stinson Airport	<u>11,272,171</u>
Total	<u>\$609,047,260</u>

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

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

On October 1, 2007, the City began collecting a \$4.50 PFC (less an \$0.11 air carrier collection charge) per paying passenger enplaned. A total of approximately \$188.8 million in PFC Revenues will be required to provide funding for the projects included in the Airport's CIP. 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 Bond proceeds. The estimated PFC collection expiration date is April 1, 2016.

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

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

Terminal Renovations. A comprehensive terminal renovation project was completed in 2003 to improve the quality of services provided to passengers at the International Airport. The project, which cost approximately \$29 million included a completely new appearance to the building interiors and provided state-of-art terminal amenities. Included in the terminal renovations was complete redevelopment of the concessions area to provide high-quality retail and food establishments offering a mix of regional and national brands at street prices. Concession space was expanded from 30,000 square feet to over 40,000 square feet. Through the expansion and reconfiguration of concession space, 85% of retail shops and food outlets are now at airside locations. In total, 42 retail, food, and passenger service contracts were awarded. The new concessions program increased revenues to the Airport from \$3.1 million in fiscal year 2002 to \$4.8 million in fiscal year 2006. This represented a 55% gain in four years. On a per-boarding passenger basis, concession revenue went from \$0.86 in fiscal year 2002 to \$1.26 for the fiscal year 2006. Following the Airport’s implementation of its new concessions program, it was recognized by the *Airport Revenue News* (“ARN”) “Best Concessions Poll.” The Airport’s concession program was voted for by a panel of judges in the airport category with less than 4 million enplanements. San Antonio won three first place awards over the last two years. The Airport was honored for having the terminal with the “Most Unique Services” and the Best Overall Concessions Program in 2004 and Best Overall Concessions Program in 2005. The publication noted the Airport’s high-tech business services, such as high-speed fax and internet, wireless capabilities and conference rooms. The Airport Council International-NA also recognized the International Airport first in the “Best Food and Beverage Program” and second in the “Best Specialty Retail Program” for small airports. In 2006, for the third straight year, the International Airport was recognized by the ARN for the 2006 Best Customer Service Airport-Wide, Most Unique Services, and Best Concession Management Team. In addition, the International Airport concessionaires won in all thirteen of ARN’s 2006 Best Concessions Poll categories. The Best Overall Concessions Program award is given to airports with a convenient customer-friendly layout, good visibility, attractive storefronts, and interesting themes.

Terminal Improvements. The terminal expansion project will include a seven-gate Terminal B (expandable up to eight gates) and a five-gate Terminal C (expandable up to eleven gates). Terminal B will replace Terminal 2, which is obsolete and will be demolished to make way for Terminal C, as well as further terminal development. Terminal C will be constructed in phases, as passenger growth and demand for gate facilities occur. Site work for the new Terminal B and the groundbreaking is anticipated to occur on June 17, 2008.. The present Terminal 1 will be redesignated as Terminal A. Terminal C plans are in the development stages.

Airfield Improvements. Implementation of the Master Plan Airfield Recommendations required an Environmental Impact Statement (“EIS”) to assess the environmental impacts associated with the capacity enhancing runway/taxiway projects. Public involvement throughout the process is essential to the successful

completion of these projects. Airport Master Plan projects included as part of the EIS include extension of Runway 3/21 and Taxiways N and Q; reconstruction and upgrade of Runway 12L/30R and associated taxiways from general aviation to air carrier dimensions of approximately 8,500 feet by 150 feet; as well as the installation of an instrument landing system. With a determination from the FAA that the Runway 12L/30R project was not yet critical to airfield capacity and that the required length of extension for Runway 3/21 was 1,000 feet rather than 1,500 feet proposed by the Master Plan, the EIS was reclassified as an environmental assessment (“EA”) for the remaining work. The final public meeting for the EA was held on August 28, 2007 and a finding of no significant impact was received.

Parking Improvements. The International Airport operates and maintains approximately 6,732 parking spaces and 1,263 employee parking spaces for a total of 7,995 parking spaces. Additional spaces are expected to be added in the summer of 2008. A parking study was developed in 2001 for the International Airport by AGA Consulting, Inc. The study indicated that projected peak period demand for airport parking exceeded the available supply at the end of 2006. It is estimated that 2,400 additional parking spaces will be required to satisfy projected demand over the next ten years.

Cargo Improvements. The International Airport has two designated cargo areas: The West Cargo Area, which was constructed in 1974 and refurbished in 1990, and the East Cargo Area, which was completed in 1992 and expanded in 2003. The East Cargo Area is specifically designed for use by all-cargo, overnight-express carriers. Custom-built cargo facilities in the East Cargo Area are leased to Airborne Express and Federal Express, while Eagle Global Logistics constructed a processing facility in the year 2000. In 2005, UPS expanded its facilities by relocating from the West Cargo area to the East Cargo Area. Additional land has been allocated to accommodate future growth and an expansion of facilities is currently planned. Foreign trade zones exist at both cargo areas. Enplaned and deplaned cargo for 2007 totaled 105,372 tons.

Airport Operations

The City is responsible for the issuance of revenue bonds for the Airport System and preparation of long-term financial feasibility studies for Airport System development. Direct supervision of airport operations is exercised by the Department. The Department is responsible for (i) managing, operating, and developing the International Airport, Stinson, and any other airfields which the City may control in the future; (ii) negotiating leases, agreements, and contracts; (iii) computing and supervising the collection of revenues generated by the Airport System under its management; and (iv) coordinating aviation activities under the FAA.

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

The FAA has regulatory authority over navigational aid equipment, air traffic control, and operating standards at both the International Airport and Stinson.

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

The International Airport’s explosive detection screening equipment is currently located in the ticket lobby areas of the two terminals; however, the Department is working with the TSA to relocate all baggage screening equipment behind the terminals in new baggage handling systems planned as part of the upcoming Terminal Expansion Project. The City entered into an agreement with the TSA for reimbursements up to \$351,077 for the costs associated with the use of Airport Police Officers at the Airport security screening checkpoints in each terminal. The Department also utilizes five Explosive Detection Canine teams. The Police Officers, assigned with their dogs, provide additional coverage for detection of explosive materials at the Airport in the baggage pickup areas, concourses, parking, cargo, and aircraft. This program is supported by the TSA with reimbursement to the Airport System at \$250,000.

The Department has continued to work to improve its security measures. The FAA approved a grant application (80% AIP funding) in 2004 to conduct a security assessment of the International Airport's security program. This project includes an inventory of the existing security measures and an evaluation based on current and anticipated provisions of the ATSA. Recommendations for security enhancements and upgrades could include items such as perimeter fencing, air operations area access points, cargo/belly freight facilities, terminals, fueling areas, concession deliveries, and air traffic control tower.

Stinson continues to experience strong growth in the number of based aircraft and volume of aircraft operations at the airport. Stinson is at 100.0% occupancy rate and has a tenant waiting list for the facilities. Because of its growth, the TxDOT Aviation Division has approved grant funds for various projects at Stinson. To accommodate the demand for services at Stinson, a \$4.8 million terminal expansion project will add approximately 24,000 square feet of additional concession, administrative, education, and corporate aviation space to the existing 7,000 square feet terminal building. With Airport System funds, the Stinson Terminal Building renovation project will be completed in August 2008. The terminal expansion project adds administrative offices, classrooms, concession, retail space and conference rooms to accommodate and attract new business. In November 2007, the Environmental Assessment for the runway extension and related airfield projects were approved when the Texas Department of Transportation's Aviation Section issued a Finding of No Significant Impact. The runway project will start construction in late 2008. The proposed project would provide usable runway length of at least 5,000 feet. The additional runway length will allow Stinson to serve additional corporate aircraft under all conditions. The expansion, along with a runway extension and other infrastructure improvements, will allow for the growth of existing tenants as well as create opportunities for new business to locate at Stinson. Palo Alto College will move their Aviation Program to Stinson in the expanded terminal space.

Recent Financial Transactions

On November 28, 2007, the City issued \$82,400,000 "City of San Antonio, Texas Airport System Revenue Improvement Bonds, Series 2007" and \$74,860,000 "City of San Antonio, Texas Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2007," which were delivered on December 19, 2007.

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

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

	<u>Fiscal Year Ended September 30</u>				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007*</u>
Gross Revenues ¹ :	\$43,930,687	\$44,729,253	\$47,081,109	\$52,785,593	\$56,655,432
Airline Rental Credit	<u>2,612,609</u>	<u>3,486,271</u>	<u>5,323,738</u>	<u>7,988,304</u>	<u>8,831,771</u>
Adjusted Gross Revenues	\$46,543,296	\$48,215,524	\$52,404,847	\$60,773,897	\$65,487,203
Expenses	<u>(25,363,607)</u>	<u>(25,127,534)</u>	<u>(26,411,106)</u>	<u>(29,471,313)</u>	<u>(32,529,663)</u>
Net Income	<u>\$21,179,689</u>	<u>\$23,087,990</u>	<u>\$25,993,741</u>	<u>\$31,302,584</u>	<u>\$32,957,540</u>

* Unaudited.

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

Source: City of San Antonio, Department of Finance.

Total Domestic and International Enplaned Passengers - San Antonio International Airport

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

<u>Calendar Year</u>	<u>Total</u>	<u>Increase/ (Decrease)</u>	<u>Percent (%) Change</u>
1998	3,505,372	----	----
1999	3,538,070	32,698	0.93
2000	3,647,094	109,024	3.08
2001	3,444,875	(202,219)	(5.54)
2002	3,349,283	(95,592)	(2.78)
2003	3,250,911	(98,372)	(2.94)
2004	3,498,972	248,061	7.63
2005	3,713,792	214,820	6.14
2006	4,002,903	289,111	7.79
2007	4,009,776	6,873	0.17

Source: City of San Antonio, Department of Aviation.

Total Enplaned and Deplaned International Passengers - San Antonio International Airport

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

<u>Calendar Year</u>	<u>Total</u>	<u>Increase/ (Decrease)</u>	<u>Percent (%) Change</u>
1998	246,902	----	----
1999	229,397	(17,505)	(7.09)
2000	243,525	14,128	6.16
2001	219,352	(24,173)	(9.93)
2002	201,274	(18,078)	(8.24)
2003	159,576	(41,698)	(20.72)
2004	191,254	31,678	19.85
2005	185,992	(5,262)	(2.76)
2006	199,138	13,146	7.07
2007	197,585	(1,553)	(0.78)

Source: City of San Antonio, Department of Aviation.

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Air Carrier Landed Weight - San Antonio International Airport

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

<u>Calendar</u> <u>Year</u>	<u>Total</u>	<u>Increase/</u> <u>(Decrease)</u>	<u>Percent (%)</u> <u>Change</u>
1998	5,601,616	---	---
1999	5,778,407	176,791	3.16
2000	5,838,185	59,778	1.03
2001	5,546,561	(291,624)	(5.00)
2002	5,559,018	12,457	0.22
2003	5,391,301	(167,714)	(3.02)
2004	5,416,555	25,574	0.47
2005	5,642,188	225,633	4.17
2006	5,946,232	304,044	5.39
2007	6,098,276	152,044	2.56

Source: City of San Antonio, Department of Aviation.

* * *

APPENDIX B

EXCERPTS FROM THE ORDINANCE

APPENDIX C

**SELECTED PORTIONS OF THE CITY'S COMPREHENSIVE
ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR
ENDED SEPTEMBER 30, 2006**

APPENDIX D

FORM OF BOND COUNSEL OPINION

APPENDIX E

CERTAIN INFORMATION CONCERNING WACHOVIA BANK, NATIONAL ASSOCIATION

Wachovia Bank, National Association (referred to in this section as the “Bank”) is a subsidiary of Wachovia Corporation (the “Corporation”), whose principal office is located in Charlotte, North Carolina. The Corporation is the fourth largest bank holding company in the United States based on approximately \$809 billion in total assets as of March, 31, 2008.

The Bank is a national banking association with its principal office in Charlotte, North Carolina and is subject to examination and primary regulation by the Office of the Comptroller of the Currency of the United States. The Bank is a commercial bank offering a wide range of banking, trust and other services to its customers. As of March, 31, 2008, the Bank had total assets of approximately \$666 billion, total net loans of approximately \$406 billion, and total deposits of approximately \$454 billion and equity capital of approximately \$72 billion.

The Bank submits quarterly to the Federal Deposit Insurance Corporation (the “FDIC”) a “Consolidated Report of Condition and Income for a Bank with Domestic and Foreign Offices” (each, a “Call Report”, and collectively, the “Call Reports”). The publicly available portions of the Call Reports with respect to the Bank (and its predecessor banks) are on file with the FDIC, and copies of such portions of the Call Reports may be obtained from the FDIC, Division of Insurance and Records, 550 17th Street, NW, Washington, DC 20429-9990, (800) 688-3342, at prescribed rates. In addition, such portions of the Call Reports are available to the public free of charge at the FDIC’s web site at <http://www.fdic.gov>.

The Corporation is subject to the information requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the “Commission”). Such documents can be read and copied at the Commission’s public reference room in Washington, D.C. Please call the Commission at 1-800-SEC-0330 for further information on the public reference rooms. In addition, such documents are available to the public free of charge at the SEC’s web site at <http://www.sec.gov>. Reports, documents and other information about the Corporation also can be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York.

Upon request, the Bank will provide at no cost to any person to whom this Official Statement is delivered copies of the most recent Wachovia Corporation Annual Report to Shareholders, the publicly available portion of the most recent Call Report that the Bank has filed with the FDIC and the Corporation’s most recent periodic reports under the Securities Exchange Act of 1934 on Form 10-K and Form 10-Q and any Current Report on Form 8-K subsequent to its most recent report on Form 10-K. Copies of these documents may be requested by writing to or telephoning the Bank at the following address and telephone number: Wachovia Corporation, Investor Relations, 301 South College Street, Charlotte, NC 28288-0206, (704) 374-6782.

The information contained in this Appendix relates to and has been obtained from the Bank. The information concerning the Bank contained herein is furnished solely to provide limited introductory information regarding the Bank and does not purport to be comprehensive. Such information regarding the Bank is qualified in its entirety by the detailed information appearing in the documents referenced above.

The delivery hereof shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained in this section is correct as of any time subsequent to its date. THE LETTER OF CREDIT IS AN OBLIGATION OF THE BANK AND IS NOT AN OBLIGATION OF THE CORPORATION. NO BANKING OR OTHER AFFILIATE CONTROLLED BY THE CORPORATION, EXCEPT THE BANK, IS OBLIGATED TO MAKE PAYMENTS UNDER THE LETTER OF CREDIT

APPENDIX F
THE LETTER OF CREDIT

[TO COME]