

## ORDINANCE NO. 2008 \_\_\_\_\_

**ORDINANCE APPROVING THE CITY'S PRELIMINARY OFFICIAL STATEMENT PERTAINING TO THE SALE OF OBLIGATIONS DESIGNATED AS "CITY OF SAN ANTONIO, TEXAS TAX NOTES, SERIES 2008" IN THE APPROXIMATE AMOUNT OF \$16,100,000; COMPLYING WITH THE REQUIREMENTS CONTAINED IN SECURITIES AND EXCHANGE COMMISSION RULE 15c2-12; AND AUTHORIZING OTHER MATTERS RELATED THERETO**

WHEREAS, pursuant to the provisions of Chapter 1431, as amended, Texas Government Code (the *Act*), the City Council (the *Council*) of the City of San Antonio, Texas (the *Issuer*) is authorized and empowered to issue anticipation notes to pay contractual obligations incurred or to be incurred for the construction of any public works, for the purchase of materials, supplies, equipment, machinery, buildings, lands, and rights-of-way for the Issuer's authorized needs and purposes, and for professional services, including services provided by tax appraisal engineers, engineers, architects, attorneys, auditors, mapmakers, financial advisors, and fiscal agents; and

WHEREAS, the Issuer is contemplating the issuance of anticipation notes in the approximate amount of \$22,000,000 (the "Notes") to provide funds to accomplish one or more of the purposes identified in the Act at a negotiated sale to occur on or about December 2, 2008; and

WHEREAS, the Issuer has previously retained Coastal Securities, Inc., San Antonio, Texas, and Estrada Hinojosa & Company, Inc., San Antonio, Texas, as its co-financial advisors relating to the proposed issuance of any debt; and

WHEREAS, the Issuer has heretofore appointed a syndicate of investment banking firms, consisting of Southwest Securities, Inc., as the senior managing underwriter, and M.E. Allison & Co., Inc., as the co-senior managing underwriter (collectively, the "Underwriters"), to serve as the initial purchasers for the proposed issuance of the Notes; and

WHEREAS, prior to the offering, sale, and delivery of the Notes the appropriate officials of the Issuer must review and approve the distribution of the "deemed final" preliminary official statement prepared for use by the Underwriters in connection with their marketing and resale of the Notes (the "Preliminary Official Statement") in order to comply with the requirements contained in United State Securities and Exchange Commission Rule 17 C.F.R. §240.15c2-12 (the "Rule"); and

WHEREAS, the Council hereby approves the Preliminary Official Statement and delegates to the Issuer's authorized representatives the authority to approve the final official statement relating to the Notes (the "Final Official Statement", and collectively with the Preliminary Official Statement, the "Official Statement"), which approval and delegation, respectively, includes selection and inclusion in such documents of portions of the Issuer's Comprehensive Annual Financial Report for the period ending September 30, 2007; and

WHEREAS, based upon their review of the Official Statement, the appropriate officials of the Issuer must find to the best of their knowledge and belief, after reasonable investigation, that the representations of facts pertaining to the Issuer contained in the Official Statement are true and correct and that, except as disclosed in the Official Statement, there are no facts pertaining to the Issuer that would adversely affect the issuance of the Notes or the Issuer's ability to pay the debt service requirements on the Notes when due; and

WHEREAS, the Issuer will comply with the requirements contained in the Rule concerning the creation of a contractual obligation between the Issuer and the Underwriters, as the initial purchasers of the Notes, to provide the Underwriters with an Official Statement in a time and manner that will enable the Underwriters to comply with the distribution requirements and the continuing disclosure requirements contained in the Rule; and

WHEREAS, the Council authorizes the Mayor, the Mayor Pro Tem (if any), the City Manager, the Director of Finance, the City Clerk, the City Attorney, and the Issuer's attorneys, as appropriate, or their designees, to review, approve, and execute any document or certificate in order to allow the Issuer to comply with the requirements contained in the Rule; and

WHEREAS, the Council hereby finds and determines that the adoption of this Ordinance is in the best interest of the residents of the Issuer; now, therefore,

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF SAN ANTONIO, TEXAS THAT:

SECTION 1. The Preliminary Official Statement, including selected portions of the Issuer's Comprehensive Annual Financial Report for the period ending September 30, 2007, prepared in connection with the issuance and sale of the Notes is hereby approved, such documents to read substantially as attached hereto as Exhibit A and incorporated herein by reference and made a part of this Ordinance for all purposes, and the Mayor and the City Clerk are hereby authorized to execute, if required, and cause distribution to be made of such document for and on behalf of the Issuer.

SECTION 2. [Coastal Securities, Inc., San Antonio, Texas, and Estrada Hinojosa & Company, Inc., San Antonio, Texas], as co-financial advisors to the Issuer, will also coordinate the sale of the Notes by the Issuer to the Underwriters, the receipt of ratings on the Notes from national rating services, and to otherwise coordinate the financial aspects relating to this transaction to ensure that the Issuer's sale of the Notes is accomplished in the most efficient and advantageous manner available, given then-prevailing market conditions, and to comply with all regulations and rules promulgated by the Securities and Exchange Commission and the Municipal Securities Rule Making Board.

SECTION 3. The Mayor, the Mayor Pro Tem, if any, the City Manager, the Director of Finance, the City Clerk, and the City Attorney, as appropriate, are authorized to review and approve the Official Statement pertaining to the offering, sale, and delivery of the Notes and to execute any document or certificate in order to comply with the requirements contained in the Rule.

SECTION 4. The recitals contained in the preamble hereof are hereby found to be true, and such recitals are hereby made a part of this Ordinance for all purposes and are adopted as a part of the judgment and findings of the Council.

SECTION 5. All ordinances, orders, and resolutions, or parts thereof, which are in conflict or inconsistent with any provision of this Ordinance are hereby repealed to the extent of such conflict, and the provisions of this Ordinance shall be and remain controlling as to the matters ordained herein.

SECTION 6. This Ordinance shall be construed and enforced in accordance with the laws of the State of Texas and the United States of America.

SECTION 7. If any provision of this Ordinance or the application thereof to any person or circumstance shall be held to be invalid, the remainder of this Ordinance and the application of such

provision to other persons and circumstances shall nevertheless be valid, and the Council hereby declares that this Ordinance would have been enacted without such invalid provision.

SECTION 8. It is officially found, determined, and declared that the meeting at which this Ordinance is adopted was open to the public and public notice of the time, place, and subject matter of the public business to be considered at such meeting, including this Ordinance, was given, all as required by Chapter 551, as amended, Texas Government Code.

SECTION 9. This Ordinance shall be in force and effect from and after its final passage, and it is so ordained.

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

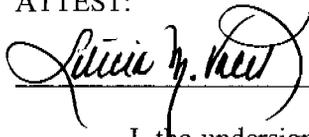
PASSED AND APPROVED, this the 16th day of October, 2008.



CITY OF SAN ANTONIO

  
\_\_\_\_\_  
Mayor

ATTEST:

  
\_\_\_\_\_

I, the undersigned, City Attorney of the City of San Antonio, Texas, hereby certify that I read, passed upon, and approved as to form the foregoing Ordinance prior to its adoption and passage as aforesaid.

  
\_\_\_\_\_

Michael D. Bernard, City Attorney,  
City of San Antonio, Texas

Exhibit A - Form of Preliminary Official Statement



Request for  
**COUNCIL  
ACTION**

City of San Antonio



## Agenda Voting Results - 22A


<b>Name:</b>	8, 9, 10, 11, 12, 13, 14, 15, 18, 21A, 21B, 22A, 22B, 27, 28, 29, 31, 32, 33
<b>Date:</b>	10/16/2008
<b>Time:</b>	10:39:40 AM
<b>Vote Type:</b>	Motion to Approve
<b>Description:</b>	An Ordinance authorizing and approving the distribution of a Preliminary Official Statement pertaining to the issuance of approximately \$16,100,000.00 "City of San Antonio, Texas Tax Notes, Series 2008"; complying with the requirements contained in Municipal Securities Rule Making Board Rule 15c2-13; and other matters in connection therewith.
<b>Result:</b>	Passed

Voter	Group	Not Present	Yea	Nay	Abstain	Motion	Second
Phil Hardberger	Mayor		x				
Mary Alice P. Cisneros	District 1		x				
Sheila D. McNeil	District 2		x				
Jennifer V. Ramos	District 3		x				
Philip A. Cortez	District 4		x				
Lourdes Galvan	District 5		x				
Delicia Herrera	District 6		x			x	
Justin Rodriguez	District 7	x					
Diane G. Cibrian	District 8		x				x
Louis E. Rowe	District 9		x				
John G. Clamp	District 10		x				

**EXHIBIT A**

Form of Preliminary Official Statement

**PRELIMINARY OFFICIAL STATEMENT**

**DRAFT** dated 10/10/08

**Dated November 18, 2008**

**NEW ISSUE – BOOK-ENTRY-ONLY**

**RATINGS: (See “RATINGS” herein.)**

*In the opinion of Co-Bond Counsel (named below) assuming continuing compliance by the City (defined below) after the date of issuance of the 2008 Notes (defined below) with certain covenants in the ordinances described herein and subject to the matters discussed herein under “TAX MATTERS,” interest on the 2008 Notes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from 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 the owners thereof who are individuals or, except as described herein under “TAX MATTERS,” corporations. (See “TAX MATTERS” herein.)*



**\$15,800,000\***  
**CITY OF SAN ANTONIO, TEXAS**  
**TAX NOTES, SERIES 2008**

**Date: December 1, 2008**

**Due: August 1, as shown herein**

The \$15,800,000\* “City of San Antonio, Texas Tax Notes, Series 2008” (the “2008 Notes”) are being issued by the City of San Antonio, Texas (the “City”) pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1431, Texas Government Code, as amended; the Home Rule Charter of the City (the “City Charter”); and an ordinance anticipated to be adopted by the City Council of the City (the “City Council”) on December 4, 2008. (See “THE 2008 NOTES - Authority for Issuance” herein.)

Interest on the 2008 Notes will accrue from December 1, 2008 and will be payable on February 1 and August 1 of each year, commencing February 1, 2009, until stated maturity, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The 2008 Notes will be issued as fully registered obligations in book-entry-only form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository (the “Securities Depository”). Book-entry interests in the 2008 Notes will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the 2008 Notes (the “Beneficial Owners”) will not receive physical delivery of certificates representing their interest in the 2008 Notes. So long as the Securities Depository is the registered owner of the 2008 Notes, the principal of and interest on the 2008 Notes will be payable by The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as the initial Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners. (See “THE 2008 NOTES - Book-Entry-Only System” herein.)

The 2008 Notes are payable from ad valorem taxes levied annually against all taxable property located within the City, within the limitations prescribed by law, including the constitutional tax limit of \$2.50 per \$100 of assessed valuation. (See “THE 2008 NOTES – Security” herein.)

Concurrently with the sale of the 2008 Notes, the City will separately sell its “City of San Antonio, Texas General Improvement Bonds, Series 2008” in the principal amount of \$76,095,000\* (the “2008 Bonds”) and “City of San Antonio, Texas Combination Tax and Revenue Certificates of Obligation, Series 2008” in the principal amount of \$85,055,000\* (the “2008 Certificates”). The 2008 Bonds and 2008 Certificates are collectively referred to herein as the “2008 Obligations.” This Official Statement describes the 2008 Notes, but not the 2008 Obligations.

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SEE INSIDE COVER PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS,  
AND CUSIP NUMBERS FOR THE 2008 NOTES

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*The 2008 Notes are offered for delivery, when, as and if issued and received by the initial purchasers named below (the “Underwriters”), and subject to the approving opinion of the Attorney General of the State of Texas and the opinions of Winstead PC, and West & Associates, L.L.P., as Co-Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Fulbright & Jaworski L.L.P., San Antonio, Texas, and for the City by the City Attorney. (See “LEGAL MATTERS” herein.) It is expected that the 2008 Notes will be available for initial delivery through the services of DTC on or about December 17, 2008.*

**SOUTHWEST SECURITIES, INC.**

**M.E. ALLISON & CO., INC.**

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\* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion and amendment without notice. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

**STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS,  
AND CUSIP NUMBERS  
(Due August 1)**

**\$15,800,000\* TAX NOTES, SERIES 2008**  
(CUSIP No.<sup>1</sup> Prefix: 796237)

<u>Stated Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate (%)</u>	<u>Initial Yield (%)</u>	<u>CUSIP No.<sup>1</sup> Suffix:</u>
2009				
2010				
2011				
2012				
2013				

**No Redemption:** The 2008 Notes are not subject to redemption prior to stated maturity. (See “THE 2008 NOTES – No Redemption ” herein.)

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\* Preliminary, subject to change.

<sup>1</sup> CUSIP numbers were assigned to the 2008 Notes 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 2008 Notes. Neither the City, the Underwriters, nor the Co-Financial Advisors shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

**CITY OF SAN ANTONIO, TEXAS  
ADMINISTRATION**

**CITY COUNCIL:**

Name	Years on City Council	Term Expires	Occupation
Phil Hardberger, Mayor	3 Years, 6 Months	May 31, 2009	Retired, Appellate Court Judge
Mary Alice P. Cisneros, District 1	1 Year, 6 Months	May 31, 2009	Small Business Owner
Sheila D. McNeil, District 2	3 Years, 6 Months	May 31, 2009	Self Employed
Jennifer V. Ramos, District 3	11 Months	May 31, 2009	Self Employed
Philip A. Cortez, District 4	1 Year, 6 Months	May 31, 2009	Community Liaison
Lourdes Galvan, District 5	1 Year, 5 Months	May 31, 2009	Manager of Small Business
Delicia Herrera, District 6	3 Years, 6 Months	May 31, 2009	Self Employed
Justin Rodriguez, District 7	1 Year, 6 Months	May 31, 2009	Attorney
Diane G. Cibrian, District 8	1 Year, 5Months	May 31, 2009	Small Business Owner
Louis E. Rowe, District 9	11 Months	May 31, 2009	President and CEO, Engineering Firm
John G. Clamp, District 10	1 Year, 6 Months	May 31, 2009	Small Business Owner

**CITY OFFICIALS:**

Name	Position	Years with City of San Antonio	Years in Current Position
Sheryl L. Sculley	City Manager	3 Years, 1 Month	3 Years, 1 Month
Pat DiGiovanni	Deputy City Manager	2 Years, 9 Months	2 Years, 9 Months
A.J. Rodriguez	Deputy City Manager	5 Months	5 Months
Frances A. Gonzalez	Assistant City Manager	24 Years, 2 Month	5 Years, 1 Month
Erik J. Walsh	Assistant City Manager	14 Years, 6 Months	2 Years, 10 Months
Penny Postoak Ferguson	Assistant City Manager	2 Years, 3 Months	2 Years, 3 Months
T.C. Broadnax	Assistant City Manager	2 Years	2 Years
Sharon De La Garza	Assistant City Manager	4 Years, 7 Months	8 Months
Richard Varn	Chief Information Officer	1 Year, 6 Months	1 Year
Michael D. Bernard	City Attorney	3 Years, 2 Months	3 Years, 2 Months
Leticia M. Vacek	City Clerk	4 Years, 6 Months	4 Years, 6 Months
Ben Gorzell, Jr.	Director of Finance	18 Years	2 Years, 6 Months
Peter Zaroni	Director of Management and Budget	11 Years, 8 Months	4 Years, 11 Months

**CONSULTANTS AND ADVISORS:**

**Co-Bond Counsel**

Winstead PC, San Antonio, Texas  
West & Associates, L.L.P., San Antonio, Texas

**Certified Public Accountant**

Grant Thornton, L.L.P.\* , San Antonio, Texas

**Co-Financial Advisors**

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

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

## USE OF INFORMATION IN THE OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 (the “Rule”) of the United States Securities and Exchange Commission, this document constitutes an official statement of the City with respect to the 2008 Notes that has been deemed “final” by the City as of the date except for the omission of no more than the information permitted by the Rule.

This Official Statement and the information contained herein are subject to completion and amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

No dealer, broker, salesman, or other person has been authorized by the City to give any information or to make any representation with respect to the 2008 Notes, 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 by the Co-Financial Advisors or the Underwriters and is not to be construed as a promise or guarantee of 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 shall under any circumstances create any implication that there has been no change in the information or opinions set forth hereinafter the date of this Official Statement.

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

THE AGREEMENTS OF THE CITY AND OTHERS RELATED TO THE 2008 NOTES 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 2008 NOTES IS TO BE CONSTRUED AS CONSTITUTING AN AGREEMENT WITH THE PURCHASERS OF THE 2008 NOTES. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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

THE 2008 NOTES 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 2008 NOTES IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE SECURITIES 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.

Neither the City, the Underwriters, nor the Co-Financial Advisors make any representation or warranty with respect to the information contained in this Official Statement regarding DTC or its Book-Entry-Only System.

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The cover page, subsequent pages hereof, and appendices attached hereto, are part of this Official Statement.

**OFFICIAL STATEMENT**  
**Relating to the**  
**\$15,800,000\***  
**CITY OF SAN ANTONIO, TEXAS**  
**TAX NOTES, SERIES 2008**

**INTRODUCTION**

This Official Statement of the City of San Antonio, Texas (the "City") is provided to furnish information in connection with the sale of the "City of San Antonio, Texas Tax Notes, Series 2008" in the principal amount of \$15,800,000\* (the "2008 Notes").

This Official Statement contains descriptions of the 2008 Notes, the 2008 Note Ordinance (defined herein), and certain other information about the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City Finance Department, 111 Soledad, 5<sup>th</sup> Floor, San Antonio, Texas, 78205; or from the City's Co-Financial Advisors, Coastal Securities, Inc., 600 Navarro, Suite 350, San Antonio, Texas, 78205 and Estrada Hinojosa & Company, Inc., 100 West Houston Street, Suite 1400, 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. 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. (See "CONTINUING DISCLOSURE OF INFORMATION," herein for a description of the City's undertaking to provide certain information on a continuing basis.)

**PURPOSES AND PLAN OF FINANCING**

**Purpose of the 2008 Notes**

The 2008 Notes are being issued to provide funds for (1) updating and improving the City's timekeeping administration system and its computer and information technology systems (the "Projects"); (2) the payment of costs of various professional services necessary for and related to the design and installation of the Projects, including (but not limited to) the costs of necessary consultants, advisors, and designers and/or engineers (the "Professional Costs") and (3) the payment of various administrative costs, including the fees of bond counsel, co-financial advisors, other professionals, and bond printer, if any (the Administrative Costs, and collectively with the costs of the Projects and the Professional Costs, the Project Costs).

**Sources and Uses of the 2008 Notes**

The following table summarizes the application of the proceeds resulting from the sale of the 2008 Notes and the sources and uses of funds.

***Sources of Funds***

Principal Amount of the 2008 Notes  
Net Original Issue Premium (Discount)  
Accrued Interest  
Total Sources of Funds

***Uses of Funds***

Construction Fund Deposit  
Interest and Sinking Fund Deposit  
Costs of Issuance  
Underwriters' Discount  
Total Uses of Funds

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\* Preliminary, subject to change.

## THE 2008 NOTES

### General Description

Interest on the 2008 Notes accrues from December 1, 2008 and is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2009. The principal of and interest on the 2008 Notes are payable in the manner described herein under "Book-Entry-Only System." In the event the Book-Entry-Only System is discontinued, the interest on the 2008 Notes will be payable to the registered owner as shown on the security register relating to the 2008 Notes maintained by the Paying Agent/Registrar (the "Register"), as of the fifteenth (15<sup>th</sup>) day of the month next preceding such interest payment date by check, mailed first-class, postage prepaid, to the address of such person on the Register, or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, the principal of the 2008 Notes will be payable at stated maturity upon presentation and surrender thereof at the designated payment office of the Paying Agent/Registrar.

If the date for the payment of the principal of or interest on the 2008 Notes is a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the Paying Agent/Registrar is located are authorized to close or the United States Post Office is not open for business, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due.

### Authority for Issuance of the 2008 Notes

The 2008 Notes are issued pursuant to the Home Rule Charter of the City (the "City Charter"); the general laws of the State, particularly Chapter 1431, Texas Government Code, as amended; and the ordinance anticipated to be adopted by the City Council of the City (the "City Council") on December 4, 2008, authorizing the issuance of the 2008 Notes (the "2008 Note Ordinance").

### Concurrent Issuance

Concurrently with its issuance of the 2008 Notes, the City is also issuing, as separate and distinct transactions, the City of San Antonio, Texas General Improvement Bonds, Series 2008 and the City of San Antonio, Texas Combination Tax and Revenue Certificates of Obligation, Series 2008 (the "2008 Obligations"). This Official Statement describes only the 2008 Notes.

### Security

#### *Ad Valorem Tax Pledge*

In the Ordinance, the City covenants that it will levy and collect an annual ad valorem tax within the limitations prescribed by law against all taxable property located within the City sufficient to meet the debt service requirements on the 2008 Notes. The City had outstanding, as of September 30, 2008, \$1,039,105,000 in principal amount of tax-supported obligations prior to the issuance of the 2008 Notes. After effectuating delivery of the 2008 Notes on or about December 17, 2008, the City's outstanding principal amount of indebtedness payable from ad valorem taxes will be \$1,049,275,000\*, assuming no other obligations are issued prior to such date.

#### *Tax Rate Limitations*

The Texas Constitution and the City Charter provide that the ad valorem taxes levied by the City for general purposes and for the purpose of paying the principal of and interest on the City's indebtedness must not exceed \$2.50 for each \$100 of assessed valuation of taxable property. There is no constitutional or statutory limitation within the \$2.50 rate for interest and sinking fund purposes; however, the Texas Attorney General, who must approve the issuance of the 2008 Notes, has adopted an administrative policy that prohibits the issuance of debt by a municipality, such as the City,

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\* Preliminary, subject to change.

if its issuance produces debt service requirements exceeding that which can be paid from \$1.50 of the foregoing \$2.50 maximum tax rate calculated at 90% collections. In addition, the City is subject to a City Charter provision that limits the amount of debt payable from the ad valorem tax proceeds. This City Charter provision prohibits the total debt of the City from exceeding 10% of the total assessed valuation of property shown by the last assessment roll, exclusive of any indebtedness secured in whole or in part by special assessments, exclusive of the debt of any improvement district, and exclusive of any indebtedness secured by revenues, other than taxes of the City or of any department or agency thereof. The issuance of the 2008 Notes does not result in the City's violation of these provisions.

### **No Redemption**

The 2008 Notes are not subject to redemption prior to stated maturity.

### **Paying Agent/Registrar**

The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. In the 2008 Note 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 2008 Notes are duly paid. In the 2008 Note Ordinance, 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 2008 Notes. Upon a change in the Paying Agent/Registrar for the 2008 Notes, the City will promptly cause written notice thereof to be sent to each registered owner of the 2008 Notes by United States mail, first-class, postage prepaid.

### **Transfer, Exchange, and Registration**

In the event the 2008 Notes are not in the Book-Entry-Only System, the 2008 Notes may be registered, transferred, assigned, and exchanged on the Register only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration, transfer, and exchange will be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, transfer, and exchange. A 2008 Note may be assigned by the execution of an assignment form on the 2008 Notes or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new 2008 Note will be delivered by the Paying Agent/Registrar in lieu of the 2008 Notes 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 2008 Notes issued in an exchange or transfer of 2008 Notes 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 2008 Notes 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 2008 Notes 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 2008 Notes surrendered for exchange or transfer. (See "THE 2008 NOTES - Book-Entry-Only System" herein for a description of the system to be utilized in regard to ownership and transferability of the 2008 Notes.)

### **Mutilated, Destroyed, Lost, or Stolen 2008 Notes**

The City has agreed to replace damaged, mutilated, destroyed, lost, or stolen 2008 Notes upon surrender of the damaged or mutilated 2008 Notes to the Paying Agent/Registrar or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the City and the Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The City may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

## **Limitation on Transfer**

Neither the City nor the Paying Agent/Registrar will be required to transfer or exchange any 2008 Notes during the period commencing at the close of business on the Record Date (as hereinafter defined) 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 of or interest on the 2008 Notes when due, or if it fails to make payments into any fund or funds created in the 2008 Note Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set for in the 2008 Note 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 2008 Notes if there is no other available remedy at law to compel performance of the 2008 Note 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 2008 Notes in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The 2008 Note 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 2008 Note 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.<sup>3d</sup> 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 2008 Notes or the 2008 Note Ordinance covenants. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the 2008 Notes. 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, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Co-Bond Counsel will note that all opinions relative to the enforceability of the 2008 Note Ordinance and the 2008 Notes are qualified with respect to the customary rights of debtors relative to their creditors.

## **Record Date for Interest Payment**

The record date for determining the person to whom the interest on the 2008 Notes is payable on any interest payment date (the "Record Date") is the fifteenth (15<sup>th</sup>) day of the month next preceding such interest payment date, as specified in the 2008 Note Ordinance. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new Record Date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which must be 15 days after the Special Record Date) will be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a 2008 Note appearing on the Register at the close of business on the day next preceding the date of mailing of such notice.

## **Amendments**

The City may amend, change, or modify the 2008 Note Ordinance without the consent of or notice to any registered owners, as may be required (1) by the provisions of the 2008 Note Ordinance; (2) for the purpose of curing any ambiguity, inconsistency, or formal defect or omission therein; or (3) in connection with any other change which is not to the prejudice of the registered owners. In addition, the City may, with the written consent of the holders of a majority in aggregate principal amount of the 2008 Notes then outstanding and affected thereby, amend, change, modify, or rescind any of the provisions of 2008 Note Ordinance; except that, without the consent of the registered owners of all of each respective series of the 2008 Notes affected, no such amendment, change, modification, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any 2008 Notes is due and payable, reduce the principal amount thereof or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the 2008 Notes; (2) give any preference to any 2008 Notes over any other 2008 Notes; (3) extend any waiver of default to subsequent defaults; or (4) reduce the respective aggregate principal amount of 2008 Notes required for consent to any amendment, change, modification, or rescission.

## **Defeasance**

The 2008 Note Ordinance provides for the defeasance of the 2008 Notes when the payment of the principal of the respective 2008 Notes, plus interest thereon to the due date thereof (whether such due date be by reason of maturity or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment, and/or (2) Government Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment. The 2008 Note Ordinance provides that "Government Securities" means (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; and (ii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities for the Government Securities originally deposited, to reinvest the uninvested money on deposit for such defeasance and to withdraw for the benefit of the City money in excess of the amount required for such defeasance. Upon such deposit as described above, such 2008 Notes will no longer be regarded as being outstanding or unpaid and will no longer be entitled to the rights and benefits afforded under the 2008 Note Ordinance.

## **Payment Record**

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

## **Book-Entry-Only System**

This section describes how ownership of the 2008 Notes is to be transferred and how the principal of and interest on the 2008 Notes are to be paid to and credited by DTC while the 2008 Notes are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City, the Co-Financial Advisors and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (i) DTC will distribute payments of debt service on the 2008 Notes, or redemption or other notices, to DTC Participants, (ii) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the 2008 Notes), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (iii) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States

Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the 2008 Notes. The 2008 Notes will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for the 2008 Notes in the aggregate principal amount of such issue, and will be deposited with DTC.

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

Purchases of the 2008 Notes under the DTC system must be made by or through Direct Participants, who will receive a credit for the 2008 Notes on DTC's records. The ownership interest of each actual purchaser of the 2008 Notes ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the 2008 Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2008 Notes, except in the event that use of the book-entry system for the 2008 Notes is discontinued.

To facilitate subsequent transfers, all 2008 Notes 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 2008 Notes 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 2008 Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2008 Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners, will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2008 Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2008 Notes, such as: defaults and proposed amendments to the Note documents. For example, Beneficial Owners of 2008 Notes may wish to ascertain that the nominee holding the 2008 Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative,

Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices are provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2008 Notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2008 Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal and interest payments on the 2008 Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detailed information from the City or the Paying Agent/Registrar on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of 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 Paying Agent/Registrar; disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its 2008 Notes purchased or tendered, through its Participant, to the Paying Agent/Registrar, and shall effect delivery of such 2008 Notes by causing the Direct Participant to transfer the Participant's interest in the 2008 Notes, on DTC's records, to the Paying Agent/Registrar. The requirement for physical delivery of 2008 Notes in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2008 Notes are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered 2008 Notes to the Paying Agent/Registrar's DTC account.

DTC may discontinue providing its services as securities depository with respect to the 2008 Notes 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, 2008 Notes are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2008 Notes will be printed and delivered to DTC.

So long as Cede & Co. is the registered owner of the 2008 Notes, the City will have no obligation or responsibility to the DTC Participants or Indirect Participants, or to the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

#### **Use of Certain Terms in Other Sections of this Official Statement**

In reading this Official Statement it should be understood that while the 2008 Notes 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 2008 Notes, 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 2008 Note Ordinance will be given only to DTC.

The following Tables 1A – 6 contain information on assessed valuation, debt payable from ad valorem taxes, estimated debt payable from ad valorem taxes, tax adequacy, indicated interest and sinking fund, ad valorem tax debt principal repayment schedule, and debt obligations – capital leases payable.

**DEBT STATEMENT:  
ASSESSED VALUATION, OUTSTANDING DEBT PAYABLE FROM AD VALOREM TAXES, AND  
DEBT RATIOS**

<b>Assessed Valuation<sup>1</sup></b>	<b>Table 1A</b>
Tax Year 2008 Actual Market Value of Taxable Property	\$83,909,309,357
Less: Residence Homestead Exemptions - Optional 65 or Older	\$ 4,307,883,346
Residence Homestead Exemptions - Disabled	125,061,885
Disabled/Deceased Veterans' Exemptions	193,111,133
Historical Property Exemptions	56,852,542
Freeport Goods Exemptions	549,400,457
Tax Abatement/Phase-In Exemptions	658,359,163
Residence Homestead Appraised Value 10% Limitations	579,086,313
Agricultural Productivity Loss	561,434,064
Pollution Control Exemptions	73,402,289
Community Housing Development Organization Exemptions	33,376,657
Energy Exemptions	13,259,344
Absolute Exemptions	3,847,975,271
Pro-Rated Exemptions	18,289,630
Total Exemptions	\$11,017,492,094
Tax Year 2008 Net Taxable Assessed Valuation (100% of Actual Market) <sup>2</sup>	\$72,891,817,263

<sup>1</sup> See "AD VALOREM TAXATION" herein for a description of the City's taxation procedures. Based on Tax Year 2008 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 26, 2008.

<sup>2</sup> The City anticipates that the taxable assessed value of real property subject to the over-65 and disabled homeowners tax freeze (see "AD VALOREM TAXATION – Residential Homestead Exemptions") totals approximately \$1,126,296,505, resulting in a fiscal year 2009 loss in ad valorem tax revenue of approximately \$6,387,678.

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**Debt Payable from Ad Valorem Taxes****Table 1B**

<b>The Outstanding Ad Valorem Tax Debt (at 11/30/08)</b>	
General Obligation Bonds	\$ 726,770,000
Combination Tax and Revenue Certificates of Obligation	294,185,000
Taxable Combination Tax and Revenue Certificates of Obligation	225,000
Tax Notes	17,925,000
Taxable General Improvement Refunding Bonds*	10,170,000
<b>Total Gross Outstanding Ad Valorem Tax Debt (at 11/30/08)</b>	<b>\$ 1,049,275,000</b>
<b>The 2008 Tax Notes*</b>	<b>\$ 15,800,000</b>
<b>The 2008 Obligations*</b>	<b>\$ 161,150,000</b>
<b>Total Gross Outstanding Ad Valorem Tax Debt*</b>	<b>\$ 1,226,225,000</b>
<i>Less: Self-Supporting Debt *<sup>1</sup></i>	<u>54,450,000</u>
<b>Total Net Debt Payable from Ad Valorem Taxes*</b>	<b><u>\$ 1,171,775,000</u></b>
Interest and Sinking Fund Balance at 9/30/07	\$ 76,098,095
Ratio of Gross Debt to Actual Market Value <sup>2</sup>	1.46%
Ratio of Gross Debt to Net Taxable Assessed Value <sup>2</sup>	1.68%
Ratio of Net Debt to Actual Market Value <sup>2</sup>	1.40%
Ratio of Net Debt to Net Taxable Assessed Value <sup>2</sup>	1.61%
Tax Year 2008 Actual Market Value of Taxable Property <sup>2</sup>	\$83,909,309,357
Tax Year 2008 Net Taxable Assessed Valuation (100% of Actual Market) <sup>2</sup>	\$72,891,817,263
Per Capita 2008 Net Taxable Assessed Valuation <sup>2,3</sup>	\$ 54,632
Per Capita Gross Debt <sup>3</sup>	\$ 919
Per Capita Net Debt <sup>3</sup>	\$ 878

\* Preliminary, subject to change.

<sup>1</sup>To maintain this debt as self-supporting, payments will be made from the Hotel/Motel Occupancy Tax.

<sup>2</sup>Based on Tax Year 2008 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 26, 2008. See "AD VALOREM TAXATION" for a description of the City's taxation procedures, including determination of net assessed valuation.

<sup>3</sup>Based on the City's Department of Planning and Community Development estimated population of 1,334,244 as of September 1, 2008.

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**OUTSTANDING PRINCIPAL AND INTEREST REQUIREMENTS**

**Pro Forma Outstanding Principal and Interest Requirements\***

**TABLE 2**

Fiscal Year	Existing Debt Service <sup>1</sup>	Refunded Obligations Debt Service	The 2008 Notes			The 2008 Bonds			The 2008 Certificates			Total Debt Service Requirement
			Principal	Interest	Annual Debt Service	Principal	Interest	Annual Debt Service	Principal	Interest	Annual Debt Service	

\* Preliminary, subject to change.

<sup>1</sup> Includes the 2008 Notes to be refunded by the 2008 Bonds.



**Pro Forma Ad Valorem Tax Debt Principal Repayment Schedule\***

**Table 5**

<u>Fiscal Year</u>	<u>Currently Outstanding Obligations</u>	<u>2008 Notes</u>	<u>2008 Bonds</u>	<u>2008 Certificates</u>	<u>Combined Principal</u>	<u>Obligations Remaining End of Year</u>	<u>Percent of Principal Retired</u>
2009							
2010							
2011							
2012							
2013							
2014							
2015							
2016							
2017							
2018							
2019							
2020							
2021							
2022							
2023							
2024							
2025							
2026							
2027							
2028							

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\* Preliminary, subject to change.

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**Debt Obligations – Capital Leases Payable**

**Table 6**

The City has entered into various lease purchase agreements for the acquisition of various fire trucks, golf cars, printers, an inventory theft detection system, self-contained breathing apparatus, hybrid vehicles, a mainframe computer, electrocardiograms, refuse collection containers, refuse collection trucks, brush grapppler trucks, and brush tractor/trailer combinations. Shown below is the gross value of the assets at September 30, 2008. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council. The following is a schedule of the projected remaining future minimum lease payments under these capital leases together with the net minimum lease payments as of September 30, 2008.

Description	Lease Termination Date	Minimum Lease Payment	Amount Representing Interest	Total Minimum Lease Payments
Heidelberg Printer	11/1/2008	\$ 18,917	\$ 161	\$ 19,078
Garbage Containers	5/1/2009	50,280	673	50,953
Refuse Collection Containers	11/1/2009	845,372	22,034	867,406
Self-Contained Breathing Apparatus	5/1/2010	422,772	13,250	436,022
Mainframe Computer System & Software	5/1/2010	535,740	16,791	552,531
One Platform Truck	8/1/2010	264,079	9,777	273,856
Electric Golf Cars	11/1/2010	1,010,363	49,633	1,059,996
One Pumper Truck, Four Aerial Trucks, and One Partial Aerial Truck	2/1/2011	1,725,488	101,687	1,827,175
Five Aerial Trucks	2/1/2011	1,657,159	97,290	1,754,449
13 Electrocardiograms	5/1/2011	90,449	5,461	95,910
154,587 Refuse Containers	8/1/2011	7,693,158	380,178	8,073,336
19 Pumper Trucks	11/1/2011	4,781,115	303,929	5,085,044
Library Theft Detection System Phase I	8/1/2012	813,884	63,797	877,681
Library Theft Detection System Phase II	2/1/2013	763,809	69,442	833,251
Hybrid Vehicles	5/1/2013	600,615	49,984	650,599
Automated Sideload & Manual Rearload Refuse Collection Trucks	11/1/2013	913,060	94,946	1,008,006
17 Refuse Collection Trucks, 5 Brush Grapppler Trucks, 10 Brush Tractor/Trailers	11/1/2015	<u>5,443,291</u>	<u>827,984</u>	<u>6,271,275</u>
Total		<u>\$27,629,551</u>	<u>\$2,107,017</u>	<u>\$29,736,568</u>

The adopted budget for fiscal year 2009 includes appropriations for lease purchase arrangements to acquire refuse collection trucks (diesel and compressed natural gas), personal protective equipment, and additional components of an inventory theft detection system for the City’s Library Department. The funding for these lease purchase arrangements is anticipated to occur in fiscal year 2009.

On May 15, 2001, the City became obligated to pay \$14,465,000 in lease revenue bonds issued through the City of San Antonio, Texas Municipal Facilities Corporation (the “Corporation”) to provide funds for the construction of the “One Stop Development Services Center,” a municipal office facility. The City and the Corporation entered into a lease whereby the Corporation agreed to cause such facility to be built and leased by the City, and the City agreed to annually appropriate funds to pay lease payments sufficient to pay principal and interest on the bonds when due. The lease commenced on May 15, 2001 and the City has budgeted \$1.182 million for principal and interest payments during fiscal year 2009.

The table below shows the debt service schedule for the aforementioned bonds. In addition to the debt service on these bonds, the lease payments include other expenses related to the operation and maintenance of the facility.

Fiscal Year Ended 09/30	Principal	Interest	Annual Debt Service
2009	\$ 670,000	\$ 512,930.00	\$ 1,182,930.00
2010	695,000	483,785.00	1,178,785.00
2011	725,000	452,857.50	1,177,857.50
2012	760,000	420,232.50	1,180,232.50
2013	800,000	384,892.50	1,184,892.50
2014	835,000	346,492.50	1,181,492.50
2015	875,000	305,577.50	1,180,577.50
2016	920,000	261,827.50	1,181,827.50
2017	965,000	215,367.50	1,180,367.50
2018	1,015,000	166,152.50	1,181,152.50
2019	1,065,000	113,880.00	1,178,880.00
2020	1,125,000	58,500.00	1,183,500.00
	\$10,450,000	\$3,722,495.00	\$14,172,495.00

### AD VALOREM TAXATION

#### **Authority to Levy Ad Valorem Taxes; Tax Rate Limitations**

The City is authorized to levy an annual ad valorem tax, within the limits prescribed by law, on all taxable property within the City in an amount sufficient to pay the principal of and interest on debt payable therefrom. The City is also authorized to levy an annual ad valorem tax for operations and maintenance purposes. The maximum rate that may be levied by the City for all City purposes is \$2.50 per \$100 assessed valuation as provided in Article XI, Section 5 of the Texas Constitution and as provided in the City Charter, which adopts this constitutional limitation. No direct funded debt limitation is imposed on the City under current Texas law; however, the Texas Attorney General has adopted an administrative policy that prohibits the issuance of general obligation debt payable from ad valorem taxes by a municipality, such as the City, if the issuance produces debt service requirements exceeding that which can be paid from \$1.50 of the foregoing \$2.50 maximum tax rate calculated at 90% of collections. In addition, the City Charter provides that the total debt of the City must never exceed 10% of the total assessed valuation of property shown by the last assessment roll, exclusive of (1) any indebtedness secured in whole or in part by special assessments; (2) the bonded debt of any improvement district; and (3) any indebtedness secured by revenues, other than taxes of the City or of any department or agency thereof. The issuance of the 2008 Notes does not violate these limitations. (See “DEBT AND TAX RATE LIMITATIONS” herein.)

#### **Texas Property Tax Code and County-Wide Appraisal District**

The Texas Property Tax Code, located at Title 1, Texas Tax Code, as amended (the “Property Tax Code”), specifies the taxing procedures of all political subdivisions of the State, including the City. The provisions of the Property Tax Code are complex and are not fully summarized here.

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Bexar Appraisal District (the “Appraisal District”) has the responsibility for appraising property for all taxing units within Bexar County. Two and one half (2½) acres of the City’s taxable property lie in Comal County. The Comal Appraisal District has the responsibility for appraising property for all taxing units within Comal County. Such appraisal values are subject to review and change by the Bexar Appraisal Review Board and the Comal Appraisal Review Board.

Once an appraisal roll is prepared and approved by the Bexar Appraisal Review Board, it is used by the City in calculating its tax rates and preparing a tax roll. Assessments under the Property Tax Code are based on 100% of

appraised value. The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan shall provide for reappraisal of all real property at least once every three years.

The City, by resolution adopted by its governing body, may require the Appraisal District to appraise all property within the City or to identify and appraise newly annexed territory and new improvements in the City as of a date specified in the resolution. The City must pay the Appraisal District for the cost of making such an appraisal. While such a current estimate of appraised value may serve to indicate the growth of taxable values within the City, it may not be used by the City as the basis for the imposition of property taxes.

Under certain circumstances, taxpayers and taxing units (such as the City) may appeal the orders of the Bexar Appraisal Review Board by filing a timely petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

### **Property Subject to Taxation by the City**

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible property with a tax status in the City is subject to taxation by the City. Principal categories of exempt property include, but are not limited to, property owned by the State or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; implements of husbandry that are used in the production of ranch and farm products; family supplies for home or farm use; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, certain community housing development organizations' property, and qualified schools; designated historical sites; and tangible personal property not held for the production of income (unless the City elects to tax such tangible personal property).

#### ***Residential Homestead Exemptions***

The Property Tax Code authorizes the governing body of each political subdivision in the State, at its option, to exempt up to 20% of the appraised value of residential homesteads from ad valorem taxation. The City may be required to offer such an exemption if a majority of voters approve it at an election. The City would be required to call such an election upon petition by 20% of the number of qualified voters who voted in the preceding election. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of this additional residence homestead exemption may be considered each year, but must be adopted by July 1. Additionally, the City may grant an exemption to an individual who is disabled or is 65 years of age or older in a fixed amount of no less than \$3,000 of assessed value. The City currently grants a \$60,000 residential homestead exemption to only persons 65 years of age or older effective immediately upon their 65<sup>th</sup> birthday.

#### ***Disabled/Deceased Veterans' Exemptions***

The Property Tax Code mandates that a disabled veteran or certain surviving dependents are entitled to an exemption from taxation of a portion of the assessed value of a property they own. The amount of this exemption ranges from \$5,000 to \$12,000 and the exemption amount is based on the disability rating of the veteran as certified by the Veterans' Administration.

#### ***Historical Property Exemptions***

The City has granted an exemption to historically significant sites in need of tax relief to encourage preservation. Commercial buildings that meet definitions of historical sites and that have been substantially rehabilitated or restored will be exempt from taxation by the City for five tax years, and thereafter, will be taxed by the City at 50% of current assessed value for an additional five years. For the purposes of levying taxes, residential buildings

meeting the definition of historical sites and having been substantially rehabilitated or restored will for a period of ten years retain the property value assessed prior to such rehabilitation or restoration.

***Historical Preservation Area Exemptions***

The City offers a 20% tax exemption for owner-occupied residences located within new local historic districts. The exemption is effective on the first day of historic district designation and extends for a maximum of 15 years (ten years plus a five-year extension). The purpose of the exemption is to offset any potential property tax increases and to limit gentrification in the district, a term which refers to the effect of forcing lower-income residents in a neighborhood to move, which often includes a higher proportion of elderly residents, because of higher property taxes. Property taxes may or may not increase as a result of historic designation. The Bexar County Appraisal District does not automatically increase the assessed valuations of designated properties. Appraisals are based upon real estate market factors that affect consumer demand in an area, of which historic designation is one.

***Freeport Goods Exemptions***

“Freeport goods” are goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas, and other petroleum products, which have been acquired or brought into the State for assembling, storing, manufacturing, repair, maintenance, processing, or fabricating, or used to repair or maintain aircraft of a certified air carrier, and shipped out of the State within 175 days. The City has elected to allow the exemption of Freeport goods from taxation. On December 6, 2007, the City adopted an ordinance to tax goods exempt under Section 11.253 of the Property Tax Code and not exempt under other law and beginning with the City’s Tax Year 2008 and continuing until such taxation is hereafter rescinded or repealed in the future by the City Council.

***Tax Phase-In Agreements***

The City may designate areas within the City as a reinvestment zone. Thereafter, the City may enter into a tax phase-in agreement with owners of property within the zone. Before entering into a tax phase-in agreement, each entity must adopt guidelines and criteria for establishing tax phase-ins in the zone, which each entity with taxing authority over the designated property will follow in granting tax phase-ins. The tax phase-in agreement may exempt from ad valorem taxation all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed. The property is exempt on the condition that the property owner makes specified improvements or repairs to the property in conformity with the terms of the tax phase-in agreement. The agreement may include each of the applicable taxing jurisdictions, including the City, for a period of up to 10 years. The respective City and Bexar County tax phase-in agreements are not required to be substantially the same, with the exception of projects located in a State-designated enterprise zone. Since 1989, the City has entered into 79 tax phase-in agreements; 42 are active and 37 have expired or are inactive. The City anticipates that the taxable assessed value of real property subject to Tax Abatement/Phase-In Exemptions totals approximately \$658,359,163, resulting in a Fiscal Year 2009 loss in ad valorem tax revenue of approximately \$3,733,818.

The following table depicts, as of June 30, 2008, 42 active tax phase-in agreements:

***Active Tax Phase-In Agreements***

<u>Company</u>	<u>Phase-In Period</u>	<u>Phase-In Term (Years)</u>	<u>Percent of Phase-In (Type of Property)</u>
Capital Group/American Funds	1999-2008	10	Real & Personal @ 100%
Boeing Aerospace	1999-2008	10	Personal @ 90%
LCWW Partners (Westin La Cantera Resort Hotel)	1999-2008	10	Personal @ 100%
HEB (Meat Packing)	2004-2009	6	Real @ 100%
S.A. Aerospace	2001-2010	10	Real @ 100%
Chase Bank Credit Card Services – Phase 1	2001-2010	10	Personal @ 100%
Chase Bank Credit Card Services – Phase 2	2002-2011	10	Real & Personal @ 100%
Chase Bank Credit Card Services – Phase 3	2002-2011	10	Real & Personal @ 100%

(Table continues on next page)

Company	Phase-In Period	Phase-In Term (Years)	Percent of Phase-In (Type of Property)
Chase Bank Credit Card Services – Phase 4	2002-2011	10	Personal @ 100%
H.B. Zachry	2002-2011	10	Real @ 100%
First Health	2006-2011	6	Real @ 100%
CEDRA Clinical Research, LLC	2006-2011	6	Real @ 100%
MedLine	2003-2012	10	Real @ 100%
Texas Machining Enterprises II, L.L.P.	2003-2012	10	Real & Personal @ 100%
Karta Technologies, Inc.	2007-2012	6	Real @ 100%
Maxim Integrated Products	2005-2014	10	Real & Personal @ 100%
DPT	2006-2015	10	Real & Personal @ 100%
Washington Mutual Bank	2006-2015	10	Personal @ 100%
Ark, Inc.	2007-2016	10	RPIS* @ 80%
Avanzar Interior Technologies, Ltd.	2007-2016	10	RPIS* @ 100%
Curtis-Maruyasu America, Inc.	2007-2016	10	RPIS* @ 100%
Futaba Industrial Texas Corp.	2007-2016	10	RPIS* @ 80%
Green Metals, Inc.	2007-2016	10	RPIS* @ 80%
HERO Assemblers, LP	2007-2016	10	RPIS* @ 100%
HERO Logistics, LP	2007-2016	10	RPIS* @ 80%
Kautex, Inc.	2007-2016	10	RPIS* @ 100%
Metakote Corporation	2007-2016	10	RPIS* @ 80%
Metalsa Light Truck, Inc.	2007-2016	10	RPIS* @ 80%
Millennium Steel of Texas, LP	2007-2016	10	RPIS* @ 100%
Reyes Automotive Group, LLC	2007-2016	10	RPIS* @ 80%
Reyes-Amtex Automotive, LLC	2007-2016	10	RPIS* @ 80%
Takumi Stamping Texas, Inc.	2007-2016	10	RPIS* @ 80%
Tenneco Automotive Services Texas, Inc.	2007-2016	10	RPIS* @ 80%
Toyoda Gosei Texas, LLC	2007-2016	10	RPIS* @ 80%
Toyotetsu Texas, Inc.	2007-2016	10	RPIS* @ 80%
Vutex, Inc.	2007-2016	10	RPIS* @ 80%
Lowe's Home Centers, Inc	2008-2017	10	Real & Personal @ 100%
Sino Swearingen	2008-2017	10	Real & Personal @ 100%
Vistana, Ltd	2008-2017	10	Real @ 100%
Higuchi Manufacturing Company, Ltd	2008-2017	10	Real @ 100%
Microsoft Corporation	2008-2017	10	Real & Personal @ 100%
Tindall Corporation <sup>1</sup>	2009-2018	10	Real @ 100% & Personal @ 50%

\* RPIS: Real and Personal Property Improvements, Inventory and Supplies.

<sup>1</sup> The Tindall Corporation contract is a ten (10) year term beginning the January 1 following substantial completion of property improvements. The Base Year Value of the contract was effective as of January 1, 2008.

### ***Residence Homestead Appraised Value 10% Limitations***

All real property of the City within Bexar County must be appraised by the Appraisal District at market value as of January 1 of each year. State law, however, provides for limitations on appraised value of residential homesteads. The appraised value of a residential homestead may not exceed the lesser of:

1. the market value of the property or
2. the sum of:
  - a. 10% of the appraised value of the property for the last year in which the property was appraised times the number of years since the property was last appraised;
  - b. the appraised value of the property for the last year in which the property was appraised; and
  - c. the market value of all new improvements to the property.

### ***Agricultural Productivity Loss***

The Property Tax Code also provides special appraisal of open-space land devoted to farm, ranch, or wildlife management purposes on the basis of its productive capacity rather than its market value. If the open space designation is lost by changing the use of the property, the City can impose taxes on the land equal to the difference between the taxes imposed on the land for each of the five years preceding the year in which the change of use occurs and the tax that would have been imposed had the land been taxed on the basis of market value.

### ***Pollution Control Exemptions***

Real or personal property used wholly or partly as a facility, device, or method for the control of air, water, or land pollution is exempt from ad valorem taxation. Property used for residential purposes is ineligible for this exemption.

### ***Community Housing Development Organization Exemptions***

An organization is exempt from ad valorem taxation of improved or unimproved real property if the organization owns the property for the purpose of building or repairing housing on the property to sell without profit to a low/moderate income individual/family or to rent without profit to such an individual/family.

### ***Energy Exemptions***

A person is entitled to an exemption from taxation of the amount of appraised value of his property that arises from the installation or construction of a solar or wind-powered energy device that is primarily for production and distribution of energy for on-site use.

### ***Absolute Exemptions***

Property owned by the following organizations is exempt from ad valorem taxation:

1. Property exempt from taxation by federal law.
2. Property owned by the state or political subdivisions of the state (municipalities, counties, etc.) if the property is used for public purposes.
3. Property owned by a school, operated primarily for the purpose of engaging in educational functions and organized as a nonprofit corporation.
4. Property held for non-profit entity and used exclusively for human burial (cemeteries).
5. Property owned by an organization that qualifies as a religious organization.
6. Property owned by organizations engaged primarily in performing charitable functions.

### ***Pro-Rated Exemptions***

If the federal government, the State, or a political subdivision of the State acquires title to taxable property, the amount of the tax due on the property is calculated by multiplying the amount of taxes imposed on the property for the entire year by a fraction, the denominator of which is 365 and the numerator of which is the number of days that elapsed prior to the date of the conveyance.

### ***Effective Tax Rate and Rollback Tax Rates***

The City must annually calculate and publicize its “effective tax rate” and “rollback tax rate.” The City Council may not adopt a tax rate that exceeds the lower of the rollback tax rate or the effective tax rate until it has held two public hearings on the proposed increase following notice to the taxpayers and otherwise complied with the Property Tax Code. If the adopted tax rate exceeds the rollback tax rate, the qualified voters of the City, by submission of a valid petition, may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

“*Effective tax rate*” means the rate that will produce last year’s total tax levy (adjusted) from this year’s total taxable values (adjusted). “Adjusted” means lost values are not included in the calculation of last year’s taxes and new values are not included in this year’s taxable values.

“*Rollback tax rate*” means the rate that will produce last year’s maintenance and operation tax levy (adjusted) from this year’s values (adjusted) multiplied by 1.08 plus a rate that will produce this year’s debt service from this year’s values (adjusted) divided by the anticipated tax collection rate.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

### ***Taxpayer Remedies***

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the City and provides for taxpayer referenda, which could result in the repeal of certain tax increases. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

### ***Levy and Collection of Taxes***

By the later of September 30 or 60 days after the certified appraisal roll is delivered to the City, the rate of taxation is adopted by the City Council based upon the taxable valuation of property within the City as of the preceding January 1. The City has executed an inter-local agreement with the Bexar County Tax Assessor/Collector’s Office to provide property tax billing and collection services at the same level of service to its citizens as previously provided by the City.

Property taxes are due and payable on October 1 and considered delinquent if not paid by the following January 31. A delinquent tax incurs a penalty of 6% for the first calendar month it is delinquent, plus 1% for each of the following four months, and 2% for the sixth month it is delinquent, for a total of 12%. A delinquent tax also incurs interest at the rate of 1% per month until paid in full. If a tax is not paid before July 1 of the year in which it becomes delinquent, the tax incurs an additional fee of up to 20% to offset the costs of collection.

The City does not allow for discounts for early payment, but does allow for split payment of property taxes (one-half before December 1, and the remaining one-half without penalty and interest before July 1 of the following year). The City also allows for installment payments for homeowners who are disabled or at least 65 years of age and who qualify for the residential homestead exemption (one-fourth before January 31, one-fourth before April 1, one-fourth before June 1, and the remaining one-fourth before August 1).

### ***City’s Rights in the Event of Tax Delinquencies***

Taxes levied by the City are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all State and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each local taxing unit, including the City, having power to tax the property. The City’s tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the City is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the City may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the City must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem a residence homestead property within two years after the purchaser’s deed is filed for record) or by bankruptcy

proceedings which restrict the collection of taxpayer debts. Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

### ***Tax Increment Reinvestment Zone Financing***

The City has approved a "TIF Manual" for the utilization of Tax Increment Financing ("TIF") and the creation of Tax Increment Reinvestment Zones ("TIRZ") pursuant to Chapter 311 of the Texas Tax Code, as amended. Since 1998, the City has utilized TIF as a vehicle to fund in whole or in part eligible capital costs for public infrastructure related to economic development, commercial, and residential projects. As of September 30, 2008, there are 22 existing TIRZs with a total taxable captured value of \$840,122,063. For Fiscal Year 2008, this total taxable captured value produced \$4.5 million in tax increment revenues for use by the City to pay for the capital costs of certain public infrastructure improvements in the TIRZs. The existing TIRZs have terms ranging from 10 years to 30 years which are anticipated to expire starting in Fiscal Year 2009 through Fiscal Year 2032. It is estimated that the City will contribute approximately \$400 million in tax increment revenues over the 30 years for these TIRZs projects. The existing TIRZs are referred to as the Rosedale, Highland Heights, New Horizons, Mission Del Lago, Brookside, Houston Street, Stablewood Farms, Inner City, Plaza Fortuna, Lackland Hills, Sky Harbor, North East Crossing, Brooks City Base, Mission Creek, Hallie Heights, Heathers Cove, Ridge Stone, Palo Alto Trails, Hunters Pond, Rosillo Ranch, River North and Verano Projects.

### **DEBT AND TAX RATE LIMITATIONS**

No direct debt limitation is imposed on the City under current Texas law; however, the City Charter provides that the total bonded debt of the City must never exceed 10% of the total assessed valuation of property shown by the last assessment roll, exclusive of (1) any indebtedness secured in whole or in part by special assessments; (2) the bonded debt of any improvement district; and (3) any indebtedness secured by revenues, other than taxes of the City or of any department or agency thereof. In addition, Article XI, Section 5 of the State Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 assessed valuation for all City purposes. The City operates under a City Charter that adopts this constitutional provision. The Texas Attorney General has adopted an administrative policy that prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from \$1.50 of the foregoing \$2.50 maximum tax rate calculated at 90% collection. The issuance of the 2008 Notes will not exceed the above described limits or violate the Texas Attorney General's administrative policy. The following obligations, among others, may be issued by the City:

- Ad valorem tax-supported debt may be issued to finance capital improvements and to refund obligations previously issued for such purpose. A majority vote of the qualified voters is ordinarily required to authorize the issuance of ad valorem tax-supported debt, other than refunding bonds, certificates of obligations, tax anticipation notes, and public property finance contractual obligations.
- Certificates of obligation may be issued for the purpose of paying contractual obligations incurred in the construction of public works or the purchase of land, materials, and other supplies or services for the City's needs and for professional services without an election except under certain circumstances. The certificates of obligation may be refunded by ad valorem tax-supported bonds without an election. In addition, the City may issue certificates of obligation with a pledge of both tax and revenues derived from the operation of the facility to be acquired, or from any other lawful source, provided that the City otherwise has the right to pledge the revenues involved. Authority for the issuance of certificates of obligation is subject to notice by publication and right of referendum by the voters.
- Contractual obligations, generally to finance personal property, and tax anticipation notes payable from ad valorem taxes may be issued for capital improvements. The contractual obligations and tax anticipation notes may be refunded by ad valorem tax-supported bonds without an election. The issuance of contractual obligations and tax anticipation notes does not require publication of notice or voter approval. Tax anticipation notes are limited to seven years amortization or less.

- Revenue bonds may be issued for certain purposes which include the financing of the water, municipal drainage and sanitary sewer systems, electric and gas systems, convention centers, airports and parking systems, and other economic development projects. The revenue bond indebtedness is not considered in determining the legal debt margin on ad valorem tax-supported obligations. Revenue bond indebtedness, in certain cases, can be refunded by ad valorem tax-supported bonds without an election.

**Tax Data**

**Table 7**

Tax Year	Fiscal Year Ended 9/30	Net Taxable Assessed Valuation <sup>1</sup>	Tax Rate	Tax Levy	Percent Collections	Percent Collected
					Current	Total
1999	2000	\$33,315,478,862	\$0.57979	\$193,159,815	98.14%	99.84%
2000	2001	36,033,321,329	0.57979	208,917,594	97.89	99.30
2001	2002	39,587,584,280	0.57854	229,030,010	97.78	99.25
2002	2003	41,535,547,008	0.57854	240,299,754	97.78	99.23
2003	2004	44,583,138,927	0.57854	257,931,292	97.96	99.58
2004	2005	46,481,974,620	0.57854	268,916,816	98.32	100.27
2005	2006	49,868,955,425	0.57854	288,511,855	98.43	100.29
2006	2007	56,767,701,702	0.57854	326,326,395	98.43	99.67
2007	2008	65,970,484,420	0.57230	372,908,564	In Process of Collection	
2008	2009	72,891,817,263 <sup>2</sup>	0.56714	407,010,974	In Process of Collection	

<sup>1</sup> Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.

<sup>2</sup> Based on Tax Year 2008 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 26, 2008.

**Tax Rate Distribution**

**Table 8**

Tax Rate	Fiscal Year Ended September 30				
	2009*	2008	2007	2006	2005
General Fund	\$0.35564	\$0.36080	\$0.36704	\$0.36704	\$0.36704
Interest and Sinking Fund	0.21150	0.21150	0.21150	0.21150	0.21150
Total Tax Rate	\$0.56714	\$0.57230	\$0.57854	\$0.57854	\$0.57854

\* FY 2009 General Fund tax rate was reduced by \$0.00516 to offset a transfer of the San Antonio Metropolitan Health Department health clinics to University Health System.

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**Principal Taxpayers****Table 9**

Name	Type of Property	FY 2008 Taxable Assessed Valuation	Percent of FY 2008 Taxable Assessed Valuation
H.E. Butt Grocery Company	Retail/Grocery	\$ 793,539,174	1.09%
Toyota Motor Manufacturing Texas	Automobile Manufacturer	551,362,277	0.76
VHS San Antonio Partners LP	Hospital/Healthcare	404,849,190	0.56
AT&T	Telecommunications	374,235,968	0.51
Hyatt Regency Hotels	Hotel Chain	355,942,616	0.49
United Services Automobile Association	Insurance/Banking	349,107,830	0.48
Wal-Mart Stores, Inc.	Retail/Grocery	343,968,939	0.47
Marriott Corporation	Hotel Chain	334,768,492	0.46
La Cantera Retail LTD Partnership	Shopping Center	170,770,750	0.23
Alamo Stonecrest Holdings	Shopping Center	145,171,245	0.20
Total		<u>\$3,823,716,481</u>	<u>5.25%</u>

**Net Taxable Assessed Valuation for Tax Years 1999-2008****Table 10**

Tax Year	Fiscal Year Ended 9/30	Net Taxable Assessed Valuation <sup>1</sup>	Change From Preceding Year	
			Amount	Percent
1999	2000	\$33,315,478,862	---	---
2000	2001	36,033,321,329	\$2,717,842,467	8.16%
2001	2002	39,587,584,280	3,554,262,951	9.86
2002	2003	41,535,547,008	1,947,962,728	4.92
2003	2004	44,583,138,927	3,047,591,919	7.34
2004	2005	46,481,974,620	1,898,835,693	4.26
2005	2006	49,868,955,425	3,386,980,805	7.29
2006	2007	56,767,701,702	6,898,746,277	13.83
2007	2008	65,970,484,420	9,202,782,718	16.21
2008	2009	72,891,817,263 <sup>2</sup>	6,921,332,843	10.49

<sup>1</sup> Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.

<sup>2</sup> Based on Tax Year 2008 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 26, 2008.

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**Net Taxable Assessed Valuation and Ad Valorem Tax Debt**

**Table 11**

<u>Tax Year</u>	<u>Fiscal Year Ended 9/30</u>	<u>Net Taxable Assessed Valuation <sup>1</sup></u>	<u>Ad Valorem Gross Debt</u>	<u>Debt Ratios Percent</u>
1999	2000	\$33,315,478,862	\$ 780,378,108	2.34%
2000	2001	36,033,321,329	768,693,108	2.13
2001	2002	39,587,584,280	838,428,108	2.12
2002	2003	41,535,547,008	881,038,108	2.12
2003	2004	44,583,138,927	821,843,108	1.84
2004	2005	46,481,974,620	872,090,124	1.88
2005	2006	49,868,955,425	850,300,000	1.71
2006	2007	56,767,701,702	945,755,000	1.67
2007	2008	65,970,484,420	1,039,105,000	1.57
2008	2009	72,891,817,263 <sup>2</sup>	1,049,275,000 <sup>3</sup>	1.44

<sup>1</sup> Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.

<sup>2</sup> Based on Tax Year 2008 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 26, 2008.

<sup>3</sup> Preliminary, subject to change.

**Authorized but Unissued Ad Valorem Tax Debt**

**Table 12**

<u>Date of Authorization</u>	<u>Improvements</u>	<u>Amount Authorized</u>	<u>Debt Issued To Date<sup>1</sup></u>	<u>2008 Bonds*</u>	<u>Debt Authorized But Unissued</u>
5/12/2007	Streets, Bridges, & Sidewalks	\$306,997,413	\$27,641,000	\$44,605,413	\$234,751,000
5/12/2007	Drainage	152,051,818	16,692,528	19,118,290	116,241,000
5/12/2007	Parks, Recreation, Open Space, & Athletics	79,125,293	59,251,000	8,936,293	10,938,000
5/12/2007	Library	11,025,476	5,088,000	3,310,476	2,627,000
5/12/2007	Public Health Facilities	<u>800,000</u>	<u>675,000</u>	<u>125,000</u>	<u>-0-</u>
		<u>\$550,000,000</u>	<u>\$109,347,528</u>	<u>\$76,095,472</u>	<u>\$364,557,000</u>

\* Preliminary, subject to change.

<sup>1</sup> \$43.5 million has been issued as “City of San Antonio, Texas, Tax Notes, Series 2007” and \$21.3 million has been issued as “City of San Antonio, Texas, Tax Notes, Series 2007A,” which the City has counted against its voted general obligation authorization.

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**Classification of Assessed Valuation**

**Table 13**

	Fiscal Year 2009 <sup>1</sup>	% of Total	Fiscal Year 2008	% of Total	Fiscal Year 2007	% of Total	Fiscal Year 2006	% of Total	Fiscal Year 2005	% of Total
Real, Residential, Single-Family	\$42,423,851,754	50.56	\$40,002,579,894	52.32	\$34,474,233,006	53.01	\$30,761,632,234	54.21	\$28,522,603,105	55.04
Real, Residential, Multi-Family	6,374,028,444	7.60	5,356,848,807	7.01	4,315,228,900	6.64	3,795,667,205	6.69	3,111,991,529	6.00
Real, Vacant Lots/Tracts	2,184,595,879	2.60	1,765,979,159	2.31	1,201,167,255	1.85	896,748,745	1.58	1,148,225,953	2.22
Real, Acreage (Land Only)	1,962,814,786	2.34	1,635,710,747	2.14	810,546,430	1.24	606,403,394	1.07	617,964,288	1.19
Real, Farm and Ranch Improvements	28,192,817	0.03	29,156,990	0.04	22,546,014	0.03	18,599,326	0.03	13,675,489	0.02
Real, Commercial	19,005,708,274	22.65	16,206,709,241	21.20	13,667,670,211	21.02	11,764,992,536	20.73	10,851,533,970	20.94
Real, Industrial	795,642,107	0.95	746,363,031	0.98	365,995,100	0.56	354,663,906	0.63	309,271,374	0.60
Real, Minerals Oil and Gas	-0-	0.00	459,910	0.00	280,560	0.00	166,660	0.00	39,040	0.00
Real and Tangible Personal Utilities	496,330,696	0.59	540,466,328	0.71	511,600,850	0.79	528,221,546	0.93	550,530,280	1.06
Tangible Personal, Commercial	6,916,437,114	8.24	6,355,485,369	8.31	5,710,337,902	8.78	5,176,198,004	9.12	5,067,130,053	9.78
Tangible Personal, Industrial	2,050,249,546	2.44	2,005,434,790	2.62	1,470,270,661	2.26	1,299,607,879	2.29	1,200,010,400	2.32
Tangible Personal, Mobile Homes	89,893,062	0.11	97,802,259	0.13	96,111,850	0.15	96,339,510	0.17	98,392,969	0.19
Real Property, Inventory	234,548,180	0.28	238,721,707	0.31	195,850,078	0.30	198,819,688	0.35	191,479,359	0.37
Special Inventory Tax	346,448,620	0.41	319,323,960	0.42	280,856,850	0.43	252,524,270	0.44	22,990	0.00
Exempt Property	1,000,568,078	1.19	1,157,624,272	1.51	1,910,930,577	2.94	1,000,322,338	1.76	141,337,410	0.27
<b>Total Assessed Value</b>	<b>\$83,909,309,357</b>	<b>100.00</b>	<b>\$76,458,666,464</b>	<b>100.00</b>	<b>\$65,033,626,244</b>	<b>100.00</b>	<b>\$56,750,907,241</b>	<b>100.00</b>	<b>\$51,824,208,209</b>	<b>100.00</b>
Less:										
Residence Homestead Exemptions - Optional 65 or Older	\$4,307,883,346		\$4,280,506,661		\$4,110,067,258		\$3,912,184,972		\$3,817,600,447	
Residence Homestead Exemptions - Disabled	125,061,885		131,077,156		126,244,040		119,597,187		-0-	
Disabled /Deceased Veterans' Exemptions	193,111,133		193,915,796		189,172,020		180,072,214		174,102,776	
Historical Property Exemptions	56,852,542		37,071,769		49,916,153		29,673,115		33,822,228	
Historical Preservation Area <sup>2</sup>	-0-		-0-		-0-		-0-		2,905,902	
Freeport Goods Exemptions	549,400,457		519,912,323		385,837,970		332,875,270		270,308,370	
Tax Abatement/Phase-In Exemptions	658,359,163		507,946,373		411,961,519		418,909,527		448,091,914	
Residence Homestead Appraised Value 10% Limitations	579,086,313		943,538,066		609,240,240		193,890,523		131,060,193	
Agricultural Productivity Loss	561,434,064		539,674,719		346,926,222		268,148,584		278,168,180	
Pollution Control Exemptions	73,402,289		62,760,278		9,903,790		5,675,890		-0-	
Community Housing Development Organization Exemptions	33,376,657		61,899,641		42,779,850		45,248,643		689,895	
Energy Exemptions	13,259,344		11,864,658		32,610,802		-0-		-0-	
Absolute Exemptions	3,847,975,271		3,165,254,260		1,924,485,214		1,345,024,320		150,616,496	
Pro-Rated Exemptions	18,289,630		32,760,344		26,779,464		30,651,571		34,867,188	
<b>Less: Total Exemptions</b>	<b>\$11,017,492,094</b>		<b>\$10,488,182,044</b>		<b>\$ 8,265,924,542</b>		<b>\$ 6,881,951,816</b>		<b>\$ 5,342,233,589</b>	
<b>Net Taxable Assessed Valuation<sup>3</sup></b>	<b>\$72,891,817,263</b>		<b>\$65,970,484,420</b>		<b>\$56,767,701,702</b>		<b>\$49,868,955,425</b>		<b>\$46,481,974,620</b>	

<sup>1</sup> Based on Tax Year 2008 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 26, 2008.

<sup>2</sup> Beginning in FY 2006, Historical Preservation Area Exemptions are combined with Historical Property Exemptions.

<sup>3</sup> Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.

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**Assessed Valuation and Tax Rate of Overlapping Issuers****Table 14**

<u>Governmental Subdivision</u>	<u>FY 2008 Gross Assessed Valuation <sup>1</sup></u>	<u>FY 2008 Net Taxable Valuation <sup>1</sup></u>	<u>FY 2008 Tax Rate</u>
Alamo Community College District	\$97,215,177,555	\$90,051,064,661	\$0.134550
Alamo Heights Independent School District	4,994,325,420	4,787,568,725	1.156600
Bexar County	97,226,101,485	86,877,145,499	0.295104
Bexar County Flood Control	97,226,114,405	91,094,300,960	0.031762
Bexar County Hospital District d.b.a. University Health System	97,215,177,555	92,060,858,177	0.237408
East Central Independent School District	1,922,624,625	1,679,475,950	1.190000
Edgewood Independent School District	1,353,839,572	945,631,967	1.405000
Harlandale Independent School District	1,606,143,451	1,312,407,807	1.349000
Judson Independent School District	6,082,328,754	5,391,013,090	1.410000
North East Independent School District	28,745,627,217	26,110,701,779	1.402900
Northside Independent School District	31,149,926,007	27,940,428,838	1.262500
San Antonio Independent School District	13,819,252,799	11,332,453,808	1.249700
San Antonio River Authority	97,215,177,555	90,158,477,545	0.015951
Somerset Independent School District	387,471,471	329,145,515	1.195000
South San Antonio Independent School District	1,388,465,246	1,138,640,831	1.445000
Southside Independent School District	598,010,398	482,276,650	1.360000
Southwest Independent School District	2,246,565,666	2,002,969,131	1.195000

<sup>1</sup> Assessed and taxable valuation data provided by Bexar County Tax Assessor-Collector's Office and Bexar Appraisal District.

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**Direct and Overlapping Debt Data and Information**

**Table 15**

The following table indicates the indebtedness, defined as outstanding obligations payable from ad valorem taxes (“Tax Debt”), of governmental entities overlapping the City, and the estimated percentages and amounts of such Tax Debt attributable to property within the City. Expenditures of the various taxing bodies overlapping the territory of the City are paid out of ad valorem taxes levied by these taxing bodies on properties overlapping the City. These political taxing bodies are independent of the City and may incur Tax Debt without any control of the City. The following statements of direct and estimated overlapping Tax Debt were developed from information obtained from each taxing entity. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have authorized or issued additional Tax Debt since the date stated below, and such entities may have programs requiring the authorization and/or issuance of additional tax debt, the amount of which cannot be determined.

<u>Taxing Entity</u> <sup>1</sup>	<u>As of</u>	<u>Amount of Tax Debt Outstanding</u> <sup>2</sup>	<u>Percent Overlapping</u> <sup>3</sup>	<u>Amount of Tax Debt Overlapping</u>
Alamo Community College District	9/30/07	\$ 546,087,830	77.64%	\$ 423,982,591
Alamo Heights Ind. School District	9/30/07	77,959,333	47.85	37,303,541
Bexar County	9/30/07	244,143,901	76.40	186,525,940
Bexar County Hospital District d.b.a. University Health System	9/30/07			
East Central Independent School District	9/30/07	44,463,377	45.56	20,257,515
Edgewood Independent School District	9/30/07	107,956,720	100.00	107,956,720
Harlandale Independent School District	9/30/07	193,565,940	100.00	193,565,940
Judson Independent School District	9/30/07	350,279,980	34.26	120,005,921
North East Independent School District	9/30/07	814,121,723	86.37	703,156,932
Northside Independent School District	9/30/07	1,163,588,259	80.45	936,106,754
San Antonio Independent School District	9/30/07	470,173,632	99.32	466,976,451
San Antonio River Authority	9/30/07	46,485,918	96.50	44,858,911
Somerset Independent School District	9/30/07	25,976,250	1.69	438,999
South San Antonio Ind. School District	9/30/07	146,716,253	100.00	146,716,253
Southside Independent School District	9/30/07	67,864,671	32.53	22,076,377
Southwest Independent School District	9/30/07	<u>111,497,156</u>	36.08	<u>40,228,174</u>
Total Overlapping Tax Debt		\$4,410,880,943		\$3,450,157,019
City of San Antonio	9/30/07	\$ 945,755,000		\$ 945,755,000
Total Direct and Overlapping Tax Debt		<u>\$5,356,635,943</u>		<u>\$4,395,912,019</u>
Tax Year 2008 Actual Market Value of Taxable Property				\$83,909,309,357
Tax Year 2008 Net Taxable Assessed Valuation (100% of Actual Market)				\$72,891,817,263
Ratio of Direct and Overlapping Tax Debt to Actual Market Value				5.24%
Ratio of Direct and Overlapping Tax Debt to Net Taxable Assessed Value				6.03%
Per Capita Direct and Overlapping Tax Debt <sup>4</sup>				\$3,295
Note: The City’s total net Tax Debt is \$869,656,905 <sup>5</sup> as of September 30, 2007. Calculations on the basis of total net Tax Debt would change the above figures as follows:				
Total Net Direct and Overlapping Tax Debt				\$4,319,813,924
Ratio of Net Direct and Overlapping Tax Debt to Actual Market Value				5.15%
Ratio of Net Direct and Overlapping Tax Debt to Net Taxable Assessed Value				5.93%
Per Capita Net Direct and Overlapping Tax Debt <sup>4</sup>				\$3,238

<sup>1</sup> Certain bonds issued by Texas independent school districts are eligible for payment from the State “Instructional Facilities Allotments” and from “Existing Debt Allotments.” These bonds, while obligations of each district, are payable in part from direct allocations of State funds. Such funding varies between districts and from year to year depending upon the State’s contribution, which is based on a district’s property taxable wealth per student in average daily attendance.

<sup>2</sup> The amount of Tax Debt outstanding was obtained from each taxing entity.

<sup>3</sup> For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit’s taxable assessed value that is within the City’s boundaries and dividing it by each unit’s total taxable assessed value.

<sup>4</sup> Based on the City’s Planning Department estimated population of 1,334,244 as of September 1, 2008 for the City of San Antonio (figure includes those individuals residing within areas annexed by the City by such date).

<sup>5</sup> The audited interest and sinking fund balance for fiscal year ended September 30, 2007 was used to calculate this number.

## REVENUE SOURCES AND EXPENDITURES

### Sources of Revenues

The City's General Fund revenue sources include ad valorem taxes, sales taxes, franchise taxes, contributions from City-owned utilities, fines, penalties, licenses and permits, various service charges, and miscellaneous sources.

### General Fund Comparative Statement of Revenues and Expenditures and Analysis of Changes in Fund Balances

**Table 16**

The following statements set forth in condensed form reflect the historical operations of the City. The City has prepared such summary for inclusion herein based upon information obtained from the City's Comprehensive Annual Financial Report and financial records. Reference is made to such statements for further and complete information. For additional information relating to the General Fund balance re-estimates by the City for Fiscal Year 2008, see the section captioned "General Fund Update" on the following page.

	Fiscal Year Ended September 30				
	2007	2006	2005	2004	2003
<b>Fund Balance - Beginning of Year</b>	\$ 161,476,026	\$ 118,413,742	\$ 98,510,654	\$ 81,642,072	\$ 62,452,494
<b>Revenues</b>					
Taxes	\$ 430,451,032	\$ 399,359,902	\$ 367,030,243	\$ 343,707,952	\$ 320,518,083
Licenses and Permits	6,926,703	19,764,737	20,715,743	17,026,379	13,912,258
Intergovernmental	4,035,641	3,445,582	3,055,128	2,695,842	2,878,131
Revenues from Utilities	257,687,224	256,367,822	221,774,673	196,405,099	210,466,156
Charges for Services	25,220,809	35,276,831	33,622,089	30,029,118	27,283,429
Fines and Forfeits	15,114,609	10,947,472	12,025,344	11,713,073	11,282,396
Miscellaneous	<u>14,306,653</u>	<u>13,830,931</u>	<u>14,286,093</u>	<u>10,758,387</u>	<u>9,810,913</u>
<b>Total Revenues</b>	<u>\$ 753,742,671</u>	<u>\$ 738,993,277</u>	<u>\$ 672,509,313</u>	<u>\$ 612,335,850</u>	<u>\$ 596,151,366</u>
<b>Expenditures <sup>1</sup></b>					
General Government	\$ 79,705,071	\$ 71,139,682	\$ 66,746,538	\$ 54,214,920	\$ 53,416,465
Public Safety	437,206,950	429,051,592	404,491,342	376,925,001	361,835,168
Streets and Roadways	10,759,958	10,769,261	10,477,765	10,656,685	11,920,629
Health Services	13,109,799	12,412,664	14,378,887	13,409,924	13,814,613
Sanitation	3,007,740	2,864,299	2,582,840	2,380,287	2,515,192
Welfare	42,124,122	23,504,261	21,578,358	16,480,979	16,317,480
Culture and Recreation	69,728,940	71,938,565	63,478,741	57,918,951	59,119,473
Economic Dev. and Opportunity	<u>3,505,293</u>	<u>4,067,281</u>	<u>4,552,704</u>	<u>8,043,283</u>	<u>5,537,792</u>
<b>Total Expenditures</b>	<u>\$ 659,147,873</u>	<u>\$ 625,747,605</u>	<u>\$ 588,287,175</u>	<u>\$ 540,030,030</u>	<u>\$ 524,476,812</u>
<b>Excess of Revenues Over Expenditures</b>	<u>\$ 94,594,798</u>	<u>\$ 113,245,672</u>	<u>\$ 84,222,138</u>	<u>\$ 72,305,820</u>	<u>\$ 71,674,554</u>
<b>Other Financing Sources (Uses)</b>					
Operating Transfers In	\$ 15,972,026	\$ 11,466,466	\$ 14,121,847	\$ 15,348,182	\$ 13,120,941
Operating Transfers Out	<u>(126,065,404)</u>	<u>(90,280,712)</u>	<u>(86,649,587)</u>	<u>(76,440,760)</u>	<u>(70,377,939)</u>
<b>Total Other Financing Sources (Uses)</b>	<u>\$(110,093,378)</u>	<u>\$ (78,814,246)</u>	<u>\$ (72,527,740)</u>	<u>\$(61,092,578)</u>	<u>\$(57,256,998)</u>
Add Encumbrances <sup>1</sup>	<u>13,713,122</u>	<u>8,630,858</u>	<u>8,208,690</u>	<u>5,655,340</u>	<u>4,772,022</u>
<b>Fund Balance - End of Year</b>	<u>\$ 159,690,568</u>	<u>\$ 161,476,026</u>	<u>\$ 118,413,742</u>	<u>\$ 98,510,654</u>	<u>\$ 81,642,072</u>

<sup>1</sup> Expenditures are reported on a budgetary basis with encumbrances added back to arrive at a "Generally Accepted Accounting Principles" fund balance.

## **General Fund Update**

As part of its annual budget process, the City re-estimates revenues and expenditures for the current fiscal year. During the most recent budget process, the General Fund undesignated fund balance for FY 2008 was projected at \$86.3 million with budgeted financial reserves of \$68.2 million. This compares to an FY 2007 undesignated fund balance of \$80.3 million and budgeted financial reserves of \$48.1 million.

## **Sales Taxation**

### *Authority to Levy Sales Taxes*

Chapter 321 of the Texas Tax Code, as amended, authorizes the City to levy and collect a municipal sales and use tax on the receipts from the sale of taxable items within the City at a rate of 1%.

The Texas Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional sales tax on retail sales or taxable items to reduce the property tax levy. The City is disqualified from adopting this additional sales and use tax because the City is included within the boundaries of a rapid transit authority created under Chapter 451, Transportation Code.

### *Special Entities*

*Advanced Transportation District.* A proposition was passed at the November 2, 2004 election which allows VIA Metropolitan Transit to create an Advanced Transportation District (“District”) within the City and impose an additional 1/4 of 1% sales and use tax (the “ATD Tax”). The ATD Tax is allocated as follows: 50% for advanced transit services, operations, passenger amenities, equipment and other advanced transportation purposes; 25% to construct, improve and maintain streets and sidewalks and related infrastructure to improve mobility and other advance transportation purposes in the District; and 25% as the local share to obtain state and federal grants for highways, transportation infrastructure designed to improve mobility and other advanced transportation purposes in the District.

*Alamo Regional Mobility Authority.* The Alamo Regional Mobility Authority (the “Alamo RMA”) created pursuant to Chapter 370, as amended, Texas Transportation Code provides the San Antonio area with the ability to construct, maintain, and operate certain transportation projects and establish a local governmental entity to make mobility decisions for this area.

The Alamo RMA is authorized to develop toll projects, issue revenue bonds to fund transportation projects, and utilize surplus revenues from local toll roads and State and federal assistance for transportation projects.

The Alamo RMA has been established to work in conjunction with the Texas Department of Transportation, the San Antonio-Bexar County Metropolitan Planning Organization, and other agencies to formulate a strategy to implement a toll network that will generate and direct revenue to other infrastructure projects that will improve the overall transportation system for the San Antonio metropolitan area.

*Venue Projects.* The City Council has designated an Edwards Aquifer Protection Venue Project (“Edwards Venue Project”) under Chapter 334 of the Texas Local Government Code (“Venue Code”).

An election held on May 7, 2005 authorized the implementation of the Edwards Venue Project under the Venue Code and the imposition of a 1/8 of 1% sales and use tax. The Edwards Venue Project was approved and provides for the protection of water quality in the Edwards Aquifer by establishing a watershed protection and preservation project to acquire and preserve land or interests in land in the Edwards Aquifer recharge and contributing zones both inside and outside Bexar County.

The City Council has also designated a Parks Development and Expansion Venue Project (“Parks Venue Project”) under the “Venue Code.”

Also the election held on May 7, 2005 authorized the implementation of the Parks Venue Project under the Venue Code and the imposition of a 1/8 of 1% sales and use tax. The Parks Venue Project was approved and provides for the planning, acquisition, establishment, development, construction or renovation of the Parks Venue Project which includes the acquisition of open space and linear parks along Leon Creek, Salado Creek, Medina River, and San Antonio River, and for improvements and additions to the Municipal Parks and Recreation System.

The two Venue Projects share in the use of the 1/8 of 1% sales and use tax, and have a \$90 million and \$45 million ceiling, respectively. This sales and use tax took effect October 1, 2005, contributing to the City's current sales and use tax rate of 8.125%.

*Crime Control and Prevention District.* Pursuant to Texas Local Government Code, Chapter 363, entitled the "Crime Control and Prevention District Act" the City proposed the creation of a crime control and prevention district ("CCPD") and the imposition of a sales and use tax for the financing of the CCPD.

At an election held on November 8, 2005, the Crime Control and Prevention District Proposition failed. As a result, the sales and use tax rate for the City of San Antonio remains at 8.125%. The Act provides that if a CCPD has not been created before the fifth anniversary of the date the district was proposed by the City, the Temporary Board is dissolved and a CCPD may not be created.

### Collections and Equivalent Rates

Net sales tax collections and the equivalent ad valorem tax rates on fiscal year basis are as follows:

**Municipal Sales Taxes**

**Table 17**

Fiscal Year Ended 9/30	Sales Tax Collected <sup>1</sup>	Ad Valorem Tax Levy <sup>1,2</sup>	Percent of Ad Valorem Tax Levy	Net Taxable Assessed Valuation <sup>3</sup>	Equivalent Tax Rate
1998	\$ 118,991,708	\$ 170,587,464	69.75%	\$29,422,284,674	\$0.4044
1999	126,472,730	181,204,963	69.80	31,253,551,025	0.4047
2000	135,130,522	193,159,815	69.96	33,315,478,862	0.4056
2001	136,810,787	208,917,594	65.49	36,033,321,329	0.3797
2002	157,593,310	229,030,010	68.81	39,587,584,280	0.3981
2003	156,322,600	240,299,754	65.05	41,535,547,008	0.3764
2004	162,383,500	257,931,292	62.96	44,583,138,927	0.3642
2005	167,331,757	268,916,816	62.22	46,481,974,620	0.3600
2006	210,141,500	288,511,855	72.84	49,868,955,425	0.4214
2007	224,479,807	326,326,395	68.79	56,767,701,702	0.3954

<sup>1</sup> Includes the City's General Fund component of sales tax as well as the special venue sales tax beginning in fiscal year 2001 and the Advanced Transportation District Tax beginning in fiscal year 2005.

<sup>2</sup> Total Ad Valorem Tax Levy for debt service and maintenance and operations.

<sup>3</sup> Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.

Comparison of Selected Sources of Revenues

Table 18

Fiscal Year Ended 9/30	Taxes <sup>1</sup>	Charges for Services	Miscellaneous	Fines and Forfeits	Licenses and Permits	Inter-Governmental	CPS Energy	San Antonio Water System (SAWS)	Total
1998	\$245,430,127	\$21,676,353	\$10,862,192	\$11,525,034	\$11,159,736	\$2,354,189	\$146,145,982	\$4,687,162	\$453,840,775
1999	261,392,418	21,726,181	12,705,684	11,838,121	12,164,099	2,526,778	145,170,683	4,785,430	472,309,394
2000	277,833,729	23,010,824	13,017,615	11,593,504	12,257,775	2,669,780	167,138,876	5,161,798	512,683,901
2001	291,378,953	23,211,576	14,249,362	11,116,047	12,683,156	2,865,885	182,411,012	5,528,890	543,444,881
2002	310,912,963	24,631,495	12,054,469	10,828,974	13,302,392	2,888,626	165,118,018	6,116,065	545,853,002
2003	320,518,083	27,283,429	9,810,913	11,282,396	13,912,258	2,878,131	204,016,870	6,449,286	596,151,366
2004	343,707,952	30,029,118	10,758,387	11,713,073	17,026,379	2,695,842	189,505,855	6,899,244	612,335,850
2005	367,030,243	33,622,089	14,286,093	12,025,344	20,715,743	3,055,128	213,384,307	8,390,366	672,509,313
2006	399,359,902	35,276,831	13,830,931	10,947,472	19,764,737	3,445,582	246,084,171 <sup>2</sup>	10,283,651	738,993,277
2007	430,451,032	25,220,809	14,306,653	15,114,609	6,926,703 <sup>3</sup>	4,035,641	248,539,890 <sup>4</sup>	9,147,334	753,742,671

<sup>1</sup> Comprised of property, sales, alcoholic beverage, business taxes, penalties, and interest and judgments; excludes hotel/motel occupancy tax.

<sup>2</sup> Includes an additional transfer of \$8,438,363.

<sup>3</sup> Beginning in fiscal year 2007, Planning and Development Services revenues are no longer included in the general fund and are now a special revenue fund.

<sup>4</sup> Includes an additional transfer of \$8,294,548.

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**Expenditures for Selected Functions <sup>1</sup>**

**Table 19**

Fiscal Year Ended 9/30	General Government	Public Safety	Streets and Roadways	Health Services	Sanitation	Welfare	Culture and Recreation	Economic Development & Opportunity	Total
1998	\$44,617,078	\$267,566,794	\$9,162,860	\$10,753,132	\$2,780,539	\$10,232,506	\$42,809,012	\$4,783,117	\$392,705,038
1999	49,438,915	289,777,427	9,467,167	11,277,893	2,399,358	11,407,269	48,025,859	5,189,929	426,983,817
2000	55,180,174	305,859,236	9,909,813	12,299,792	2,600,995	12,857,131	52,938,397	5,864,158	457,509,696
2001	68,364,225	326,227,746	9,804,123	13,401,383	2,754,077	16,464,593	58,137,342	6,394,692	501,548,181
2002	56,154,675	350,755,902	10,179,816	13,933,748	2,653,746	16,991,511	59,454,085	7,330,135	517,453,618
2003	52,283,057	361,305,240	11,855,629	13,689,587	2,513,841	15,763,551	58,917,420	5,368,634	521,696,959
2004	53,456,752	375,315,914	10,656,685	13,383,921	2,380,287	15,920,832	57,072,648	7,687,550	535,874,589
2005	64,019,958	402,544,348	10,477,732	13,994,642	2,576,616	19,757,168	63,010,213	4,391,706	580,772,383
2006	66,956,066	427,598,173	10,769,231	12,032,617	2,857,185	21,738,552	71,495,663	3,973,352	617,420,839
2007	74,049,275	436,295,038	10,759,928	12,927,741	2,823,782	38,673,480	68,900,503	3,449,979	647,879,726

<sup>1</sup> Expenditures for selected functions do not include encumbrances.

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## THE CITY

### Governmental Structure

The City is a Home Rule Municipality that operates pursuant to the Charter of the City of San Antonio (the “City Charter”), which was adopted on October 2, 1951 and became effective on January 1, 1952. The City Charter provides for a council-manager form of government, whereby subject only to the limitations imposed by the Texas Constitution and the City Charter, all powers of the City are vested in an elective Council (the “City Council”) which enacts legislation, adopts budgets and determines policies. The City Council is comprised of 11 members, with ten members elected from single-member districts, and the Mayor elected at-large. Each member of the City Council serves two-year terms, and each member is limited to a maximum of two 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

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.

On June 19, 2008, City Council called a Special Election to be held on Tuesday, November 4, 2008, on the question of whether the City should amend the City Charter by revising the terms of office for the Mayor or a member of the City Council to four full 2-year terms of office, from two full 2-year terms, but prohibit the current or former Mayor or current or former member of the City Council from being elected to more than two full 2-year terms.

### Services

The full range of services provided to its constituents by the City includes ongoing programs to provide health, welfare, art, cultural, and recreational services; maintenance and construction of streets, highways, drainage, and sanitation systems; public safety through police and fire protection; and urban redevelopment and housing. The City also considers the promotion of convention and tourism and participation in economic development programs high priorities. The funding sources from which these services 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 ended September 30, 2007 were \$248,539,890. (See “CERTAIN SIGNIFICANT ISSUES AFFECTING THE CITY” herein and “SAN ANTONIO ELECTRIC AND GAS SYSTEM” in Appendix A attached hereto.)

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 ended September 30, 2007 were \$9,147,334. (See “CERTAIN SIGNIFICANT ISSUES AFFECTING THE CITY” herein and “SAN ANTONIO WATER SYSTEM” in Appendix A attached hereto.)

Please refer to Table 18 for historical transfers from CPS and SAWS to the City’s General Fund.

### **Economic Overview**

The City’s economic strength is enhanced by a favorable business environment and economic diversification. San Antonio’s economic base is comprised of various industries including domestic and international trade, convention and tourism, medical and health care, government employment, manufacturing, information security, financial services, telemarketing, telecommunications, finance and insurance, and oil and gas refining. The City’s cultural and geographic proximity to Mexico provides favorable conditions for international business relations therewith. In addition to the favorable economic climate, excellent weather conditions year round help to encourage and enhance the operation of many of San Antonio’s most important industries. (See “Appendix A – Economic Factors” attached hereto.)

While many local economies are struggling as a result of the difficulties in the financial markets, the decline in the housing market, and other national economic issues, San Antonio’s economy remains stable. With continued employment growth, the area’s unemployment rate, while increasing the past several months, remains low at 4.8% as of July 2008, as compared to the State’s unemployment rate of 5.0% and the United States unemployment rate of 6.0%. While home sales are declining and housing starts are down, San Antonio has not experienced the decline as significantly as other regions. Furthermore, home prices continue to remain steady in the area. Also, in contrast to other regions with a large tourism industry that are seeing a slowing in their tourist business, San Antonio’s tourist business is having a record year due to an increase in travelers who live in close proximity to the City.

As a result of the Base Realignment and Closure Commission, San Antonio will see a net increase of military employment of about 9,700 and an estimated increase in investment of about \$2.5 billion by 2011. While many of the military missions are being relocated from Brooks City-Base, private development is increasing with the continued expansion of Port San Antonio, the expansions of DPT Laboratories, and the recent announcement by Southeast Baptist Hospital System of plans to build a hospital at Brooks City-Base.

In June 2008, AT&T announced that its corporate headquarters would be moved to Dallas, Texas and it is expected to be completed by the end of 2008. AT&T is relocating 700 positions as they move their corporate headquarters to Dallas, Texas and these positions account for approximately 0.08% of total employment in San Antonio. AT&T has 310,070 employees worldwide as of August 2008 and will still have 5,300 employees in San Antonio and will continue to be the home to the company’s Telecom Operations Group. The San Antonio economy is large enough and diversified enough with many strong industries that this move is expected to have only a minimal effect on the local economy.

In July 2008, Toyota announced that the San Antonio plant would shut down production for 90 days. During this temporary cessation of the Toyota Tundra production, all 2,000 permanent employees remained at the plant with a focus on training and non-manufacturing duties. The 21 Toyota suppliers at the site providing another 2,000 jobs

also remained and retained the majority of their workforce with expectations that the plant will resume production in November 2008. When production resumes, all Toyota Tundra production will be in San Antonio.

In September 2008, the federal Office of Thrift Supervision closed Washington Mutual (“WAMU”), and the Federal Deposit Insurance Corporation (“FDIC”) then became the receiver of WAMU. FDIC then sold the assets and most of WAMU’s liabilities to JP Morgan Chase Bank (“Chase”). Both Chase and WAMU have major customer service centers in the City along with retail banking operations with each employing about 2,000 in San Antonio. Each of these customer service centers serves a different set of customers. While there may be some closure and consolidation of WAMU banking operations, the City does not expect WAMU’s customer service center to close nor does the City expect to lose a significant number of WAMU jobs in the community.

On October 3, 2008, Wells Fargo announced its acquisition of Wachovia, which operates a major customer service center in San Antonio. Based on available information, it does not appear this back office operation will be affected by this acquisition and integration of two major financial institutions. Wachovia currently has a major presence in the City employing approximately 3,300 people.

### Employee Pension Plan and Benefits

The City’s employees participate in a variety of defined pension plans. These plans and contributions made to such plans are further described in Note 8 in the City’s Comprehensive Annual Financial Report, attached hereto as Appendix B for the fiscal year ended September 30, 2007. (See “CITY PENSION AND OTHER POSTEMPLOYMENT RETIREMENT BENEFIT LIABILITIES” herein.)

### Employees

The following table shows the City’s total full-time, part-time, and alternate employee positions authorized and number of positions filled. The number of filled positions shown reflects employees on the payroll for the fiscal years indicated, and the number of employee authorized positions shown reflects positions adopted in the fiscal year budget.

	Fiscal Year Ended September 30									
	2008*		2007		2006		2005		2004	
	Filled	Authorized	Filled	Authorized	Filled	Authorized	Filled	Authorized	Filled	Authorized
Employees										
Police	2,092	2,185	2,040	2,105	1,913	2,044	1,925	2,037	1,984	2,033
Police Grant Funded	17	17	17	18	17	18	16	17	0	30
Total Police	2,109	2,202	2,057	2,123	1,930	2,062	1,941	2,054	1,984	2,063
Fire	1,485	1,564	1,487	1,529	1,455	1,490	1,436	1,439	1,097	1,441
Fire Grant Funded	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	335	-0-
Total Fire	1,485	1,564	1,487	1,529	1,455	1,490	1,436	1,439	1,432	1,441
Total Police & Fire	3,594	3,766	3,544	3,652	3,385	3,552	3,377	3,493	3,416	3,504
Civilian	7,481	9,710	7,112	9,687	7,124	9,631	7,354	9,375	6,749	9,580
Civilian Grant Funded	522	752	567	745	575	900	607	928	1,540	980
Total Civilian	8,003	10,462	7,679	10,432	7,699	10,531	7,961	10,303	8,289	10,560
Total	11,597	14,228	11,223	14,804	11,084	14,083	11,338	13,796	11,705	14,064

Note: The adopted budget for fiscal year 2009 added a total of 261 positions, 101 were civilian positions and 160 were uniformed positions. Additionally, the adopted budget for fiscal year 2009 eliminated 155 civilian positions, including 126 vacant positions and 29 filled positions.

## **Financial Accounting and Financial Policies**

### ***Basic Financial Statements***

The basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The government-wide financial statements report information on all nonfiduciary activities of the primary government and its component units. The Management Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities. As part of the implementation of GASB Statement No. 34, the City early implemented requirements for infrastructure reporting. GASB Statement No. 34 requires the historical cost of infrastructure assets, retroactive to 1980, to be included as part of the capital assets, as well as the related depreciation to be reported in the government-wide financial statements. In addition, for the most part, the effect of interfund activity has been removed from the statements.

The statement of net assets reflects both short-term and long-term assets and liabilities. In the government-wide statement of net assets, governmental activities are reported separately from business-type activities. Governmental activities are supported by taxes and intergovernmental revenues, whereas business-type activities are normally supported by fees and charges for services. Long-term assets, such as capital assets, infrastructure assets, and long-term obligations are now reported with the assets of governmental activities. The components of net assets, previously shown as fund balances, are presented in three separate components: (1) Invested in Capital Assets, Net of Related Debt, (2) Restricted, and (3) Unrestricted. Interfund receivables and payables between governmental and business-type activities have been eliminated in the government-wide statement of net assets, which minimizes the duplication of assets and liabilities within the governmental and business-type activities. Component units are also reported in the statement of net assets.

The statement of activities reflects both the gross and net cost format. The net cost (by function or business-type activity) is usually covered by general revenues (property tax, sales tax, intergovernmental revenues, etc.). Direct (gross) expenses of a given function or segment are offset by program revenues, and operating and capital grants. Program revenues must be directly associated with the function of business-type activity. The presentation allows users to determine which functions are self-supporting and which rely on the tax base in order to complete their mission. Internal service fund balances, whether positive or negative, have been eliminated against the expenses and program revenues shown in the governmental and business-type activities of the statement of activities.

A reconciliation detailing the change in net assets between the government-wide financial statements and the fund financial statements is presented separately for governmental funds. In order to achieve a break-even result in the internal service fund activity, differences in the basis of accounting and reclassifications are allocated back to user departments. These allocations are reflected in the government-wide statements. Any residual amounts of the internal service funds are reported in the governmental activity column.

The proprietary funds have a reconciliation presented in the proprietary funds' statement of net assets and statement of revenues, expenses, and changes in fund net assets. The only reconciling item is the internal service fund allocation.

### ***Fund Accounting***

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets and other debits, liabilities, fund equity and other credits, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The City has three types of Funds: Governmental Funds, Proprietary Funds, and Fiduciary Funds. The Fund Financial Statements provide more detailed information about the City's most significant funds, but not on the City as a whole. Major individual governmental funds and major enterprise funds are reported in separate columns in the Fund Financial Statements. Nonmajor funds are individually presented in the combining statements.

The criteria used to determine if a governmental or enterprise fund should be reported as a major fund are as follows: the total assets, liabilities, revenues or expenditure/expenses of that individual governmental or enterprise fund are at least 10.0% of the corresponding element total for all funds of that category or type (that is, total governmental or total enterprise funds), and the same element that met the 10.0% criterion above in the individual governmental or proprietary fund is at least 5.0% of the corresponding element total for all governmental and enterprise funds combined.

### ***Governmental Funds***

*General Fund.* The General Fund of the City accounts for all financial resources except those required to be accounted for in another fund.

*Special Revenue Funds.* Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts and major capital projects) that are legally restricted to expenditures for specified purposes.

*Debt Service Funds.* Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term debt principal, interest, and related costs.

*Capital Projects Funds.* Capital Projects Funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds and Trust Funds).

*Permanent Funds.* This fund is a new governmental fund type established by GASB Statement No. 34. Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs – that is, for the benefit of the government or its citizenry.

### ***Proprietary Funds***

*Enterprise Funds.* The Enterprise Funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises when the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis should be financed or recovered primarily through user charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

*Internal Service Funds.* Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis. The City's self-insurance programs, data processing programs, and other internal service programs are accounted for in this fund type.

### ***Fiduciary Funds***

Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, or other funds. These include Pension Trust and Retiree Health Care Trust, which account for resources for pension fund and health care benefits for the City's firefighters and police officers. The Private Purpose Trust Funds includes an assistance fund and a scholarship fund for City employees, as well as reporting on funds restricted for the City's literacy programs. The Agency Funds account for the City's sales tax to be remitted to the state, various fees for other governmental entities, unclaimed property, and holds various deposits. Pension Trust, Retiree Health Care Trust, and Private Purpose Trust Funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

## **Fiscal Year 2006 Restatement**

In connection with the audit of the basic financial statements of the City as of and for the year ended September 30, 2007, it became known that the City's accounting for certain capital assets in the Prior Financial Statements (September 30, 2006) were in error. The errors primarily relate to the improper capitalization of expenses as capital assets and the understatement of depreciation expense during these periods. Accordingly, the governmental activities, business-type activities, airport system fund, and aggregate remaining fund opinion units of the Prior Financial Statements were restated as a result of the aforementioned misstatements, which have been explained in Note 17 of the City's Comprehensive Annual Financial Report ("CAFR") for its fiscal year ended September 30, 2007 (selected provisions of the CAFR are attached hereto as Appendix B).

## **Fiscal Year 2007 Management Letter**

New accounting standards effective beginning in fiscal year 2007 reduced the threshold level and classification of findings reported in the Letter on Internal Control and Accounting Procedures (the "Management Letter"). The FY 2007 Management Letter includes three material weakness comments, four significant deficiency comments, two control deficiency comments, and five management advisory (general) comments.

The material weakness comments concern the City's (1) capitalization, transfer and depreciation of construction in progress ("CIP"), (2) generally accepted accounting principles ("GAAP") application of debt issuance discount or premium amortization, and (3) airport operations concerning tracking and maintaining lease agreements where the City is the lessor.

The material weakness comment regarding the City's CIP was based on the City's lack of effective top-level controls for ensuring projects were transferred out of CIP and in service, being depreciated timely, and that projects in CIP met the definition of a City owned capital asset. As a result of an extensive review and validation effort of CIP projects:

- \$37.9 million of Airport System Fund CIP was reclassified to depreciable capital assets for assets that were placed into service from FY 2001 - FY 2006; depreciation expense of \$2.4 million, related to those assets, was recognized; \$21.6 million in projects not meeting the definition of capital assets was removed from CIP; and an additional \$0.5 million in project clean up was recognized.
- \$157.8 million of Governmental Type Activities CIP was reclassified to depreciable capital assets for assets that were placed into service from FY 1990 – FY 2006; depreciation expense of \$18.9 million, related to those assets, was recognized; and an additional \$4.6 million in project clean up was recognized.
- \$1.3 million of Parking System Fund CIP was reclassified to depreciable capital assets for assets that were placed into service and \$0.2 million in depreciation expense was recognized.
- It was noted that there were project costs that were not properly settled into CIP but were shown as expenses. These unsettled costs resulted in an increase of \$11.2 million in Governmental Activities net assets and a decrease of \$1.6 million in Business Type Activities net assets.

Furthermore, as a result of depreciation testing, it was determined that a portion of depreciable assets had not been properly depreciated resulting in an (under)/overstatement of accumulated depreciation in the Governmental, Business Type, Airport System, and Aggregate Remaining Funds of \$8.1 million, \$0.4 million, \$0.2 million, and \$0.2 million, respectively. All of the expenses and changes to net assets recognized above were applied toward the beginning net asset balance of the funds, resulting in the funds restatement. These adjustments had no impact on the City's budget.

The material weakness comment regarding the City's GAAP application of debt issuance discount or premium amortization was a result of the City having elected to utilize the "straight-line" method as opposed to the "effective interest" method (required by GAAP) even though the difference between the two methods was deemed material to the financial statements. It is important to note that over the life of debt the two methods produce identical results, the primary difference is the timing of the amount recognized in each fiscal year related to the amortization of the discount or premium.

The material weakness comment regarding the City's airport operations was based on the difficulty experienced by the auditors to reconcile airport lease revenue per the trial balance to supporting documentation and footnote disclosure. It was noted that there was incomplete and inconsistent information between airport accounting and contract management that maintains the agreements. It was further noted that a significant majority of airport leases were not captured in the City's accounting system, SAP, but were maintained in a separate system. The City's footnote disclosure was compiled based on the information accumulated via spreadsheets generated by the Airport, who currently does not have a reliable method for tracking and maintaining lease agreements, which results in the disclosure possibly not reflecting all of the City's airport lease revenue commitments.

The four significant deficiencies include (1) accounting errors in the calculation of the annual bonus accrual; (2) difficulty surrounding the year-end accounts payable cut-off and recording of City obligations for goods and services performed in one fiscal year but invoiced in the next; (3) accounting errors and policy documentation regarding the accrual and recording of tax revenues; and (4) security administration policies and review.

The two control deficiencies include (1) the timely preparation and review of postclosure care liability estimates based on currently known factors; and (2) access/security policies and procedures.

While certain challenges were identified in the FY 2007 Management Letter, the City received an "unqualified opinion" on its Comprehensive Annual Financial Report. City Management has taken a number of steps to significantly improve fiscal accountability, including the development of a corrective action plan to specifically address the issues noted in the FY 2007 Management Letter. The following is a brief summary of the steps taken:

- Finance Department – A number of substantial improvements have been implemented in an effort to attract and retain qualified financial staff and provide quality financial services. A substantial reorganization of the Finance Department has been completed which focused on the realignment and redirection of resources based on functional areas of specialization, key business processes, and the City's new financial system, SAP. Under this reorganization, highly specialized resources are dedicated to each of the major functional areas and significant emphasis was placed on addressing staff turnover and the development and retention of key institutional knowledge. The Finance Department also relocated to new professional office space in order to more efficiently deliver financial services under the new organizational design as well as promote a professional environment. As of September 11, 2008, the Department had minimal vacancies out of its total FY 2008 personnel complement of authorized positions, as a result of normal business turnover.
- Capital Assets – Over the course of the past two years, the Finance Department in coordination with other City Departments has been validating/reconciling the City's capital projects. That process is now complete and we believe this issue has been resolved for FY 2008.
- GAAP Application – The City implemented the effective interest method in FY 2007's financial statements and we believe this issue has been resolved.
- Airport Operations – A comprehensive reconciliation of Airport leases will be completed by October 31, 2008. The Aviation Department is currently in the process of migrating the accounting for its leases to SAP and this effort is anticipated to be completed by the second quarter of FY 2009.
- Accounting Errors – Accounting for Accounts Payable; Revenue Recognition; Landfill Liability all relate to the fiscal year end closing processes and the development of the City's financial statements. These comments will be resolved as part of the year-end closing process for FY 2008.
- Policies and Procedures related to Information Technology (IT) Services – The City is currently developing the necessary policies and procedures to address the issues noted surrounding user network access, physical security of IT assets, review of unauthorized network access attempts, anti virus protection, and change management process for development/configuration changes to the SAP. These policies are anticipated to be completed by October 31, 2008.

## **Information Regarding GASB Statements for Pension/Retirement Program**

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes uniform financial reporting standards for other postemployment benefits (“OPEB”) plans and supersedes the interim guidance included in Statement No. 26. GASB Statement No. 43 follows a similar approach to GASB Statement No. 25 with modifications to reflect differences between pension plans and OPEB plans. The provisions of this statement are effective for fiscal periods beginning after December 15, 2005 and were implemented by the City in fiscal year 2007.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for fiscal periods beginning after December 15, 2006. The City’s first fiscal year after the effective date is fiscal year 2008, in which the City implemented this statement.

GASB Statement No. 47, *Accounting for Termination Benefits*, requires employers to disclose termination benefit arrangements, the cost of the termination benefits, and significant methods and assumptions used to determine termination benefit liabilities. Termination benefits that are provided through an existing defined benefit OPEB plan should be implemented for the fiscal period beginning after December 15, 2006 (simultaneously with GASB Statement No. 45). For all other termination benefits, the provisions of this statement are effective for periods beginning after June 15, 2005. The City implemented this statement in phases as it related to the associated implementations of GASB No. 43 and GASB No. 45. The City is implementing the final phase of this statement in fiscal year 2008.

The City has included additional footnotes in its fiscal year 2007 financial statements for GASB Statement No. 43. The City has not fully determined the effect that implementation of the other statements will have on the City’s financial statements.

## **Debt Management**

The City issues debt for the purpose of financing long-term infrastructure capital improvements. Some of these projects have multiple sources of funding which include debt financing. Infrastructure, as referred to by the City, means economic externalities essentially required to be provided by government to support a community’s basic human needs, economic activity, safety, education, and quality of life. Types of debt issued by the City include ad valorem tax-supported bonds and certificates of obligation. Certificates of obligation are typically secured by a pledge of revenues and ad valorem taxes, do not require voter approval, and are issued for programs that support the City’s major infrastructure facilities and certain of its revenue-producing facilities. Revenue bonds are utilized to finance long-term capital improvements for proprietary enterprise and self-supporting operations. Currently, revenue bonds have provided the financing required for improvements to the City’s Airport System, the City’s Parking System, the City’s Municipal Drainage Utility System (Stormwater System), and the Henry B. Gonzalez Convention Center.

The long-term infrastructure financing process commences with the identification of major projects throughout the City to be financed with ad valorem tax-supported bonds or certificates of obligation. These City-wide projects typically involve health and public safety, street improvements, drainage, flood control, construction and improvements to municipal facilities, as well as quality of life enhancements related to libraries and municipal parks. Major projects that are financed with ad valorem tax-supported bonds are presented to the electorate for approval. Upon voter approval, the City is authorized to issue ad valorem tax-supported bonds to finance the approved projects. Bond elections are held as needs of the community are ascertained. Revenue bonds do not require an election and are sold as needed for construction, expansion, and/or renovation of facilities in amounts that are in compliance with revenue bond covenants. The process for any debt issuance begins with the budget process and planned improvements to be made during the ensuing fiscal year.

Utilization of comprehensive financial analysis and computer modeling in the debt management plan incorporates numerous variables such as sensitivity to interest rates, changes in assessed values, annexations, current ad valorem

tax collection rates, self-supporting debt, and fund balances. The analytical modeling and effective debt management has enabled the City to maximize efficiencies through refundings and debt structuring. Strict adherence to conservative financial management has allowed the City to meet its financing needs while at the same time maintaining its “AA+”, “Aa1”, and “AA+” bond ratings by Standard & Poor’s, a Division of The McGraw Hill Companies, Inc. (“S&P”), Moody’s Investors Service, Inc. (“Moody’s”), and Fitch Ratings (“Fitch”), respectively. The positive trend in the City’s credit strength is evidenced by the Moody’s rating upgrade in November 2007 from the “Aa2” to its current “Aa1.”

## **Debt Authorization**

### ***General Obligation Bonds***

The City is authorized to issue bonds payable from ad valorem taxes pursuant to the City Charter, the general laws of the State, and ordinances adopted by the City Council. Such bonds must be authorized by the voters of the City at elections held within the City. The City currently has \$550,000,000 ad valorem tax-supported debt previously approved by its voters on May 12, 2007 and \$440,652,472 remains unissued. For the fiscal year ended September 30, 2008, the City had \$726,770,000 in total general obligation bonds outstanding.

On November 29, 2007, the City sold \$121,220,000 “City of San Antonio, Texas General Improvement and Refunding Bonds, Series 2007,” (the “2007 Bonds”). The 2007 Bonds were issued to provide funds (1) to finance the construction of general improvements to the City, including (a) streets, bridges and sidewalks; (b) drainage improvements; (c) parks, recreation, open space and athletics; (d) library improvements; and (e) public health facilities; (2) refund the City’s Tax Notes, Series 2007 in the principal amount of \$60,000,000; and (3) pay costs of issuance of the 2007 Bonds. The 2007 Bonds represent the first installment of the \$550,000,000 bonds approved at an election held in the City on May 12, 2007.

Concurrently with the issuance of the 2008 Notes, the City is issuing \$76,095,000\* “City of San Antonio, Texas General Improvement Bonds, Series 2008.”

### **Tax Notes**

The City is authorized to issue short term tax notes, having a maturity not exceeding seven years, pursuant to the general laws of the State and ordinances authorized by the City Council. Tax notes are payable from ad valorem taxes and generally are used as an interim funding mechanism in anticipation of issuing longer term bonds to refund outstanding tax notes. For the fiscal year ended September 30, 2008, the City had \$17,295,000 tax notes outstanding.

On November 29, 2007, the City sold \$21,270,000 “City of San Antonio, Texas Tax Notes, Series 2007A” (the “2007A Notes”). The 2007A Notes were issued to provide funds to (1) finance the costs of technology improvements to various City-owned systems (including, but not limited to, timekeeping administration, communications, business reporting, fiber optics, emergency citizen notification and response, procurement, recruiting, information, and data storage) and improvements to the City’s sanitary sewage system; and (2) pay the costs of issuance.

### ***Certificates of Obligation***

The City is authorized to issue certificates of obligation pursuant to the City Charter, applicable State laws, and ordinances adopted by the City Council. Certificates of Obligations are issued for various purposes to include financing revenue producing capital improvements and for infrastructure support and development. For the fiscal year ended September 30, 2008, the City had \$294,410,000 certificates of obligation outstanding, which comprises 28.33% of the total outstanding ad valorem tax-supported debt.

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\* Preliminary, subject to change.

On November 29, 2007, the City sold \$106,755,000 “City of San Antonio, Texas Combination Tax and Revenue Certificates of Obligation, Series 2007,” (the “2007 Certificates”). The 2007 Certificates were issued for the purpose of providing funds for the payment of contractual obligations to be incurred for making permanent public improvements and for other public purposes as follows: (1) constructing, renovating, and improving municipal facilities including the animal care facility and community family resource learning centers; (2) constructing the new Haven for Hope Homeless Campus; (3) acquiring, constructing, improving, and renovating park facilities, including the West End Park/Frank Garrett Park, La Villita historic buildings and Maverick Park, the Spanish Governor’s Palace, Southside Lions Park, Voelcker Park, West Side YMCA, and Lockwood Park; (4) acquiring Mission Drive In Theatre land for open space; (5) constructing and renovating Environmental Services facilities including a compress natural gas fueling facility at the Northeast Service Center and the Pearsall Landfill; (6) acquiring, constructing, and renovating library facilities including converting the Hertzberg Library building into a western art museum; (7) constructing improvements for flood control including dams and bridge improvements, communications equipment, landscaping, accessible walkways and landings, and amenities along the San Antonio River; (8) constructing and improving municipal golf courses including a learning center for the “First Tee” program at Brackenridge Park polo field; (9) constructing parking facilities at the Witte Museum and the Zoo area; (10) acquiring, constructing, and improving public safety facilities, including a public safety headquarters, other police and fire station facilities, and software for automated field police reporting and integrated report management system; (11) constructing street improvements and drainage incidental thereto, including Bulverde Road from Evans to Marshall, 36th Street (US 90 to Port San Antonio entrance), Jones Maltsberger from US 281 to Basse Road, streets within the Medical Center, Prue Road extension to Huebner, Stahl Road at O’Connor and Judson, and infrastructure in connection with the Texas A&M University campus; (12) purchasing material, supplies, equipment, machinery, land, and rights-of-way for authorized needs and purposes relating to public safety, drainage, flood control, streets, libraries, utility infrastructure, and public works purposes; and (13) the payment of professional services related to the construction and financing of the aforementioned projects.

Concurrently with the issuance of the 2008 Notes, the City is issuing \$85,055,000\* “City of San Antonio, Texas Combination Tax and Revenue Certificates of Obligation, Series 2008.”

### ***Revenue Bonds***

The City is authorized to issue revenue bonds under the provisions of the City Charter, applicable state laws, and ordinances adopted by City Council. For fiscal year ended September 30, 2008, the City’s outstanding revenue bonds were: Airport System Revenue Bonds in the aggregate principal amount of \$232,930,000; Passenger Facility Charge and Subordinate Lien Airport System Revenue Bonds in the aggregate principal amount of \$140,650,000; Municipal Drainage Utility System (Stormwater System) Bonds in the aggregate principal amount of \$95,615,000; and Henry B. Gonzalez Convention Center Expansion Project Revenue Bonds aggregating to \$222,465,000.

The airport, parking, drainage, and convention center revenue bonds are not secured by ad valorem taxes and are limited obligations of the City, payable solely from the revenues of the airport system, parking system, municipal drainage utility system, and hotel occupancy tax collections, respectively. The Passenger Facility Bonds are not secured by ad valorem taxes and are payable solely from the revenues generated by the City’s collection of a passenger facility charge, which was approved by the Federal Aviation Administration and the City Council, with collection beginning on November 21, 2001.

On July 9, 2008, the City sold \$135,000,000 “City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Variable Rate Demand Revenue Refunding Bonds, Series 2008” (the “Series 2008 HOT Bonds”). The Series 2008 HOT Bonds were sold for the purpose of (i) refunding its outstanding “City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Revenue and Refunding Bonds, Series 2004B;” (ii) constructing renovations and making improvements to the Lila Cockrell Theatre, as well as other expansion related improvements; and (iii) paying costs of issuance of the bonds.

On November 29, 2007, the City sold \$82,400,000 “City of San Antonio, Texas Airport System Revenue Improvement Bonds, Series 2007” (Alternative Minimum Tax Bonds) (the “GAR Bonds”). The GAR Bonds were

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\* Preliminary, subject to change.

sold for the purpose of paying costs related to constructing, improving, renovating, enlarging and equipping the Airport including (i) construction of renovations and improvements to existing terminals and airport maintenance facilities; (ii) construction of two new terminals (Concourse B and Concourse C), parking structures, cargo facilities, holding aprons, and an elevated terminal roadway; (iii) construction of drainage improvements; (iv) construction of infrastructure, roadway and utility improvements related to the redevelopment of the former Northside Service Center site located near the west entrance of the Airport; (v) acquisition and installation of equipment related to such projects, (vi) acquisition and installation of terminal road signage, (vii) engineering, architectural and other professional services related to such projects, (viii) funding capitalized interest and a debt service reserve fund, and (ix) costs of issuance of the GAR Bonds.

On November 29, 2007, the City sold \$74,860,000 “City of San Antonio, Texas Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2007” (Alternative Minimum Tax Bonds) (the “PFC Bonds”). The PFC Bonds were sold for the purpose of paying costs related to constructing, improving, renovating, enlarging and equipping the Airport, which improvements and projects qualify, and have been approved by the Secretary of the U.S. Department of Transportation, as “eligible airport-related projects” under 49 USC §40117, including (i) construction of renovations and improvements to existing terminals, (ii) construction of two new terminals (Concourse B and Concourse C), and (iii) construction of an elevated terminal roadway, upgrades to the central plant, apron replacement, and new utilities. Proceeds of the PFC Bonds also will be used to fund a debt service reserve fund and pay costs of issuance of the PFC Bonds.

### ***Refundings***

The City routinely reviews the possibility of refunding certain of its outstanding debt to effectuate interest cost savings.

### ***Commercial Paper Program***

On May 7, 2005, the voters of the City approved a 1/8 cent sales and use tax for the purpose of collecting an aggregate of \$90,000,000 to be used to acquire property for a conservation easement or open-space preservation program intended to protect water in the Edwards Aquifer which took effect October 1, 2005. Passage of the Aquifer Protection Proposition will enable the City to help protect the Edwards Aquifer water supply from pollution by acquiring land over the Edwards Aquifer Recharge Zone. It is expected that the land acquisition over the Edwards Aquifer will occur over a 60-month period. An accelerated land acquisition program will be financed through the implementation and issuance of Sales Tax Revenue Commercial Paper Notes. The commercial paper program was authorized by the City Council on May 10, 2007, for \$50,000,000 in Sales Tax Revenue Commercial Paper Notes (the “Notes”). Funds collected in accordance with the Aquifer Protection Proposition, in addition to being available to pay the Notes, will be used to pay costs and expenses incurred in relation to eligible projects, including, without limitation, acquisition costs of land, interests in land, rights-of-way and easements, engineering and legal costs, and real estate sales commissions and closing costs. For the fiscal year ended September 30, 2008, the City had \$10,500,000 commercial paper notes outstanding.

### ***Debt Limitations***

The amount of ad valorem tax-supported debt that the City may incur is limited by City Charter and by the Constitution of the State of Texas. The City Charter establishes a limitation on the general obligation debt supported by ad valorem taxes to an amount not to exceed ten percent of the total assessed valuation.

The Constitution of the State of Texas provides that the ad valorem taxes levied by the City for debt service and maintenance and operation purposes shall not exceed \$2.50 for each one hundred dollars of assessed valuation of taxable property. There is no limitation within the \$2.50 rate for interest and sinking fund purposes; however, it is the policy of the Attorney General of the State of Texas to prohibit the issuance of debt by a city if such issuance produces debt service requirements that exceed the amount that can be paid from \$1.50 tax rate calculated at 90% collections.

## **Long-Term Debt Planning**

The City employs a comprehensive multi-year, long-term capital improvement planning program that is updated annually. Debt management is a major component of the financial planning model which incorporates projected financing needs for infrastructure development that is consistent with the City's growth while at the same time measuring and assessing the cost and timing of each debt issuance.

The assumptions utilized in the FY 2008-2009 Debt Plan include: (i) assessed valuation actual growth at 10.49% in fiscal year 2009, decreasing to a projected growth rate of 5.00% in fiscal year 2010, decreasing to 3.00% in fiscal years 2011 through fiscal year 2013, decreasing 0.50% per year beginning in fiscal year 2014 and continuing until fiscal year 2016, when a growth rate of 1.50% is reached and held constant through fiscal year 2021; (ii) tax collections at 97.5%; (iii) tax freeze for elderly and disabled (proposition 3); (iv) the adopted debt service tax rate which remains constant at 21.15 cents in fiscal years 2009 through 2024 and decreases annually from fiscal years 2025 through 2041; and (v) \$550,000,000 General Improvement Bonds authorized by the voters in the May 12, 2007 election of which \$109,347,528 has been previously issued, with issuances anticipated to be sold as follows: \$76,095,000 in FY 2009, \$115,827,000 in FY 2010, \$168,042,000 in FY 2011, and \$80,688,000 in FY 2012. Based on these assumptions and the projected maximum debt service tax rate of 21.15 cents, additional estimated bond authorizations in the Fall of 2012 and the Fall of 2017 are approximately \$596,000,000 and \$550,000,000, respectively. In addition, the FY 2008-2009 Debt Plan includes the issuance of Certificates of Obligation, which are scheduled to be sold as follows: approximately \$222,555,000 for fiscal years 2009 through 2012, approximately \$57,575,000 for fiscal years 2013 through 2017, and approximately \$45,000,000 for fiscal years 2018 through 2022 for: fire station improvements, Metropolitan Planning Organization ("MPO") streets and other street projects, drainage projects, land acquisition, parks and recreation projects, municipal facility improvements, environmental services improvements, economic development, library improvements, health, public safety improvements, and San Antonio River improvements. Additionally, the FY 2008-2009 Debt Plan includes the issuance of approximately \$9,655,000 self-supporting Certificates of Obligation to be sold in fiscal year 2009 and \$30,800,000 in short-term Tax Notes to be sold from fiscal years 2009 through 2011.

## **New Money Issues**

Ongoing capital improvement needs have required the City to sell certificates of obligation and general obligation bonds to fund capital improvements for various streets, drainage and flood control projects; acquisition, construction and improvements related to park facilities, public safety, municipal facilities, parking structures; environmental clean-up and land acquisition.

The FY 2008-2009 debt plan includes the sale of \$76,095,000 of the 2007 authorized bonds. The bonds will be sold to finance improvements to streets, bridges and sidewalk, drainage, libraries, parks, recreation, open space and athletics, and public health facilities. The FY 2008-2009 debt plan also includes the sale of approximately \$85,055,000 of certificates of obligation and \$15,800,000 in short-term Tax Notes. The certificates of obligation and Tax Notes will be sold to fund fire station improvements, MPO streets and other street projects, environmental services improvements, municipal facilities, parks and recreation improvements, economic development, library improvements, drainage projects, and health, and information technology improvements.

## **Debt Service Tax Rate**

The combination of successful refundings and low interest rates for bonds and certificates of obligation sales has resulted in a decrease in the projected maximum debt service tax rate of \$0.3049 per \$100 valuation prior to 1992, 1993, 1996, 1998, 2001, 2002, 2003, 2004, 2005, 2006, 2007, and 2008 refundings to a projected maximum debt service tax rate of \$0.2115 per \$100 through fiscal year 2024.

## **The Budget Process**

### ***Fiscal Year 2009 Budget***

The FY 2009 Budget Process included several budgetary steps and input practices which allowed for more community and employee input. Each phase of the FY 2009 Budget Process is explained below.

*Five-Year Financial Forecast.* The Budget Process is guided with the development and presentation of the Five-Year Financial Forecast (the “Forecast”). The Forecast is a financial and budgetary planning tool that provides a current and long-range assessment of financial conditions and costs for City service delivery plans including the identification of service delivery policy issues that will be encountered in the next five years and that will have a fiscal impact upon the City’s program of services. The Forecast also examines the local and national economic conditions that have an impact on the City’s economy and ultimately, its budget.

The Forecast also serves as a foundation for development of the proposed budget by projecting revenues and anticipated expenditures under a defined set of assumptions. The Forecast enables the City Council and staff to identify financial issues in sufficient time to develop a proactive strategy in order to address emerging strategic issues. Although the FY 2009 Forecast focused primarily on the City’s General Fund, the Environmental Services Fund, the Development and Planning Services Fund, and Hotel Occupancy Tax Related Funds were also included. On April 30, 2008, the Five-Year Financial Forecast was presented to the City Council.

*Public Input.* Beginning in March 2008, the Budget Input Box gave citizens and employees the opportunity to offer their suggestions on how the City could increase efficiencies, generate revenues, and make effective changes to service delivery. The dropboxes were placed at 170 sites within the City including public libraries, the City’s office lobbies, Chamber of Commerce, and other venues. Information and access for this budget initiative was provided to citizens and City employees in English and Spanish. Budget Input Box resources were also available on the City’s internet website. In addition, the FY 2009 Budget process continued with the City’s Frontline Focus Initiative for the third year. This initiative is designed to engage employees from specific departments to identify process improvements that could be considered during the development of the FY 2009 Proposed Budget.

*City Council Goal Setting Work Session.* The Goal Setting Work Session for the annual budget is a formal mechanism for the City Council as a body to provide City staff with budget policy direction. This year’s work session was held on May 13, 2008, and utilized a facilitator to guide City Council in their goals and priorities. Prior to the work session, the City Council was provided with a ballot that included 54 service issues, four (4) revenue topics, and three (3) fiscal policies to be rated.

The 54 City service issues were separated into nine major categories:

- Police Protection/Public Safety
- Infrastructure Management
- Fire Protection/Emergency Management Services (“EMS”)
- Business and Economic Development
- Parks & Recreation
- Fiscal Policies
- Quality of Life (Health & Human Development)
- Library Services
- Housing and Neighborhood Services

The results of this rating process were discussed with City Council in order to provide City staff with a clear set of priorities to be included in the FY 2009 Budget.

*Proposed Budget Preparation.* Prior to the Proposed Budget Presentation, each department’s base budget was reviewed by the Office of Management and Budget, along with the department’s respective Management Team member. Costs such as fuel, electricity, and other similar maintenance and operational expenses were adjusted to meet current market demands. Concurrent to these reviews, the Management Team and Budget Staff also reviewed

preliminary fund schedules in order to determine the financial situation for each department. Other items discussed in these Management Team meetings included performance measures, capital and grant programs, policy issues, revenue changes, and potential reductions. Departments were asked to look for efficiency and operational proposals that would address priority-rated City Council policy goals.

*FY 2009 Proposed Budget.* After obtaining the priorities of the City Council, as well as conducting reviews of each City department, the City Manager presented the FY 2009 Proposed Budget to City Council on August 14, 2008. The Proposed Budget represented City staff's professional recommendation on how to utilize revenues and expenditures in order to achieve a balanced budget, while optimizing City service deliveries.

Major enhancements in the FY 2009 Proposed Budget included a two-year balanced budget, increased financial reserves, street and sidewalk, pavement markings and traffic signal enhancements, enhanced funding for additional staffing for police, fire and EMS, funding to address neighborhood issues such as code compliance, graffiti enforcement and animal care, as well as provided funding for expanded youth employment services and parks improvements.

*Public Input on Budget Priorities.* After the FY 2009 Budget was proposed on August 14, 2008, the City held District Community Budget Hearings in all 10 City Districts between August 19 and August 28, 2008. In each community hearing, an explanatory video regarding the FY 2009 Proposed Budget was shown and citizens were given the opportunity to direct questions to their City Council Representative and City Officials. These District Community Budget Hearings were attended by over 750 individuals and over 200 community comments were heard. The City also held a Budget Public Hearing in which citizens/groups provided input. Additionally, two Tax Rate Public Hearings and eight Work Sessions for City Council were held. The Public Hearings and Work Sessions resulted in the City Council being aware of issues important to citizens and community groups, while the District Community Budget Hearings allowed City Council to hear feedback from the citizens on the FY 2009 Proposed Budget.

Included in the FY 2009 Proposed Budget, were adjustments to the financial reserves. The establishment and maintenance of appropriate reserves within the General Fund is critical to prudent financial management. The FY 2009 Proposed Budget included an additional \$15.5 million in Budgeted Financial Reserves allowing for a 9% Reserve. The City Council policy direction is to obtain a 10% reserve goal by FY 2010.

*Fiscal Year 2009 Adopted Budget.* After receipt of the Proposed Budget, the City Council held eight work sessions to review the proposed service program details and discuss potential City Council budget amendments. The budget work sessions provided a forum for public discourse on significant policy issues as well as an opportunity to review departmental service plans highlighting proposed program enhancements, reductions, efficiencies, redirections, and revenue adjustments. After considering all the recommendations and receiving input from citizens at a public hearing on September 3, 2008; the budget was adopted on September 11, 2008, including amendments added by the City Council. Highlights of the FY 2009 Adopted Budget include \$15.5 million added to the General Fund's financial reserves for a total of \$83.7 million; a \$28.3 Reserve for a Two-Year Balanced Plan, 10% increase in Street Maintenance Program for a total of \$67 million in FY 2009; 100 new Police Officers added, making three year total more than in the past decade; 60 new Firefighters added to improve firefighting and EMS Services; increased Graffiti Abatement resources for volunteer initiative by nearly \$350,000; added 5 new Graffiti Abatement positions; added \$750,000 more in resources for free/low cost Spay/Neuter surgeries with Mobile Unit, and added 2 new Animal Care Officer positions; doubled the number of youth in Summer Employment Programs (500 served in FY 2009).

## **Annexation**

Through annexation, the City has grown from its original size of 36 square miles to its current area, encompassing 469.9 square miles (both full purpose and limited purpose annexations), and having a tax year 2008 total taxable value of \$72.892 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 increased 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.

### ***Three-Year Annexation Plan Process***

By City Charter, City Council has the power to annex territory by passage of an ordinance. As of January 1999, state law mandates that municipalities prepare an annexation plan specifically identifying annexations that may occur beginning on the third anniversary of the date such plan was adopted. The City is required to maintain the annexation plan on the City's web site and notify property owners and public entities.

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 will 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 2008.

### **Public Improvement District**

Pursuant to the Public Improvement District Assessment Act, Chapter 372, Texas Local Government Code, as amended, on April 29, 1999, the City Council created a Public Improvement District ("PID") in the central business district. The purpose of the PID is to provide public improvement services to properties within the boundaries of the PID to include: (1) sidewalk sweeping and washing; (2) graffiti abatement; (3) landscaping/streetscaping services; (4) a marketing and promotional program; and (5) a public service representative program. On July 1, 1999, the City Council authorized the City to execute a contract with Centro San Antonio Management Corporation, a non-profit Texas corporation, to manage the PID programs. A 15-member Board of Directors of the PID meets at least quarterly to assure performance of Centro San Antonio Management Corporation. The supplemental services and improvements to be provided are detailed in the annual Service and Assessment Plan, which must be approved by the City Council. The fiscal year 2009 plan reflects a total budget of \$2,555,000 based on an assessment rate of \$0.11 per \$100 valuation. In addition to assessment revenues from private property, which are expected to yield approximately \$1,985,628 in fiscal year 2009 estimated additional funds are to be received from annual contributions from the City and City Public Service combined of \$85,208, from VIA Metropolitan Transit and Bexar County combined of \$90,000, from other revenue sources combined of \$26,328, and from interest on deposits and delinquent payments of \$55,000. The PID will operate on these collected revenues and will not issue bonds. The PID is authorized for a term of five years through the end of fiscal year 2009.

### **Investments**

Available investable funds of the City are invested as authorized and required by the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended (the "Investment Act"), and in accordance with an Investment Policy approved by the City Council. The Investment Act requires that the City establish an investment policy to ensure that City funds are invested only in accordance with State law. The City established a written investment policy adopted September 30, 2008. The City's investments are managed by the City's Department of Finance, who, in accordance with the Investment Policy, report investment activity to the City Council.

### ***Legal Investments***

Under Texas law, the City is authorized to invest in (1) obligations, including letter of credit, of the United States or its agencies and instrumentalities; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than “A” or its equivalent; (6) (a) certificates of deposit and share certificates issued by a depository institution that has its main office or branch office in the State of Texas, that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, or are secured as to principal by obligations described in clauses (1) through (5) and clause (13) or in any other manner and amount provided by law for County deposits, and in addition (b) the County is authorized, subject to certain conditions, to invest in certificates of deposit with a depository institution that has its main office or branch office in the State of Texas and that participates in the Certificate of Deposit Account Registry Service® network (CDARS®) and as further provided by Texas law; (7) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), requires the securities being purchased by the City to be pledged to the City, held in the City’s name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer or a financial institution doing business in the State; (8) bankers’ acceptances with the remaining term of 270 days or less, which will be liquidated in full at maturity, is eligible for collateral for borrowing from a Federal Reserve Bank, if the short-term obligations of the accepting bank or its parent are rated at least “A-1” or “P-1” or the equivalent by at least one nationally recognized credit rating agency; (9) commercial paper with a stated maturity of 270 days or less and is rated at least “A-1” or “P-1” or the equivalent by either (i) two nationally recognized credit rating agencies or (ii) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (10) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, and provide the City with a prospectus and other information required by the Securities and Exchange Act of 1934 or the Investment Act of 1940; (11) no-load mutual funds registered with the United States Securities and Exchange Commission that have an average weighted maturity of less than two years; invests exclusively in obligations described in the preceding clauses; are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than “AAA” or its equivalent; and conforms to the requirements for eligible investment pools; (12) public funds investment pools that have an advisory board which includes participants in the pool and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than “AAA” or “AAA-m” or its equivalent or no lower than investment grade with a weighted average maturity no greater than 90 days; (13) bonds issued, assumed, or guaranteed by the State of Israel; and (14) guaranteed investment contracts secured by obligations of the United States of America or its agencies and instrumentalities, other than prohibited obligations described in the next succeeding paragraph, with a defined termination date, and pledged to the City and deposited with the City or a third party selected and approved by the City.

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

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pool is rated no lower than “AAA” or “AAA-m” or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered

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

### ***Investment Policies***

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

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

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

reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

### ***Current Investments***

At June 30, 2008, investable City funds, in the approximate amount of \$1,433,459,502, were 94.25% invested in obligations of the United States, or its agencies and instrumentalities, 5.67% invested in a money market mutual fund, and 0.08% in a collateralized repurchase agreement, with the weighted average maturity of the portfolio being less than one year. The investments and maturity terms are consistent with State law, and the City's Investment Policy objectives to satisfy cash flow requirements, preservation and safety of principal, liquidity and diversification, minimize risk, maximize yield, and proactive portfolio management.

The market value of such investments (as determined by the City by reference to published quotations, dealer bids, and comparable information) was approximately 100.02% of their book value. No funds of the City are invested in derivative securities; *i.e.*, securities whose rate of return is determined by reference to some other instrument, index, or commodity.

### **Certain Significant Issues Affecting the City**

#### ***Water Supply***

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

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

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

The various litigations and regulatory efforts to manage withdrawals from the Edwards Aquifer resulted in passage of the Edwards Aquifer Authority Act in 1993 and its amendment in 1995 to allow its implementation. The

Edwards Aquifer Authority began operation on July 1, 1996, with a goal of implementing State regulatory legislation aimed at the elimination of uncertainties concerning access to and use of Edwards Aquifer water by the City and all other Aquifer users.

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

The Edwards Aquifer Authority has finalized the permitting process. The Edwards Aquifer Authority staff proposed permit(s) for 193,305 acre-feet for SAWS permanent Edwards Aquifer water right holdings as of December 2005. In addition to the 193,305 acre-feet, SAWS held an additional 25,806 acre-feet of Edwards' leases, bringing SAWS total inventory to 219,111 acre-feet. SAWS pumped 190,329 acre-feet of Edwards Aquifer water during 2006.

In 2007, the Texas Legislature passed Senate Bill 3 on the final day of the 80<sup>th</sup> 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 into state statute. SAWS 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 is being 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.

Implementation of the legislation and management of the Edwards Aquifer will benefit the City. The legislation should provide a basis for resolving disputes concerning the application of the Endangered Species Act to the Edwards Aquifer and will prevent further diminution of usage by existing users, such as the City, caused by new users and additional demand. The legislation creates permitted rights and hence, a market in the limited resource and an incentive to implement conservation measures region-wide. The City believes that implementation of the legislation will also ultimately result in the elimination of litigation threats to existing water usage from the Edwards Aquifer. Usage of water from the Edwards Aquifer, including usage by the City, has steadily decreased since the Edwards Aquifer Authority commenced its regulatory activities.

### ***Water Reuse Program***

SAWS supplies reuse water to CPS Energy ("CPS"), San Antonio's municipally owned electrical utility. The revenues derived from such agreement have been restricted in use to only reuse activities and are excluded from the calculation of SAWS Gross Revenues, and are not included in any transfers to the City's General Fund. Revenues derived from this agreement are approximately \$2 million each year.

SAWS has constructed a direct reuse, or recycled water, system that provides non-potable water to various customers now using Edwards Aquifer water. The Reuse Program serves golf courses, grass farms, a university, a military base, a city landfill, a city baseball stadium, and others. Revenue from recycled water sales are recorded as normal revenue of SAWS and do not have the restrictions of the reuse agreement with CPS.

Please refer to Table 18 herein for historical transfers from SAWS to the City's General Fund.

### ***Electric and Gas Supply***

The CPS electric system serves a territory consisting of substantially all of Bexar County and small portions of the adjacent counties of Comal, Guadalupe, Atascosa, Medina, Bandera, Wilson, and Kendall. Certification of this service area has been approved by the Public Utility Commission of Texas ("PUCT"). Effective January 1, 1997,

the transmission grid in Texas was opened to wholesale competition by virtue of PUCT regulations implementing 1995 Texas legislation. Wholesale customers include cities and towns buying power for resale and as a result of the new regulations, the transmission grid is available on an open access basis to any power provider to supply these loads. CPS sells electricity at wholesale prices to the Floresville Electric Light & Power System, the City of Hondo, and the City of Castroville. Renewal contracts have been entered into with these long-term wholesale customers in recent years. 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 City Council exercises original electric and gas rate regulatory jurisdiction over the CPS retail service areas, with appellate jurisdiction in the PUCT and Texas Railroad Commission for electric and gas rates, respectively, for areas outside the City. Pursuant to amendments made by the Texas Legislature in 1995 to the Texas Public Utility Regulatory Act ("PURA"), municipally-owned utilities, including CPS, became subject to the regulatory and rate jurisdiction of the PUCT relating to transmission of wholesale energy. The PURA amendments require 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. (For further information, see "SAN ANTONIO ELECTRIC AND GAS SYSTEMS - Service Area and Rates" in Appendix A attached hereto.)

The CPS electric system, like other municipal electric systems in the State, is adapting to changes in electric regulation brought about by the enactment of Senate Bill 7 ("SB 7") by the Texas Legislature in 1999. SB 7 provides for open competition in the provision of retail electric service in the State, which commenced on January 1, 2002. Municipal utilities, such as CPS, are not required to participate in the competitive retail market, although they may "opt-in" to retail electric competition. 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. SB 7 provides that "opt-in" decisions are to be made by the governing body or body vested with the power to manage and operate a municipal utility such as CPS. Given the relationship of the CPS Energy Board of San Antonio, Texas ("CPS Board") and the City Council, any decision to opt-in to 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 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. (For further information, see "SAN ANTONIO ELECTRIC AND GAS SYSTEMS - Electric Utility Restructuring in Texas; Senate Bill 7" in Appendix A attached hereto.)

The United States Congress may also continue to consider legislation that would affect retail competition in the furnishing of electric energy. The ultimate effects of these and other developments in the restructuring of the electric industry, including possible state or national legislation, cannot be predicted. CPS, however, continues to implement organizational and systems changes to prepare for the possibility of participating in retail electric competition in Texas and will periodically advise the City regarding developments in the competitive market and the advisability of CPS' participation.

Please refer to Table 18 herein for historical transfers from CPS to the City's General Fund.

## **LITIGATION**

### **General Litigation and Claims**

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. That litigation includes lawsuits claiming damages that allege that the City caused personal injuries and wrongful deaths; class actions and promotional practices; various claims from contractors for additional amounts under construction contracts; and property tax assessments and various other liability claims. The amount of damages in most of the pending lawsuits is capped under the Texas Tort Claims Act; therefore, as of fiscal year ended September 30, 2007, the amount of \$19.2 million is included as a component of the reserve for claims liability. The estimated liability, including an estimate of incurred but not reported claims is recorded in the City's 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 Audited Financial Statements for the year ended September 30, 2007 attached hereto as Appendix B. In addition, the City provides the following updated information related to the lawsuits not contained in Appendix B:

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 the 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.

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; En Seguido, Ltd. 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 six (6) 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 & Shamon 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.

Samantha Rivera v. et al. v. City of San Antonio and SAPD 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. The claims against the City have been dismissed, only claims pending are against the police officers. Damages could range from \$250,000 to \$500,000. The case is set for trial on February 17, 2009.

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. 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 parties have reached a tentative settlement that will be presented to the City Council for consideration.

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 SAPD 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 could be in a range of \$150,000 to \$300,000. This matter has been set for trial on October 20, 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. Potential liability could be in a range of \$100,000 to \$500,000. This case is set for trial on October 20, 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. Liability could range from \$300,000 to \$500,000. This matter is not currently set for trial.

Christine Esteinon, et al. v. City of San Antonio, et al. Plaintiffs were patrons of a bar known for drug activities. SAPD officers entered bar for inspection. Plaintiffs allege that they were detained and improperly searched in violation of their constitutional rights. Damages could range from \$300,000 to \$500,000. This case is set for trial on February 23, 2009.

Diana Borjas, et al. v. City of San Antonio et al. Plaintiff's husband, the decedent, was riding in a vehicle involved in a single car accident, leading to his death. Plaintiffs assert that the road was an unsafe condition due to its design. Damages are capped at \$250,000. This case is set for trial on February 9, 2009.

Kopplow Development, Inc. v. City of San Antonio. Plaintiff contends that certain public work drainage and detention improvements resulted in an easement across its property and effectively constituted a taking of property. This matter was tried in July 2008 and a verdict of \$1.5 million was entered against the City. This case is currently on appeal.

Vanessa Samudio v. City of San Antonio. Plaintiff was involved in a motor vehicle accident with a San Antonio Police Officer whom it is alleged was traveling at an excessive speed. Plaintiff suffered severe injuries, including brain damage. Liability could reach the damage cap of \$250,000. This case is not currently set for trial.

## **CITY PENSION AND OTHER POSTEMPLOYMENT RETIREMENT BENEFIT LIABILITIES**

### **City Pension Benefit Plans**

An actuarial valuation is conducted annually on each of the City's pension benefit plans (collectively, the "City Pension Benefits Plans"), which include the Texas Municipal Retirement System ("TMRS") and the Fire and Police Pension Fund. 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, 2007 was \$183.0 million with an amortization period for the UAAL of 8.7 years. The Texas Municipal Retirement System’s UAAL as of December 31, 2007 was \$317.7 million. See the following for additional information on these two plans.

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

The Board reaffirms this commitment to a program of prudent legislative changes that result in greater retirement security for its members while at the same time moving towards full funding from an actuarial perspective. To evidence this policy, the Board adopted several guidelines for determining whether to recommend legislative amendments in the future. Two highlights of these guidelines include utilizing external actuarial analysis to determine the years to full funding based on reports as of October 1 every two years, commencing with the 2005 Actuarial Valuation Report, adjusted to include the 2007 Legislative Package. The actuarial cost of benefits enhancements recommended by the Board will not exceed 50.0% of any actuarial improvements, as measured by the years to full funding in any two year cycle. Any improvements in years to full funding not used for legislative benefit changes in any two year cycle may be banked for future benefits in subsequent two year cycles.

Another guideline adopted by the Board is that any decrease in the years to full funding resulting from modifications of actuarial assumptions may form the basis for recommending legislative benefits enhancements, except for any modification of the Inflation Rate Assumption regarding the amount of the rate that would reduce such rate below 4.3%.

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

On October 1, 2007, new legislation became effective that modified the description for the pension plan. The major changes enacted during the 2007 legislative session are (i) the creation of a catastrophic injury disability annuity (87.5% of average total salary) to be granted to members who suffer irreparable physical bodily injury during the performance of high-risk line of duty activities, when the injury results in the individual being unable to obtain any sort of employment sufficient to generate income above the poverty level, (ii) a revision of the spousal death benefit to provide that a spouse who married a retiree after retirement, and at least five years prior to the date of the retiree’s death, is treated in the same manner as a spouse who married a member prior to retirement, (iii) a modification of the retirement pension computation, (iv) the implementation of a \$200 per month increase in all pensions awarded prior to October 1, 1989, (v) the establishment of a \$1,850 minimum monthly pension (vi) the expansion of the “BackDROP” lump-sum payment option from three to four years, (vii) the elimination of the requirement that a member serve at least five years before becoming entitled to a refund of contributions upon termination of employment, and (viii) the establishment of the Mayor’s ability to appoint a representative to serve as a Trustee in place of the Mayor.

The Pension Fund’s annual required contribution for fiscal year 2008 is determined by Pension Law. The Pension Fund’s October 1, 2007 actuarial valuation used the entry-age normal cost method. Significant assumptions included (a) 8.0% investment rate of return and (b) projected annual salary increase of 4.3%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of

investments over a five year period. The unfunded actuarial liability is amortized as a level percentage of projected payrolls on an open basis.

Texas Municipal Retirement System. At its December 8, 2007 meeting, TMRS Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2007. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS Comprehensive Annual Financial Report (CAFR).

Since its inception, TMRS has used the traditional Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date but does not project the potential future liability of provisions adopted by a participating government. Two-thirds of the governments participating in TMRS have adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. These provisions are considered to be “committed” benefits (or likely to be guaranteed); as such, for the December 31, 2007 valuation, TMRS’ Board has adopted the Projected Unit Credit (PUC) actuarial funding method, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis.

In addition, the Board also adopted a change in the amortization period from a 25-year “open” to a 25-year “closed” period. TMRS Board of Trustee rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period may be increased up to 30 years, unless a participating government requests that the period remain at 25 years. For governments with repeating features, these changes will likely result initially in higher required contributions and lower funded ratios. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow governments the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full rate (or their required contribution rate). The actuarial valuation for year ended December 31, 2007 resulted in a \$317.7 million unfunded actuarial accrued liability utilizing the adopted actuarial assumption and changed funding method. The projected calendar year 2009 contribution rate under a 30-year amortization period for the City was estimated by TMRS to be 16.6%. However, under the phase in option the rate for 2009 would be 13.0% for calendar year 2009 from the current rate of 12.5%.

The City created a work plan to review and address the changes made by TMRS. The City was successful in obtaining a voting seat on the TMRS Board. City staff also conducted six focus groups with employees and retirees during the spring of 2008. City employees, as well as retirees, were mailed a survey in April 2008 asking input on their TMRS benefits and priorities. The survey results will provide valuable input as the City continues to evaluate its options.

The City has also contracted with a legal firm to provide legal advice and assistance on TMRS and other pension related issues. The legal firm has engaged an actuarial firm to evaluate the assumptions and results of TMRS’ report, to provide a historical performance analysis of the funds within TMRS, and will assist in exploring viable pension alternatives. A task force of current employees and retirees will be formed to provide input regarding the work to be completed by this actuarial firm.

Finally, City staff is being proactive in preparing for increased future costs. The City has included in its financial forecast the additional costs to include a phased in approach in order to increase contributions gradually to the full rate if necessary. Throughout this process, the City will work with TMRS, current employees and retirees to determine the best course of action.

### **Other 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 became applicable to the City in 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 (as hereinafter defined), 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.

The second program provides retirement healthcare benefits to the City's fire fighters and police officers who retired on or after October 1, 1989. The benefits of this plan are financed on a prefunded basis. Contribution and benefit levels are established pursuant to the collective bargaining agreements between the City and Fire and Police Associations, respectively. The program is administered as a separate and distinct statutory trust governed by a nine-member Board of Trustees.

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

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

The Fire and Police Health Care Fund's actuarial study with a valuation date of October 1, 2007 indicates that the UAAL, calculated in compliance with GASB regulations, was reduced from \$540.1 million to \$325.3 million. The study further indicates that after a 10 year period maintaining the City's contribution at 9.4%, with an additional 10.0% increase in fiscal year 2018 and a 2.6% increase in fiscal year 2019, the Health Care Fund's amortization period for the UAAL is projected to be 30 years.

## **Use of Assumptions and Estimates**

As set forth herein, as well as in Notes 8 and 9, respectively, of the City's Comprehensive Annual Financial Report for its fiscal year ended September 30, 2007 (the "CAFR", selected provisions of which are attached hereto as Appendix B), the disclosure relating to the City Pension and Retiree Health Benefits Plans are based upon certain actuarial assumptions and estimates, reasonably made based upon information available at such time, that are subject to variance. To the extent these assumptions and estimates do not materialize or are inaccurate, the financial information disclosed herein and in Notes 8 and 9, respectively, of the CAFR, including the estimated-as-compared-to-actual values of the assets and liabilities for each of the City Pension and Retiree Health Benefits Plans, could change substantially and in a materially adverse manner.

## **CAFR Discussion**

In the CAFR, the City's existing pension and other OPEB plans are described (see, for example, "FINANCIAL INFORMATION - Fiscal Management and Administrative Topics" included in the CAFR, as well as Notes 8 and 9 thereof discussed above). In addition, the pension schedules included in the CAFR under the heading "REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES OF FUNDING PROGRESS LAST THREE FISCAL YEARS" disclose certain pension plan funding liabilities, including the UAAL. Investors should carefully review this information and the information contained herein prior to investing in the 2008 Refunding Bonds.

## **TAX MATTERS**

### **Tax Exemption**

In the opinion of Winstead PC and West & Associates, L.L.P, Co-Bond Counsel, under existing law, and assuming compliance with certain covenants and the accuracy of certain representations, discussed below, interest on the 2008 Notes is excludable from gross income for federal income tax purposes and is not subject to the alternative minimum tax on individuals and corporations; however, interest on the 2008 Notes will be included in the "adjusted current earnings" of a corporation (other than an S corporation, regulated investment company, Real Estate Investment Trust, Real Estate Mortgage Investment Conduit, or Financial Asset Securitization Investment Trust) for purposes of computing its alternative minimum tax liability. Corporate purchasers of the 2008 Notes should consult their tax advisors regarding the computation of alternative minimum tax. See APPENDIX B - Form of Opinions of Co-Bond Counsel.

Section 103 of the Internal Revenue Code of 1986 (the "Code") establishes certain requirements that must be met at and subsequent to the issuance of the 2008 Notes in order for interest on the 2008 Notes to be and remain excludable from federal gross income. Included among these continuing requirements are certain restrictions and prohibitions on the use of proceeds, restrictions on the investment of proceeds and other amounts, and rebate to the United States of certain earnings from investments. Failure to comply with these continuing requirements may cause interest on the 2008 Notes to become includable in gross income for federal income tax purposes retroactively to the date of their issuance. The City has covenanted to comply with certain procedures, and has made certain representations and certifications, designed to assure compliance with these Code requirements (the "Tax Covenants"). In rendering its opinion, Co-Bond Counsel will rely on the Tax Covenants, and on representations and certifications of the City relating to matters solely within its knowledge (which Co-Bond Counsel has not independently verified), and will assume continuing compliance by the City.

Prospective purchasers of the 2008 Notes should be aware that ownership of, accrual or receipt of interest on, or disposition of the 2008 Notes may have collateral federal income tax consequences for certain taxpayers, including financial institutions, certain subchapter S corporations, United States branches of foreign corporations, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, taxpayers eligible for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. The foregoing is not intended as an exhaustive list of potential tax consequences. Prospective purchasers of the 2008 Notes should consult their tax advisors regarding any potential collateral tax consequences. Co-Bond Counsel expresses no opinion regarding any such collateral tax consequences.

The statutes, regulations, published rulings, and court decisions on which Co-Bond Counsel has based its opinion are subject to change by Congress, as well as to subsequent judicial and administrative interpretation by courts and the Internal Revenue Service (the "Service"). No assurance can be given that such law or its interpretation will not change in a manner that would adversely affect the tax treatment of receipt or accrual of interest on, or the acquisition, ownership, market value, or disposition of, the 2008 Notes. No ruling concerning the tax treatment of the 2008 Notes has been sought from the Service, and the opinion of Co-Bond Counsel is not binding on the Service. The Service has an ongoing audit program of tax-exempt obligations to determine whether, in the Service's view, interest on such tax-exempt obligations is excludable from gross income for federal income tax purposes. No assurance can be given regarding whether or not the Service will commence an audit of the 2008 Notes. If such an audit were to be commenced, under current procedures, the Service would treat the City as the taxpayer, and owners of the 2008 Notes would have no right to participate in the audit process. In this regard, in responding to or defending an audit with respect to the 2008 Notes, the City might have different or conflicting interests from those of the owners of the 2008 Notes.

The opinions set forth above are based on existing law and Co-Bond Counsel's knowledge of relevant facts on the date of issuance of the 2008 Notes. Such opinions are an expression of professional judgment and are not a guarantee of result. Except as stated above, Co-Bond Counsel expresses no opinion regarding any other federal, state, or local tax consequences under current law or proposed legislation resulting from the receipt or accrual of interest on, or the acquisition, ownership, or disposition of, the 2008 Notes. Further, Co-Bond Counsel assumes no obligation to update or supplement its opinions to reflect any facts or circumstances that may come to its attention, or any changes in law that may occur after the issuance date of the 2008 Notes. In addition, Co-Bond Counsel has not undertaken to advise in the future whether any events occurring after the issuance date of the 2008 Notes may affect the tax-exempt status of interest on the 2008 Notes.

#### **REGISTRATION AND QUALIFICATION OF 2008 NOTES FOR SALE**

The sale of the 2008 Notes 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 2008 Notes have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the 2008 Notes been qualified under the securities acts of any other jurisdiction. The City assumes no responsibility for qualification of the 2008 Notes under the securities laws of any jurisdiction in which the 2008 Notes may be sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the 2008 Notes 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, as amended), provides that the 2008 Notes are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the 2008 Notes by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended), requires that the 2008 Notes 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 2008 Notes are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The 2008 Notes 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.

Texas law provides that obligations such as the 2008 Notes are eligible to secure deposits of the state, its agencies, and political subdivisions, and are legal security for those deposits to the extent of their face value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds

Investment Act (Chapter 2256, Texas Government Code, as amended), the 2008 Notes may have to be assigned a rating of “A” or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. (See “RATINGS” herein.)

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 2008 Notes for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the 2008 Notes for such purposes. The City has made no review of laws in other states to determine whether the 2008 Notes are legal investments for various institutions in those states.

## **LEGAL MATTERS**

[to be furnished by BC]

## **RATINGS**

Applications for ratings have been made to Moody’s, S&P, and Fitch. The ratings of the 2008 Notes reflect only the view of the rating agencies at the time the ratings are given, and the City makes no representation as to the appropriateness of the ratings. There is no assurance that any rating will continue for any given period of time, or that a rating will not be revised downward or withdrawn entirely if, in the judgment of the applicable rating agency, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the 2008 Notes.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the 2008 Note Ordinance, the City has made the following agreement for the benefit of the holders and Beneficial Owners of the 2008 Notes. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the 2008 Notes. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

### **Annual Reports**

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

The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement indicated as Tables 1-14 and 16-19, and in the City’s CAFR, substantially in the manner set forth in Appendix C to this Official Statement. The City will update and provide this information within six months after the end of each fiscal year. The City will provide the updated information to each nationally recognized municipal securities information repository (“NRMSIR”) and to any State Information Depository (“SID”).

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited information within the required time and audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with the

accounting principles described in the CAFR, substantially in the manner set forth in Appendix C to this Official Statement, or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The City's fiscal year ends September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each NRMSIR and any SID of the change.

### **Material Event Notices**

The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the 2008 Notes, if such event is material to a decision to purchase or sell 2008 Notes: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the status of the 2008 Notes; (7) modification to rights of holders of the 2008 Notes; (8) release, substitution, or sale of property securing repayment of the 2008 Notes; (9) rating changes; (10) calls for redemption; and (11) defeasances. (Neither the 2008 Notes nor the 2008 Note Ordinance make any provision for debt service reserves, credit enhancement, or liquidity enhancement; further, the 2008 Notes are not subject to redemption prior to stated maturity.) In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

### **Availability of Information from NRMSIRs and SID**

The City has agreed to provide the foregoing information only to NRMSIRs and any SID. The information will be available to holders of the 2008 Notes only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

The Municipal Advisory Council of Texas (the "MAC") has been designated by the State of Texas and approved by the SEC staff as a qualified SID. The address of the MAC is 600 West 8<sup>th</sup> Street, Post Office Box 2177, Austin, Texas 78768-2177, and its telephone number is (512) 476-6947. The MAC has also received SEC approval to operate and operates a "central post office" for information filings made by municipal issuers, such as the City. A municipal issuer may submit its information filings with the central post office, which then transmits such information to the NRMSIRs and the appropriate SID for filing. This central post office can be accessed and utilized at [www.DisclosureUSA.org](http://www.DisclosureUSA.org) ("DisclosureUSA"). The City may utilize DisclosureUSA for the filing of information relating to the 2008 Notes.

### **Limitations and Amendments**

The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell 2008 Notes at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of the 2008 Notes may seek a writ of mandamus to compel the City to comply with its agreement.

This continuing disclosure agreement may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell the 2008 Notes in the primary offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering, as well as such changed circumstances; and (2) either (i)

the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the 2008 Note Ordinance that authorize such an amendment) of the outstanding 2008 Notes consent to such amendment or (ii) a person that is unaffiliated with the City (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the registered owners and Beneficial Owners of the 2008 Notes. The City may also repeal or amend the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling 2008 Notes in the primary offering of the 2008 Notes.

### **Compliance with Prior Undertakings**

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

### **FORWARD-LOOKING STATEMENTS**

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

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

### **UNDERWRITING**

The Underwriters have agreed, subject to certain conditions, to purchase the 2008 Notes from the City at a purchase price of \$\_\_\_\_\_ (representing the principal amount of the 2008 Notes, plus net original issue premium on the 2008 Notes of \$\_\_\_\_\_, and less Underwriters' discount on the 2008 Notes of \$\_\_\_\_\_) plus accrued interest. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the 2008 Notes if any 2008 Notes are purchased. The 2008 Notes 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.

Effective as of September 30, 2008 MSRB rules require underwriter participation with the Depository Trust and Clearing Corporation's ("DTCC") New Issue Information Dissemination System ("NIIDS"). The rule change consists of an amendment of Rule G-8, Books and Records, Rule G-9, Preservation of Records, and Rule G-34, CUSIP Numbers and New Issue Requirements. The rule change is designed to improve new issue trade reporting by accelerating the timing for CUSIP number assignment and, with the exception of new issues of short-term instruments with less than nine months in effective maturity, requiring underwriters to: (1) submit certain information about a new issue of municipal securities to NIIDS within set timeframes and (2) set and disseminate a "Time of First Execution" that allows time for market participants to access necessary information in preparation for trade reporting prior to beginning trade executions in the issue.

The Underwriters have reviewed the information in the Official Statement in accordance with 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.

### 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 2008 Notes 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 2008 Notes is contingent upon the issuance and delivery of the 2008 Notes.

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

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

### CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the 2008 Notes, 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 (1) the descriptions and statements of or pertaining to the City contained in this Official Statement, and any addenda, supplement, or amendment thereto, for the 2008 Notes, on the date of sale of the 2008 Notes and on the date of the initial delivery of the 2008 Notes, were and are true and correct in all material respects; (2) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (3) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (4) there has been no material adverse change in the financial condition of the City, since the date of the last financial statements of the City disclosed in Appendix C hereto.

### AUTHORIZATION OF THE OFFICIAL STATEMENT

This Official Statement has been approved as to form and content and the use thereof in the offering of the 2008 Notes 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 2008 Notes, a certified copy of such approval, duly executed by the proper officials of the City.

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

/s/

\_\_\_\_\_  
Mayor, City of San Antonio, Texas

ATTEST:

/s/

\_\_\_\_\_  
City Clerk, City of San Antonio, Texas

\* \* \*

**APPENDIX A**

**City of San Antonio, Texas  
General Demographic and Economic Information**

**APPENDIX B**

**Form of Opinion of Bond Counsel**

## **APPENDIX C**

### **SELECTED PORTIONS OF THE CITY'S COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

The information contained in Appendix C consists of selected portions of the City's Comprehensive Annual Financial Report for the fiscal year ended September 30, 2007 selected by the City of San Antonio for inclusion herein, and is not intended to be a complete statement of the City's financial condition. Reference is made to the Comprehensive Annual Financial Report for further information.

**CERTIFICATE FOR ORDINANCE**

I, the undersigned City Clerk of the City of San Antonio, Texas (the "Issuer"), hereby certify as follows:

1. The City Council of the Issuer (the "Council") convened in regular session, open to the public, on October 16, 2008 (the "Meeting"), at the designated meeting place, and the roll was called of the duly constituted officers and members of said Council, to wit:

- |                                    |                                 |
|------------------------------------|---------------------------------|
| Phil Hardberger, Mayor             | Diane G. Cibrian, Councilmember |
| Delicia Herrera, Mayor Pro Tem     | Lourdes Galvan, Councilmember   |
| Mary Alice Cisneros, Councilmember | Justin Rodriguez, Councilmember |
| Sheila D. McNeil, Councilmember    | Louis E. Rowe, Councilmember    |
| Jennifer V. Ramos, Councilmember   | John G. Clamp, Councilmember    |
| Philip A. Cortez, Councilmember    |                                 |

and all of said persons were present, except JUSTIN RODRIGUEZ, thus constituting a quorum. Whereupon among other business, the following was transacted at the Meeting: a written Ordinance No. 2008-10-16-0940, entitled:

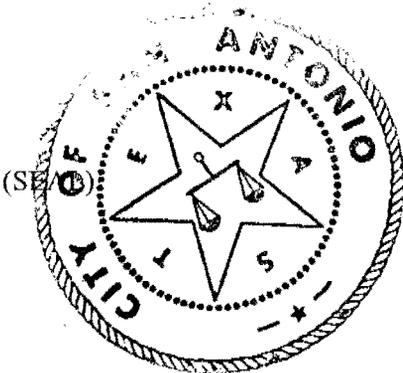
ORDINANCE APPROVING THE CITY'S PRELIMINARY OFFICIAL STATEMENT PERTAINING TO THE SALE OF OBLIGATIONS DESIGNATED AS "CITY OF SAN ANTONIO, TEXAS TAX NOTES, SERIES 2008" IN THE APPROXIMATE AMOUNT OF \$16,100,000; COMPLYING WITH THE REQUIREMENTS CONTAINED IN SECURITIES AND EXCHANGE COMMISSION RULE 15c2-12; AND AUTHORIZING OTHER MATTERS RELATED THERETO

(the "Ordinance") was duly introduced for the consideration of the Council. It was then duly moved and seconded that the Ordinance be finally passed and adopted in accordance with the Issuer's Home Rule Charter; and after due discussion, such motion, carrying with it the adoption of the Ordinance prevailed and carried by the following vote:

YES: 10 NOES: 0 ABSTENTIONS: 0.

2. A true, full, and correct copy of the Ordinance adopted at the Meeting is attached to and follows this Certificate; the Ordinance has been duly recorded in the Council's minutes of the Meeting; the above and foregoing paragraph is a true, full, and correct excerpt from the Council's minutes of the Meeting pertaining to the adoption of the Ordinance; the persons named in the above and foregoing paragraph are duly chosen, qualified, and acting officers and members of the Council as indicated therein; each of the officers and members of the Council was duly and sufficiently notified officially and personally, in advance, of the time, place, and purpose of the Meeting, and that the Ordinance would be introduced and considered for adoption at the Meeting and each of such officers and members consented, in advance, to the holding of the Meeting for such purpose; and the Meeting was open to the public, and public notice of the time, place, and purpose of the Meeting was given, all as required by Chapter 551, Texas Government Code, as amended.

SIGNED AND SEALED the 16 day of October, 2008.



*Shirley M. Vaetz*  
\_\_\_\_\_  
City Clerk, City of San Antonio, Texas



**CITY OF SAN ANTONIO  
Request for Council Action**

Agenda Item # 22  
Council Meeting Date: 10/16/2008  
RFCA Tracking No: R-4018

**DEPARTMENT:** Finance

**DEPARTMENT HEAD:** Ben Gorzell

**COUNCIL DISTRICT(S) IMPACTED:**  
City Wide

**SUBJECT:**  
Tax Notes, Series 2008

**SUMMARY:**

- A. This ordinance authorizes and approves the distribution of a Preliminary Official Statement pertaining to the issuance of approximately \$16,000,000.00 "City of San Antonio, Texas Tax Notes, Series 2008"; complying with the requirements contained in Municipal Securities Rule Making Board Rule 15c2-12; and other matters in connection therewith.
- B. Resolution relating to establishing the City's intention to reimburse itself for the prior lawful expenditure of funds from the proceeds of tax exempt obligations to be issued by the City for authorized purposes designated as "City of San Antonio, Texas Tax Notes, Series 2009"; authorizing other matters incident and related thereto; and providing an effective date.

**BACKGROUND INFORMATION:**

The 2008 Debt Management Plan includes the proposed sale of the 2008 Tax Notes (the "2008 Notes").

The 2008 Notes are being issued to provide funds to: (1) Time Administration and Information Technology Improvements and (2) to pay the costs of issuance. The allocation of the 2008 Notes is detailed below.

<b>Item</b>	<b>Amount</b>
Time Administration	\$800,000.00
Information Technology Improvements	\$15,000,000.00
<b>Total 2008 Notes</b>	<b>\$15,800,000.00</b>

In connection with the issuance and sale of the 2008 Notes, presentations are scheduled for the Rating Agencies on November 13 and 14, 2008.

It is anticipated that the 2008 Notes will be sold the week of December 1, 2008 by and underwriting syndicate led by Southwest Securities, Inc. as Senior Manager and M.E. Allison & Co., Inc. as Co-Senior Manager.

Approval of the Reimbursement Resolution will enable the City to reimburse itself for project expenditures to be funded by the issuance of future obligations but expenditures incurred prior to the sale and delivery of such obligations' proceeds. Such expenditures are related to projects funded by the future issuance of tax notes which are anticipated to be sold in November, 2009. This future sale of the tax notes is anticipated to be approximately \$10,000,000.00 which is consistent with the Debt Management Plan and the Adopted 2009 Capital Budget.

**ISSUE:**

The aforementioned transactions are consistent with approved capital projects, the Fiscal Year 2009 Approved Capital Budget and the Debt Management Plan.

**ALTERNATIVES:**

The cost of the improvements could be absorbed into the City's operating budget. This alternative, however, is not budgeted and would negatively impact funding for other services and improvements.

**FISCAL IMPACT:**

Any costs pertaining to the proposed bond transactions will be paid from the proceeds derived from the issuance and sale of such obligations. Therefore, there is no impact on the City's Operating Budget.

**RECOMMENDATION:**

Staff recommends approval of this ordinance and Resolution approving the form, content and distribution of a preliminary official statement related to Tax Notes, Series 2008 and approving a Reimbursement Resolution Related to future issuances of Tax Notes in 2009.

**ATTACHMENT(S):**

File Description	File Name
<a href="#">Preliminary Official Statement - Draft</a>	Preliminary Official Statement - Draft.pdf
<a href="#">Voting Results</a>	
<a href="#">Voting Results</a>	
<a href="#">Resolution/Supplemental Documents</a>	200810160052R.pdf
<a href="#">Ordinance/Supplemental Documents</a>	200810160940.pdf

**DEPARTMENT HEAD AUTHORIZATIONS:**

Ben Gorzell Director Finance

**APPROVED FOR COUNCIL CONSIDERATION:**

Pat DiGiovanni Deputy City Manager