NEW ISSUE: Book-Entry-Only

Rating: S&P - "AA+"
(See "RATING") herein

PRELIMINARY OFFICIAL STATEMENT
Dated: November 14, 2019

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

$19,985,000*
SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION
CONTRACT REVENUE REFUNDING BONDS, SERIES 2019
(San Antonio Water System Expansion Water Treatment Project 2)

Dated Date: November 15, 2019 **Due: February 1, as shown on inside cover**

The Schertz/Seguin Local Government Corporation (the "Corporation" or the "Issuer") is issuing its $19,985,000* Contract Revenue Refunding Bonds, Series 2019 (San Antonio Water System Expansion Water Treatment Project 2) (the "Bonds") pursuant to the Constitution and general laws of the State of Texas, including (particularly) Subchapter D of Chapter 431, as amended, Texas Transportation Code, Chapter 552, as amended, Texas Local Government Code, Chapter 22, as amended, Texas Business Organizations Code (the "Refunding Act"), and a resolution (the "Resolution") adopted by the Corporation's Board of Directors (the "Board") on October 17, 2019. In the Resolution, the Board has, in accordance with the Refunding Act, delegated to certain Corporation officials the authority to execute an approval certificate evidencing the final terms and completing the sale of the Bonds. The Resolution was approved by separate resolutions of the governing body of each of the Cities (defined below) that is a party to the Contract (defined below), and SAWS (defined below) consented to the issuance of the Bonds, as required by the Contract provisions. Proceeds from the sale of the Bonds will be used (i) for the discharge and final payment of the Corporation's currently outstanding obligations as identified in Schedule I attached hereto (the "Refunded Obligations") for debt service savings and (ii) to pay the costs of issuing the Bonds.

Interest on the Bonds accrues from November 15, 2019 and is payable initially on February 1, 2020 and on each February 1 and August 1 thereafter until stated maturity or prior redemption. Principal of the Bonds will be paid at stated maturity or prior redemption only upon presentation and surrender of the Bonds at the corporate trust office of the Paying Agent/Registrar, initially Zions Bancorporation, National Association, Houston, Texas. The Bonds are issued in fully registered form in the denomination of $5,000 principal amount or any integral multiple thereof and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. The Bonds will be available to purchasers only in book-entry form. For as long as Cede & Co. is the exclusive registered owner of the Bonds, the principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to DTC, which will be responsible for making such payments to DTC Participants for subsequent remittance to owners of beneficial interest in the Bonds. Purchasers of the Bonds will not receive certificates evidencing their beneficial ownership therein. (See "BOOK-ENTRY-ONLY SYSTEM.")

The Bonds are special obligations of the Corporation which, together with the currently outstanding Bonds Similarly Secured (as defined herein) (to the extent not refunded by the Bonds) and any Additional Bonds (as defined herein) hereafter issued by the Corporation, are payable solely both as to principal and interest from and secured solely by a lien on and pledge of the Pledged Revenues (as defined herein), which consists primarily of the Bond Payment (as defined herein) portion of the Annual Payments (as defined herein) to be paid by the City of San Antonio, Texas, acting by and through the San Antonio Water System ("SAWS"), to the Corporation pursuant to the Mutual Regional Water Supply Contract (the "Contract"), dated as of January 1, 2011 (and as amended on January 1, 2017), among the Corporation, SAWS, the City of Schertz, Texas, and the City of Seguin, Texas (such cities, collectively, the "Cities"). (See "SECURITY FOR THE BONDS" and "SELECTED PROVISIONS OF THE RESOLUTION" attached hereto as Appendix E.) The Bonds are also secured by a lien on and pledge of the money in all funds created, established and maintained by the Resolution. No mortgage on the SAWS Project (as defined herein), the SAWS System (as defined herein), or the System (as defined herein) is granted as security for the Bonds. The Bonds do not constitute a legal or equitable pledge, charge, lien or encumbrance upon any property of the Corporation, SAWS, or the Cities, and the registered owner of a Bond shall never have the right to demand payment of the Bonds from any funds raised or to be raised by taxation or from any other sources or properties of the Corporation, SAWS, the Cities, or the State of Texas. The Bonds are not payable from or secured by any other revenues of the Corporation, SAWS, the Cities, or any other entity, and the Corporation is not authorized to levy any tax in payment thereof. The Corporation reserves the right to issue Additional Bonds and Additional Obligations as provided in the Resolution without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise. (See "SECURITY FOR THE BONDS – Additional Bonds and Additional Obligations" herein.)

MATURITY SCHEDULE
(See Inside Cover Page)

The Bonds are offered when, as and if issued, and received by the initial purchasers thereof named below (the "Underwriters") and subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US, LLP, Bond Counsel, San Antonio, Texas. Certain matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas. Certain legal matters will be passed upon by the Attorney General of the State of Texas, the Corporation's General Counsel, and for SAWS by its General Counsel. The Bonds are expected to be available for delivery to the Underwriters through the services of DTC on or about December 17, 2019.

HILLTOPSECURITIES

STIFEL **UMB BANK, N.A.**

---
* *Preliminary, subject to change.*

STATED MATURITY SCHEDULE

$19,985,000*
SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION
CONTRACT REVENUE REFUNDING BONDS, SERIES 2019
(San Antonio Water System Expansion Water Treatment Project 2)

Cusip No. Prefix[(1)] 806643

Maturity Date (Feb. 1)	Principal Amount($)	Interest Rate (%)	Initial Yield (%)	Cusip No. Suffix[(1)]
2021	620,000			
2022	645,000			
2023	670,000			
2024	695,000			
2025	730,000			
2026	760,000			
2027	785,000			
2028	820,000			
2029	855,000			
2030	890,000			
2031	925,000			
2032	960,000			
2033	1,000,000			
2034	1,045,000			
2035	1,085,000			
2036	1,125,000			
2037	1,175,000			
2028	1,225,000			
2039	1,270.000			
2040	1,325,000			
2041	1,380,000			

(Accrued interest from November 15, 2019 to be added)

Redemption

The Bonds maturing on or after February 1, 2028, are subject to redemption, in whole or in part, at the option of the Corporation in the principal amount of $5,000, or any integral multiple thereof, on February 1, 2027, or any date thereafter at the redemption price of par plus accrued interest. If two or more serial bonds of consecutive maturity are combined into one or more “term” Bonds (the “Term Bonds”) by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Resolution. See "THE BONDS - Redemption Provisions of the Bonds" herein.

---

* *Preliminary, subject to change.*

(1) *CUSIP numbers are included solely for the convenience of the owners of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriters, the Corporation, the Cities, SAWS, or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.*

SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION

Board of Directors

Robin V. Dwyer	President
Dudley Wait	Vice-President
David Reiley	Secretary
Donna Dodgen	Assistant Secretary
Ken Greenwald	Treasurer
Michael Carpenter	Director, Ex-Officio (City of Schertz)
Don Keil	Director, Ex-Officio (City of Seguin)

Administration

Amber Briggs Beard	General Manager
Clarissa Barrientes	Office Administrator

City of Schertz, Texas

City Council

Ralph Gutierrez[(1)]	Mayor
Mark E. Davis	Councilmember, Place 1
Rosemary Scott[(1)]	Councilmember, Place 2
Scott Larson	Councilmember, Place 3
Cedric Edwards	Councilmember, Place 4
David L. Scagliola	Councilmember, Place 5
Allison Heyward	Councilmember, Place 6
Tim Brown	Councilmember, Place 7

Administrative Officers

Mark Browne[(2)]	City Manager
Brian James	Assistant City Manager
Charles Kelm	Assistant City Manager
James Walters	Director of Finance
Brenda Dennis	City Secretary
Charles Zech	City Attorney

(1) Elected on November 5, 2019.
(2) Assumed the City Manager's position in January 2019 after 14 years prior city manager's experience at various Texas cities.

City of Seguin, Texas

City Council

Don Keil	Mayor
Ernest Leal	Councilmember, District 1
Jeanette "Jet" Crabb	Councilmember, District 2
Chris Aviles	Councilmember, District 3
Chris Rangel	Councilmember, District 4
Jeremy Roy	Councilmember, District 5
Fonda Mathis	Councilmember, District 6
Penny Wallace	Councilmember, District 7
Mark Herbold	Councilmember, District 8

Administrative Officers

Douglas G. Faseler[(3)]	City Manager
Rick Cortes	Assistant City Manager
Naomi Manski	City Secretary
Susan Caddell	Director of Finance
Andrew Quittner	City Attorney

(3) Announced his retirement on or about January 1, 2020. The City appointed Steve Parker, the Assistant City Manager of San Marcos, Texas on November 5, 2019. Mr. Parker's first day is expected to be January 5, 2020.

CONSULTANTS AND ADVISORS

Davidson, Troillo, Ream & Garza PC	General Counsel
Norton Rose Fulbright US LLP, San Antonio, Texas	Bond Counsel
Armstrong, Vaughan & Assoc., P.C., Universal City, Texas	Auditor
SAMCO Capital Markets, Inc., San Antonio, Texas	Financial Advisor

USE OF INFORMATION IN OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended (the "Rule") and in effect on the date of this Preliminary Official Statement, this document constitutes an "official statement" of the Issuer with respect to the Bonds that has been "deemed final" by the Issuer as of its date except for the omission of no more than the information permitted by the Rule.

No dealer, broker, salesman, or other person has been authorized by the Issuer to give any information or to make any representation with respect to the Bonds, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing.

This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale. The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the 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 herein after the date of this Official Statement. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the Corporation's and SAW's undertakings to provide certain information on a continuing basis.

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

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

None of the Corporation, the Underwriters, SAWS, the Cities, or the Financial Advisor makes any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company ("DTC") or its Book-Entry-Only System as described herein under the caption "BOOK-ENTRY-ONLY SYSTEM" as such information was provided by DTC.

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

(The remainder of this page has been left blank intentionally.)

TABLE OF CONTENTS

SUMMARY STATEMENT

This Summary Statement is subject in all respects to the more complete information contained in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement, including the Schedule and Appendices hereto. No person is authorized to detach this Summary Statement from this Official Statement or to otherwise use it without this entire Official Statement including the Schedule and Appendices hereto. Capitalized terms used herein and not otherwise defined shall have the meanings assigned thereto in the Resolution authorizing the issuance of the Bonds. See "SELECTED PROVISIONS OF THE RESOLUTION - Definitions" herein.

The Issuer

Schertz/Seguin Local Government Corporation, a public, non-profit corporation (the "Corporation" or the "Issuer") created by the Cities of Schertz and Seguin, Texas (individually, a "City," and collectively, the "Cities"), pursuant to Subchapter D of Chapter 431, Texas Transportation Code, as amended (the "Act"), to aid, assist and act on behalf of the Cities in acquiring, constructing, leasing, improving, enlarging, extending, repairing, maintaining, and operating a water utility system (the "System"). The Corporation employs a full time general manager and is governed by a board of five directors who are appointed by the City Council of each City and two ex-officio members. (See "THE CORPORATION.")

The Bonds

$19,985,000* Schertz/Seguin Local Government Corporation Contract Revenue Refunding Bonds, Series 2019 (San Antonio Water System Expansion Water Treatment Project 2), dated November 15, 2019, maturing serially on February 1, 2021 through February 1, 2041.* Interest on the Bonds will be paid semiannually on February 1 and August 1, commencing February 1, 2020 until stated maturity or prior redemption. (See "THE BONDS - General Description.")

Purpose of Bonds

Proceeds from the sale of the Bonds will be used for the purpose of providing funds (i) for the discharge and final payment of the Refunded Obligations as disclosed in Schedule I hereto for debt service savings and (ii) for the payment of the costs of issuance relating to the Bonds. (See "THE BONDS - Use of Bond Proceeds" herein.)

Security

The Bonds are special obligations of the Corporation which, together with the currently outstanding Bonds Similarly Secured (to the extent not refunded by the Bonds) and any Additional Bonds (as defined herein) hereafter issued by the Corporation, are payable solely both as to principal and interest from and secured solely by a lien on and pledge of the Pledged Revenues (as defined herein), which consists primarily of the Bond Payment (as defined herein) portion of the Annual Payments (as defined herein) to be paid by the City of San Antonio, Texas, acting by and through the San Antonio Water System ("SAWS"), pursuant to the Mutual Regional Water Supply Contract (the "Contract"), dated as of January 1, 2011 (and as amended on January 1, 2017), among the Corporation, SAWS, the City of Schertz, Texas, and the City of Seguin, Texas (such cities, collectively, the "Cities"). (See "SECURITY FOR THE BONDS" herein and "SELECTED PROVISIONS OF THE RESOLUTION" attached hereto as Appendix E.) The Bonds are also secured by a lien on and pledge of the money in all funds created, established and maintained by the Resolution. No mortgage on the hereinafter defined SAWS Project, the System, or the hereinafter defined SAWS System is granted as security for the Bonds.

Redemption

The Bonds maturing on or after February 1, 2028, are redeemable, in whole or in part, at the option of the Corporation on any date on February 1, 2027, or any date thereafter, as described herein. If two or more serial bonds of consecutive maturity are combined into one or more "term" Bonds (the "Term Bonds") by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Resolution. (See "THE BONDS - Redemption Provisions.")

Additional Bonds and Additional Obligations

In the Resolution, the Corporation reserves the right to issue Additional Bonds and Additional Obligations without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise. (See "SECURITY FOR THE BONDS - Additional Bonds and Additional Obligations.")

Rating

S&P Global Ratings ("S&P") has assigned its municipal bond rating of "AA+" to the Bonds. (See "RATING" herein.)

Book-Entry-Only System

The Bonds are initially issuable only to Cede & Co., the nominee of DTC, pursuant to the book-entry only system described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the purchasers thereof. Principal of, premium if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the DTC Participants (as defined herein) for subsequent remittance to the owners of the beneficial interests in the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM.")

***** *Preliminary, subject to change.*

Tax Exemption	Interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. (See "TAX MATTERS" herein.)
Payment Record	The Issuer has never defaulted on the payment of its bonded indebtedness.
Delivery	When issued, anticipated on or about December 17, 2019.
Legality	Delivery of the Bonds is subject to the approval of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, and for SAWS by its general counsel.

(The remainder of this page intentionally left blank)

(this page intentionally left blank)

PRELIMINARY OFFICIAL STATEMENT
relating to

$19,985,000*
SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION
CONTRACT REVENUE REFUNDING BONDS, SERIES 2019
(San Antonio Water System Expansion Water Treatment Project 2)

INTRODUCTORY STATEMENT

This Official Statement, which includes the cover page, the Schedule, and the appendices hereto, provides certain information regarding the issuance by the Schertz/Seguin Local Government Corporation (the "Corporation" or the "Issuer") of its $19,985,000* Contract Revenue Refunding Bonds (San Antonio Water System Expansion Water Treatment Project 2), Series 2019 (the "Bonds"). Capitalized terms used in this Official Statement have the same meaning assigned to such terms in the Resolution (defined herein), except as otherwise indicated herein. (See "SELECTED PROVISIONS OF THE RESOLUTION - Definitions" herein.)

The Corporation is a public, non-profit corporation created by the Cities of Schertz and Seguin, Texas (individually, a "City," and collectively, the "Cities"), pursuant to Subchapter D of Chapter 431, Texas Transportation Code, as amended (the "Act"), to aid, assist and act on behalf of the Cities in acquiring, constructing, leasing, improving, enlarging, extending, repairing, maintaining, and operating a water utility system (hereinafter defined and referred to as the "System"). The Corporation is governed by a board of five directors and two ex-officio members who are appointed by the City Council of each City. (See "THE CORPORATION.") The Cities are political subdivisions of the State of Texas (the "State") and municipal corporations organized and existing under the laws of the State and the Cities' respective home rule charters.

All financial and other information presented in this Official Statement has been provided by the Corporation and the City of San Antonio, Texas, acting by and through the San Antonio Water System ("SAWS"), except for information expressly attributed to other sources. The presentation of information, including tables of receipts from utility system revenues and other sources, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the Corporation and SAWS. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue to be repeated in the future.

There follows in this Official Statement brief descriptions of the SAWS Project funded and effectuated by the issuance of the Original Bonds (as defined herein) as well as the Bonds, the Corporation, SAWS, the Contract, and the System. 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 Corporation's Financial Advisor, SAMCO Capital Markets, Inc., 1020 N.E. Loop 410, Suite 640, San Antonio, Texas 78209, by electronic mail or upon payment of reasonable copying, handling, and delivery charges.

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

PLAN OF FINANCING

Purpose of the Bonds

Proceeds from the sale of the Bonds will be used for the purpose of providing funds (i) for the discharge and final payment of the Refunded Obligations as identified in Schedule I attached hereto for debt service savings and (ii) to pay the costs of issuing the Bonds.

Refunded Obligations

The Refunded Obligations, and interest due thereon, are to be paid on their scheduled redemption date from cash and investments to be deposited with Zions Bancorporation, National Association, Houston, Texas, a national banking association (the "Escrow Agent") pursuant to an Escrow Deposit Letter dated as of October 17, 2019 (the "Escrow Agreement") between the Corporation and the Escrow Agent.

The Resolution provides that the Corporation will deposit certain proceeds of the sale of the Bonds, along with other lawfully available funds of the Corporation (if any), with the Escrow Agent in the amount necessary and sufficient to accomplish the discharge and final payment of the Refunded Obligations at their scheduled redemption date (the "Redemption Date"). Such funds shall be held by the Escrow Agent in an escrow fund (the "Escrow Fund") irrevocably pledged to the payment of principal of and interest on the Refunded Obligations. SAMCO Capital Markets, Inc., in its capacity as Financial Advisor to the Corporation, will certify as to the sufficiency of the amount initially deposited to the Escrow Fund, without regard to investment (if any), to pay the principal of and interest on the Refunded Obligations, when due, on the Redemption Date (the "Sufficiency Certificate"). Amounts on deposit in the Escrow Fund shall, until such time as needed for their intended purpose, be (i) held uninvested in cash and/or (ii) invested in certain direct, noncallable obligations of the United States of America (including obligations unconditionally guaranteed by the United States of America) that were, on the date the Resolution was adopted, rated as to investment quality by a nationally recognized rating firm of not less than "AAA" (the "Escrowed Securities"). Cash and investments (if any) held in the Escrow Fund shall not be available to pay debt service requirements on the Bonds.

---

* *Preliminary, subject to change.*

Prior to, or simultaneously with, the issuance of the Bonds, the Corporation will give irrevocable instructions to provide notice to the owners of the Refunded Obligations that the Refunded Obligations will be redeemed prior to stated maturity on which date money will be made available to redeem the Refunded Obligations from money held under the Escrow Agreement.

By the deposit of the cash and Escrowed Securities, if any, with the Escrow Agent pursuant to the Escrow Agreement, the Corporation will have effected the defeasance of all of the Refunded Obligations in accordance with applicable law. It is the opinion of Bond Counsel, in reliance upon the Sufficiency Certificate of SAMCO Capital Markets, Inc. that as a result of such defeasance the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Escrow Fund held for such purpose by the Escrow Agent and such Refunded Obligations will not be deemed as being outstanding obligations of the Corporation payable from Pledged Revenues nor for the purpose of applying any limitation on the issuance of debt.

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

The Corporation

As stated herein, the Corporation was created in 1998 to accomplish the specific public purpose of acquiring, constructing, improving, enlarging, extending, repairing, maintaining, and operating a water utility system for mutual benefit of the Cities. Since its creation, the Corporation has constructed and acquired, and currently maintains and operates, facilities, lines, booster pumps, treatment facilities, and other appurtenances, acquired interests in property, and acquired regulatory approvals for the production and transport of groundwater (such property, permits, and improvements, the "System"). The Corporation has financed the acquisition and improvement of the System using (primarily) the proceeds of multiple series of contract revenue bonds secured by and payable from a take-or-pay regional water supply contract (the "Schertz Seguin Contract") among the Corporation and the Cities and pursuant to which the Cities are each obligated to pay one-half of the debt service on such bonds and other obligations of the Corporation and are each entitled to receive one-half of the water provided by the Corporation by ownership and operation of the System. For the avoidance of doubt, the Bonds are not secured by the revenues received pursuant to the Schertz Seguin Contract. With the consent of the Cities, the Corporation has entered into water supply contracts with the City of Universal City, Texas, the City of Selma, Texas, the City of Schertz, Texas, the City of Converse, Texas, SAWS, and Springs Hill Water Supply Corporation, pursuant to which the Corporation provides water service to these entities through the System.

The SAWS Project

General. The City of San Antonio, Texas, acting by and through the San Antonio Water System ("SAWS"), provides water service to its customers through a water production, treatment, storage and distribution system (the "SAWS System") in close proximity to the System. Prior to the issuance of the Refunded Obligations, SAWS desired to obtain additional water supply to supplement its existing sources, and identified excess water supply of the Corporation, derived from the Corporation's own and existing resources, and a SAWS developed well field in western Gonzales County, Texas, known as the "Buckhorn Well Field," which is approximately 70 miles east of San Antonio, Texas (the location of the SAWS System), as sources for this excess water supply.

The Corporation previously determined (i) that the System had capacity to temporarily supply water in excess of the current needs of the Corporation's customers, including the Cities, and that the existing System could be increased to produce, treat, and deliver water that is temporarily in excess of the demand by the Corporation's customers, including the Cities; (ii) that, with respect to its excess water capacity, operation of the System at full volume created economies of scale that permitted the Corporation to reduce water rates paid by all Corporation customers; and (iii) that both the Corporation and SAWS could realize, and continues to realize, significant cost savings access to emergency water and efficiencies by SAWS delivering to the Corporation untreated groundwater from its own well field and the Corporation delivering then treated water to SAWS. The Corporation delivers to SAWS, on an annual basis, up to 11,688 acre feet of treated water produced from SAWS' well field.

The Corporation, SAWS, and the Cities entered into a Mutual Regional Water Supply Contract (the "Contract"), dated as of January 1, 2011 (as amended on January 1, 2017), which is currently valid and an existing obligation of the parties thereto, pursuant to which the Corporation is required (i) to make water available to SAWS from its existing capacity and (ii) to treat and make available to SAWS groundwater delivered to the Corporation by SAWS from the Buckhorn Well Field and expanded and improved (and continues to make such improvements as necessary) the System to the extent necessary to accommodate the same. In return, SAWS pays to the Corporation amounts specified in the Contract (including, but not limited to, the Bond Payment (as hereinafter defined)) and constructed an emergency interconnect between the System and the SAWS System through which SAWS makes available to the Corporation potable water in the event the Corporation experiences an emergency event that precludes its ability to provide treated water to its customers. Under the Contract, the Cities have agreed to accommodate and, as specified therein, assist with the accomplishment of the foregoing, which includes the City of Schertz allowing the use of its separate water system by and conveyed real property interests, as determined to be necessary, to SAWS to achieve the Contract's purposes. The design and construction of infrastructure improvements to the System to receive untreated water from SAWS at the volume, rate, and quality set forth in the Contract and to deliver treated water to SAWS at the volume, rate, and quality set forth in the Contract is defined herein as the "SAWS Project."

The SAWS Project was funded with proceeds derived from the Corporation's issuance of its $25,425,000 Contract Revenue Bonds, Series 2012 (San Antonio Water System Expansion Treatment Project 2) (the "Original Bonds"), currently outstanding in the principal amount of $22,395,000. The Refunded Obligations comprise $21,725,000* in principal amount of Original Bonds and, after their refunding, $670,000* in principal amount of Original Bonds will remain outstanding. Upon issuance of the Bonds, the Original Bonds that remain outstanding after the refunding of the Refunded Obligations and the Bonds will comprise the universe of outstanding Bonds Similarly Secured (defined herein) and represent the only Corporation obligations secured by and payable from the Pledged Revenues (defined herein) derived under the Contract.

---

* *Preliminary, subject to change.*

Regional Carrizo Aquifer Program. SAWS has been receiving Carrizo Aquifer water from the Corporation since late 2013 and producing water from the Buckhorn Well Field since 2014 (collectively referred to herein as the "Regional Carrizo Aquifer Program").

Developing and sustaining the Regional Carrizo Aquifer Program requires permits for groundwater drilling, production, and transport from the Gonzales County Underground Water Conservation District (the "District"). The District is a local governmental entity with a locally elected Board of Directors. The District operates pursuant to statutory authority set forth in Chapter 36, Texas Water Code, as amended. SAWS previously submitted its initial, consolidated permit application to the District in June 2005 for production and transportation of approximately 23,000 acre-feet per year of Carrizo Aquifer groundwater. That application was rejected by the District's General Manager as being administratively incomplete. Shortly after the application was rejected, the District changed its rules to reduce by half the amount of groundwater that can be produced per acre of land controlled. SAWS re-filed its application in June 2006 to request permits for the production and transportation of 11,688 acre-feet per year of Carrizo Aquifer groundwater.

SAWS' application was declared administratively complete on July 12, 2006, and contested by several parties on October 10, 2006. Throughout 2007, 2008, and 2009, SAWS participated in several public hearings, multiple mediation sessions, and extensive pre-hearing discovery as part of the contested case hearing process. The contested case hearing took place during October and December of 2009, in Gonzales, Texas. Additional mediation sessions were held in December 2009 and February 2010, ultimately resulting in four entities withdrawing their protests of SAWS' applications. Two entities continued to oppose the applications. On July 13, 2010, the District approved SAWS' permit application to drill, produce, and transport 11,688 acre-feet of Carrizo Aquifer water from Gonzales County (which resulted in the development of the Buckhorn Well Field). The permit was issued by the District on July 13, 2010 and renewed by the District on July 13, 2015. See "INVESTMENT CONSIDERATIONS – Permitting and Regulatory Matters" herein.

The remaining contesting parties filed a motion for rehearing with the District on July 30, 2010. The District's Board of Directors took no action on the motion. Consequently, pursuant to the rules of the District, the Motion for Rehearing was deemed denied on October 29, 2010. The Water Protection Association ("WPA"), one of the contesting parties, filed an appeal from the District's decision in the Judicial District Court of Gonzales County.

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

The foregoing actions led to the negotiation and execution of the Contract for shared use of the Corporation's existing infrastructure in Gonzales County and Guadalupe County and the development and implementation of the SAWS Project. Utilizing the Corporation's pipeline reduced the capital investment by SAWS necessary to complete the SAWS Project by approximately $88 million.

Delivery of Water. Delivery of surplus water from the Corporation was initiated on November 12, 2013, with initial delivery of water from the Buckhorn Well Field in Gonzales County occurring in January 2014. Construction and testing of the Corporation's water treatment plant expansion to treat and transport all of SAWS' water was completed June 6, 2014. SAWS received approximately 13,300 acre-feet of Buckhorn Well Field water and Corporation surplus water in 2015 and 10,014 acre-feet from the Buckhorn Well Field in 2016. Due to availability of SAWS' water supplies, SAWS did not purchase surplus water from the Corporation in 2016. In both 2017 and 2018, SAWS received approximately 500 acre-feet of Corporation surplus water, while also receiving 11,688 acre-feet and 10,280 acre-feet, respectively, of water produced from the Buckhorn Well Field.

Payment Record

Neither the Corporation nor SAWS has defaulted on the payment of its respective bonded indebtedness.

SOURCES AND USES OF FUNDS

The proceeds from the sale of the Bonds will be applied approximately as follows:

Sources:

Principal Amount of Bonds
[Net] Reoffering Premium
Accrued Interest on the Bonds
Total Sources of Funds

Uses:

Deposit to Escrow Fund
Issuance Expenses
Underwriters' Discount
Deposit to Bond Fund (Accrued Interest)
Contingency
Total Uses of Funds

THE BONDS

General Description

The Bonds will be dated November 15, 2019 (the "Dated Date") and will be issued in fully registered form in denominations of $5,000 or any integral multiple thereof. The Bonds will bear interest from their Dated Date and interest will be paid semiannually on each February 1 and August 1, commencing February 1, 2020. Interest will accrue on the Bonds on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued as book-entry-only securities pursuant to arrangements made with The Depository Trust Company, New York, New York. (See "BOOK-ENTRY-ONLY SYSTEM.")

Principal on the Bonds will be payable to the registered owner (the "Owner") at stated maturity or prior redemption upon presentation and surrender of such Bonds at the corporate office of the paying agent/registrar (the "Paying Agent/Registrar"), initially Zions Bancorporation, National Association, Houston, Texas. Upon discontinuance of the Book-Entry-Only System, interest on the Bonds will be payable by check dated as of the interest payment date and mailed by the Paying Agent/Registrar to registered Owners as shown on the records of the Paying Agent/Registrar on the Record Date (see "REGISTRATION, TRANSFER AND EXCHANGE - Record Date for Interest Payment" herein), or by such other customary banking arrangement, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the Owner. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, legal holiday, or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or a day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

The Bonds will mature on the dates, in the amounts and bear interest at the rates as set forth on the inside front cover page of this Official Statement.

Authority for Issuance

The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, including (particularly) the Act and Chapter 552, as amended, Texas Local Government Code, Chapter 22, as amended, Texas Business Organizations Code (the "Refunding Act"), and a resolution (the "Resolution") adopted by the Corporation's Board of Directors (the "Board") on October 17, 2019. In the Resolution, the Board has, in accordance with the Refunding Act, delegated to certain Corporation officials the authority to execute an approval certificate evidencing the final terms and completing the sale of the Bonds. The Resolution was approved by separate resolution of the governing body of each City that is a party to the Contract (defined below), and SAWS, who consented to the issuance of the Bonds (as required by the Contract provisions).

Legality

The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright LLP, San Antonio, Texas, Bond Counsel. Certain legal matters will be addressed by the Corporation's general counsel, and SAWS' general counsel. The legal opinion of Bond Counsel will be printed on or attached to the Bonds. (See "OTHER INFORMATION - Legal Matters" and Appendix G.)

Security and Source of Payment

The Bonds are special obligations of the Corporation which, together with the currently outstanding Bonds Similarly Secured (to the extent not refunded by the Bonds) and any Additional Bonds (as defined herein) hereafter issued by the Corporation, are payable solely both as to principal and interest from and secured solely by a lien on and pledge of the Pledged Revenues (as defined herein), which consists primarily of the Bond Payment (as defined herein) portion of the Annual Payments (as defined herein) to be paid by SAWS, pursuant to the Contract. The Bonds are also secured by a lien on and pledge of the money in all funds created, established and maintained by the Resolution. No mortgage on the SAWS Project, the SAWS System, or the System is granted as security for the Bonds. The Bonds do not constitute a legal or equitable pledge, charge, lien or encumbrance upon any property of the Corporation, SAWS, or the Cities, and the registered owner of a Bond shall never have the right to demand payment of the Bonds from any funds raised or to be raised by taxation or from any other sources or properties of the Corporation, SAWS, the Cities, or the State of Texas. The Bonds are not payable from or secured by any other revenues of the Corporation, SAWS, the Cities, or any other entity, and the Corporation is not authorized to levy any tax in payment thereof. The Corporation reserves the right to issue Additional Bonds (as provided in the Resolution and as permitted (but pursuant to the provisions of) the Contract) without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise.

See "SECURITY FOR THE BONDS" herein and "SELECTED PROVISIONS OF THE RESOLUTION" attached hereto as Appendix E for more information regarding the foregoing.

Perfection of Security Interest for the Bonds

Chapter 1208, as amended, Texas Government Code, applies to the issuance of the Bonds and the pledge of the Pledged Revenues as security therefor, and such pledge is, therefore, valid, effective and perfected. Should State law be amended while the Bonds are outstanding and unpaid, the result of such amendment being that the pledge of the Pledged Revenues is to be subject to the filing requirements of Chapter 9, Texas Business and Commerce Code, as amended, in order to preserve to the registered owners of the Bonds a security interest in such pledge, the Corporation has agreed in the Resolution to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in said pledge to occur.

Redemption Provisions

The Corporation reserves the right, at its option, to redeem the Bonds having stated maturities on or after February 1, 2028, in whole or in part, in integral multiples of $5,000, on February 1, 2027, or any date thereafter, such redemption date or dates to be fixed by the Corporation, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. If less than all of the Bonds are to be redeemed, the Corporation shall determine the maturity or maturities and the amounts thereof to be redeemed and shall direct the Paying Agent/Registrar to select by lot the Bonds, or portions thereof, within each maturity to be redeemed. If two or more serial bonds of consecutive maturity are combined into one or more "term" Bonds (the "Term Bonds") by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Resolution.

Not less than 30 days prior to a redemption date for the Bonds, the Corporation shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered Owner of a Bond to be redeemed, in whole or in part, at the address of the registered Owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. If notice is so given and arrangements are made for the payment of the redemption price of the Bonds on the redemption date, interest on the Bonds shall cease to accrue after the date fixed for redemption whether or not the Bonds have been submitted for payment. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

All notices of redemption shall (i) specify the date of redemption for the Bonds, (ii) identify the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state that the Bonds, or the portion of the principal amount thereof to be redeemed, shall become due and payable on the redemption date specified, and the interest thereon, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify that payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, shall be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the registered owner. If a Bond is subject by its terms to redemption and has been called for redemption and notice of redemption thereof has been duly given or waived as provided in the Resolution, such Bonds (or the principal amount thereof to be redeemed) so called for redemption shall become due and payable, and on the redemption date designated in such notice, interest on said Bonds (or the principal amount thereof to be redeemed) called for redemption shall cease to accrue and such Bonds shall not be deemed to be Outstanding.

The Paying Agent/Registrar and the Corporation, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Resolution or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised or any such notice. Redemption of portions of the Bonds by the Corporation will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the beneficial owners. Any such selection of Bonds to be redeemed will not be governed by the Resolution and will not be conducted by the Corporation or the Paying Agent/Registrar. Neither the Corporation nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds for redemption. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Defeasance

The Resolution provides that any Bond will be deemed paid and will no longer be considered to be outstanding within the meaning of the Resolution when payment of principal of and interest on such Bond to its stated maturity or date of prior redemption has been made or provided for. Payment may be provided for by deposit of any combination of (1) money in an amount sufficient to make such payment and/or (2) Government Securities (defined herein). Any such deposit must be certified by an independent public accountant, the Corporation's Financial Advisor, or other qualified financial institution (as provided in the Resolution) to be of such maturities and interest payment dates and bear such interest as will, without reinvestment, be sufficient to make the payment to be provided for on the Bond. The Resolution provides that "Government Securities" means (A) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (B) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (C) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (D) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. Corporation officials may contractually limit the use of certain Government Securities as deemed appropriate in connection with the sale of the Bonds. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Bonds, or those for any other Government Securities, will be maintained at any particular rating category. Further, there is no assurance that current Texas law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (A) through (C) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the Corporation has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded.

Because the Resolution does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the Corporation to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under Texas law as permissible defeasance securities.

Amendments

The Corporation may amend the Resolution without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the Corporation may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Resolution; except that, without the consent of the registered owners of all of the Bonds affected, no such amendment, addition, or rescission may (1) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required for consent to any amendment, addition, or waiver.

Defaults and Remedies

If the Corporation defaults in the payment of the principal of or interest on any of the Bonds when due or defaults in the observance or performance of any of the covenants, conditions, or obligations set forth in the Resolution, any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the Corporation to make such payment or observance and perform such covenant, obligations, or condition. Such right is in addition to any other rights the registered owners of the Bonds may be provided by the laws of the State. Additionally, SAWS' default under the Contract to make the Annual Payment (or any portion thereof) when due or with respect to its observance or performance of any of its covenants, conditions, or obligations set forth in the Contract gives rise to the Issuer's exercise of rights and remedies thereunder to compel SAWS' performance or to undertake other available action (in response to which SAWS is permitted to raise defenses under the Contract and remedies otherwise available thereto pursuant to applicable law). Neither the registered owners of the Bonds or any trustee acting on their behalf have been assigned the right to directly enforce the Corporation's rights and remedies under the Contract or to compel SAWS' performance thereunder.

Under State law there is no right to the acceleration of maturity of the Bonds upon the failure of the Corporation to observe any covenant under the Resolution. Although a registered owner of Bonds could presumably obtain a judgment against the Corporation if a default occurred in the payment of principal of or interest on any such Bonds, such judgment could not be satisfied by execution against any property of the Corporation. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the Corporation to pay, or to collect Pledged Revenues derived from the Contract sufficient to pay, principal of and interest on the Bonds as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. The Resolution does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the Corporation to perform in accordance with the terms of the Resolution or upon any other condition; similarly, and as stated above, no rights to directly enforce against SAWS its duties and obligations owed to the Issuer under the Contract has been granted to the registered owners of the Bonds or any trustee representing their interests. Accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

The Texas Supreme Court ruled in Tooke v. City of Mexia, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Furthermore, Tooke, and subsequent jurisprudence, held that a municipality is not immune from suit for torts committed in the performance of its proprietary functions, as it is for torts committed in the performance of its governmental functions (the "Proprietary-Governmental Dichotomy"). Governmental functions are those that are enjoined on a municipality by law and are given by the State as a part of the State's sovereignty, to be exercised by the municipality in the interest of the general public, while proprietary functions are those that a municipality may, in its discretion, perform in the interest of the inhabitants of the municipality. Because it is unclear whether the Texas legislature has effectively waived the Corporation's or SAWS' sovereign immunity from a suit for money damages, bondholders may not be able to bring such a suit against the Issuer for breach of the Bonds or the Resolution, and the Corporation may not be able to bring a similar suit against SAWS for its breach under the Contract. Even if a judgment by the registered owners of the Bonds against the Issuer, or by the Corporation against SAWS, could be obtained, one could not be enforced by direct levy and execution against the Issuer's or SAWS' property, respectively.

On April 1, 2016, the Texas Supreme Court in Wasson Interests, Ltd. v. City of Jacksonville, 59 Tex. Sup. Ct. J. 524 (Tex. 2016) ("Wasson") addressed whether the distinction between governmental and proprietary acts (as found in tort-based causes of action) applies to breach of contract claims against municipalities. The Court analyzed the rationale behind the Proprietary-Governmental Dichotomy to determine that "a city's proprietary functions are not done pursuant to the 'will of the people'" and protecting such municipalities "via the [S]tate's immunity is not an efficient way to ensure efficient allocation of [S]tate resources". While the Court recognized that the distinction between governmental and proprietary functions is not clear, the Wasson opinion held that the Proprietary-Governmental Dichotomy applies in contract-claims context. The Court reviewed Wasson for a second time and issued an opinion on October 5, 2018 clarifying that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of the alleged breach. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to determine whether a function is proprietary or governmental based upon the statutory guidance and definitions found in the Texas Civil Practice and Remedies Code, determination of which will dictate the availability of the defense of immunity for causes of action arising under such contract. Issues related to the applicability of governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question. Furthermore, the Corporation and SAWS are eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues (such as the Pledged Revenues), such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by the creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the Corporation or SAWS avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Resolution and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors or general principles of equity which permit the exercise of judicial discretion

Ownership of Bonds

The Corporation, the Paying Agent/Registrar and any other person may treat the person in whose name any Bond is registered as the absolute owner of such Bond for the purpose of making and receiving payment of principal and interest, and for all other purposes, whether or not such Bond is overdue, and neither the Corporation nor the Paying Agent/Registrar will be bound by any notice or knowledge to the contrary.

All payments made to the person deemed to be the owner of any Bond in accordance with the Resolution will be valid and effectual and will discharge the liability of the Corporation and the Paying Agent/Registrar upon such Bond to the extent of the sums paid.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The Corporation, the Financial Advisor, and the Underwriters believe the source of such information to be reliable but none of the foregoing (nor SAWS/the Cities) takes responsibility for the accuracy or completeness thereof.

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond certificate will be issued for the Bonds, 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 over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

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

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

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

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

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to Corporation or Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered. The Corporation may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Corporation, the Financial Advisor, and the Underwriters believe to be reliable, but none of the Corporation, the Financial Advisor, nor the Underwriters (nor SAWS/the Cities) take responsibility for the accuracy thereof.

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

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, payment or notices that are to be given to registered owners under the Resolution will be given only to DTC.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is Zions Bancorporation, National Association, Houston, Texas. In the Resolution, the Issuer retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the Issuer, the new Paying Agent/Registrar shall 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 Issuer, shall be a national or state banking association or corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise trust powers, shall be subject to supervision or examination by federal or state authority, and registered as a transfer agent with the United States Securities and

Exchange Commission. Upon a change in the Paying Agent/Registrar for the Bonds, the Issuer agrees to promptly cause written notice thereof to be sent to each registered owner of the Bonds affected by the change by United States mail, first-class, postage prepaid.

Future Registration

In the event the Bonds are not in the Book-Entry-Only System, the Bonds may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or exchanged at the corporate trust office of the Paying Agent/Registrar or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. New Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in denominations of $5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount and rate of interest as the Bond or Bonds surrendered for exchange or transfer. (See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized in regard to ownership and transferability of the Bonds.)

Record Date for Interest Payment

The record date ("Record Date") for determining the party to whom the interest on a Bond is payable on any interest payment date means the fifteenth day of the month next preceding each interest payment date. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the Corporation. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which must be 15 days after the Special Record Date) will be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Holder of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Limitation on Transfer of Bonds

Neither the Issuer nor the Paying Agent/Registrar shall be required to issue, transfer, or exchange any Bond called for redemption, in whole or in part (1) to transfer or exchange any Bond during a period beginning at the opening of business fifteen (15) days before the day of the first mailing of a notice of redemption of Bonds hereunder and ending at the close of business on the day of such mailing or (2) thereafter to transfer or exchange in whole or in part any Bond so selected for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Replacement of Bonds

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

INVESTMENT CONSIDERATIONS

The ability of SAWS to make payments of the Bond Payment portion of the Annual Payments sufficient to pay principal of and interest on the Bonds Similarly Secured when due may be affected by certain risks described below and elsewhere in this Official Statement. Such risks should be considered in making a decision to invest in the Bonds.

Limited Bondholder Remedies

The Resolution and the Contract provides only limited remedies to Bondholders in the event of default; the Contract provides only limited remedies to the Corporation in the event of a SAWS default thereunder. Neither the Bonds nor the Annual Payments are subject to acceleration upon default. Although the Bondholders could apply for a writ of mandamus to compel the Corporation to abide by its contractual obligations under the Resolution, or the Corporation could apply for a writ of mandamus to compel SAWS to perform its obligations under the Contract, such remedies are time consuming and may have to be enforced from year to year. No judgment against SAWS or the Corporation may be enforced by execution of a levy against its public purpose property. In addition, the rights and remedies of Bondholders or the Corporation, as applicable, may be limited by applicable federal bankruptcy and receivership laws affecting creditors of political subdivisions. See "THE BONDS – Defaults and Remedies".

Permitting and Regulatory Matters

Production and transportation of water from the Buckhorn Well Field, to be treated by the Corporation and sold to SAWS pursuant to the Contract, is regulated by the Gonzales County Underground Water Conservation District (previously defined herein as the "District").

On July 13, 2010, after a lengthy contested proceeding, SAWS was issued a single permit (the "Gonzales Permit") to produce and transport up to 11,700 acre-feet of water from Gonzales County. The operating component of the Gonzales Permit had a five-year term, with an expiration date of July 12, 2015. The transportation component of the Gonzales Permit had a term of thirty years as required by State statute. SAWS filed a timely request for renewal of the Gonzales Permit in accordance with the District's rules. The District's General Manager determined that the request was in substantial compliance with the District's rules, thereby entitling SAWS to renewal of the Gonzales Permit by the District's Board of Directors under the District's existing rules.

On July 14, 2015, the District's Board of Directors tabled scheduled action to renew the Gonzales Permit. Pursuant to the existing District rules and the terms of the Gonzales Permit, the Gonzales Permit remained effective until the District's Board of Directors acted on the renewal request. Over the course of the following three months, the District adopted new rules but took no action on SAWS' request for renewal of the Gonzales Permit. New rules adopted by the District on October 10, 2015, provide as follows: "An operating permit subject to renewal shall be administratively renewed for a period of five years in accordance to the rules in effect at the time of renewal." The rules no longer provide that a permit such as SAWS' will remain valid until action by the Board of Directors on a renewal request.

The Texas Water Code provided, at the time of SAWS' application, that an application such as SAWS' uncontested request for permit renewal shall be acted on by a groundwater district's board of directors at a publicly called and posted meeting, unless the board by rule has delegated to the general manager of the district the authority to act on the application. The District's Board of Directors has not acted on the SAWS' application and has not delegated authority to the District's General Manager to act on the application. Nonetheless, SAWS subsequently received two permits from the District. One permit is titled Production Permit and the other permit is titled Export Permit. Both permits were signed by the President of the Board of Directors on November 10, 2015. The term of the Production Permit is five years. The term of the Export Permit is 30 years subject to periodic review by the Board of Directors. The Production Permit includes the following notation: "Auto Permit Granted: July 13, 2015." The Export Permit includes the following notation: "Auto Permit Granted: July 13, 2010." Neither the Corporation nor SAWS make any representation as to any prospective actions to be taken in regard to SAWS' application or the permits' renewal, if any, and the terms or conditions thereof.

In addition, to the extent that the Corporation expands its operations to include the acquisition of water rights and the development of wells in other jurisdictions, the Corporation will be subject to the applicable regulatory and permitting procedures of such other jurisdictions.

SAWS Future Water Needs

To achieve diversification of its water supply, the City of San Antonio, acting through SAWS, has entered into an agreement with Vista Ridge LLC, pursuant to which Vista Ridge LLC is committed to make available to SAWS, and SAWS has agreed to pay for, up to 50,000 acre-feet of potable water per year for an initial period of 30 years plus a limited (20 year) extension period under certain events. SAWS has also entered into a separate agreement with Blue Water Vista Ridge, LLC, the lessee of the Vista Ridge LLC water, to continue to acquire the 50,000 acre-feet of untreated groundwater, for an additional 30-year period upon the termination of the agreement with Vista Ridge LLC and the transfer of the assets to SAWS. The execution and implementation of this agreement represents a significant diversification of San Antonio's water supply, as SAWS projects that water delivered under this agreement, if delivered at the maximum amount (which is the expectation of both SAWS and Vista Ridge LLC), will account for approximately 20% of SAWS' current annual usage. SAWS expects to begin receiving water pursuant to this agreement in 2020 and its availability could place SAWS in a water surplus position.

To the extent excess water is available to the Corporation, SAWS has before purchased excess water therefrom. Based on its current plans, SAWS has communicated to the Corporation that it anticipates but has not committed to buying approximately 500 acre-feet per year of Corporation excess water (which is in addition to the 11,688 acre-feet of SAWS produced water that the Corporation is treating pursuant to the Contract). Though revenues from these purchases of excess Corporation water are not included in Pledged Revenues, these excess revenues water sales do inure to the overall benefit of the Corporation. The availability to SAWS of water under the agreement with Vista Ridge LLC could prospectively impact its need to continue to purchase additional water from the Corporation.

THE CORPORATION

General

The Corporation is governed by a board of directors (the "Board") composed of five members and two ex-officio members who are appointed by the City Councils of the Cities. The Corporation was formed on December 23, 1998. The Corporation's Articles of Incorporation provide, among other things, that the purposes for which the Corporation is organized are:

1. to aid, assist, and act on behalf of the Cities in acquiring, constructing, leasing, improving, enlarging, extending, repairing, maintaining and operating a water utility system pursuant to the provisions of Texas Local Government Code Chapter 552, as amended. ("Chapter 552") (previously codified as Chapter 402, Texas Local Government Code) and other applicable laws of the State;

2. to aid, assist and act on behalf of the Cities in accomplishing a governmental purpose of Schertz and Seguin in the provision of water for public use;

3. to engage in activities permitted under the laws of the State, including, but not limited to, Chapter 552 and to own and operate all property, real, personal, or mixed, and conduct such activities as are now or hereafter permitted under the laws of the State, including, but not limited to, Chapter 552 and as are convenient or necessary to the ownership, maintenance, and operation of a water utility system;

4. to receive, hold, administer, and disburse any money, securities, or other property which may be transferred to Corporation by gift, devise, bequest, or otherwise, for any of the uses or purposes set forth above, and to invest, lend, conserve, use, and disburse such money, securities, or other property, and the income derived therefrom, for the uses and purposes herein specified, in accordance with the judgment and discretion of the board of directors;

5. to purchase, exchange, contract for, lease, rent, and in any and all other ways acquire, take, own, improve, and hold, and to sell, convey, mortgage, lease, rent to others, or otherwise dispose of real estate, improvements in real estate, interests in real estate, and personal property of every kind, character, and description;

6. to borrow money or raise money and to issue notes, bills, bonds and other obligations and to mortgage, pledge, hypothecate, or otherwise encumber any and all of the revenues and assets of the Corporation as security therefor for the purpose of carrying out the goals of the Corporation; and

7. to do any and all things necessary or convenient to the accomplishment of any of the purposes or for the exercise of any of the powers herein set forth, whether herein specified or not, either alone or in connection with other firms, individuals, or corporations, whether in the State or throughout the United States, and elsewhere.

Corporation Operations

The Corporation has constructed its System, consisting of the cross-country pipeline, treatment facilities, pumping stations, water storage and gathering lines from the well-field, on time and within budget, and water is being supplied to the Cities and its other customers. The Corporation has entered into an agreement with GCUWCD effective March 16, 2010 to fund a Mitigation Fund (the "Fund") for the purpose of investigating and evaluating mitigation claims and implementing mitigation measures for qualifying wells in western Gonzales County. Contributions to the Fund are in lieu of the Corporation's obligation to perform its own mitigation under GCUWCD's rules. The Corporation's initial fund principal is $30 per acre foot of water authorized to be produced and transported. The initial contribution was $530,860 and was recognized in prior financial statements as operating expenses of the system. In addition, the Corporation will pay a negotiated export fee surcharge of $0.0175 per 1,000 gallons of water exported each calendar year, except the export fee surcharge shall not be imposed during the initial 3-year period of the agreement while the Fund balance remains at or above $250,000 as of each July 1. As of July 1, 2017, the Fund balance fell below $250,000 and the Corporation was responsible for making an additional payment in the amount of $52,098.

The Corporation has entered into an agreement with GCUWCD effective December 30, 2016 to fund the Corporation's percentage of the SAWS Project for the construction of new monitoring wells in Gonzales County. Contributions to the SAWS Project are based on the number of monitoring wells that each contributing party is responsible for as determined in the agreement. The Corporation's required contribution represents 21.05% of the total cost of the SAWS Project and is equal to $192,608. The total contribution will be paid in three installments related to the completion of each phase of the SAWS Project. The second contribution related to the second phase was $60,823 and was recognized during the year ended September 30, 2018.

The Corporation has entered into contracts with the cities of Selma and Universal City, Texas (referred to as "Customers") to provide supplemental water to those cities' existing systems. The contracts call for connection fees in the amount of $2,270,171 from each customer. The Corporation has agreed to provide a conditional right to each customer of 400 acres of land with water rights in the Carrizo aquifer well field in Gonzales County, owned by the Corporation. At the election of the Corporation, or in the event the Corporation dissolves, the title to 400 acres will be transferred to the customer. The Corporation's contingent commitment does not restrict the Corporation's right to buy and sell real estate as long as the Corporation's holdings in Gonzales County do not fall below the amount necessary to fulfill this obligation.

The Cibolo Valley Local Government Corporation (the "CVLGC") has been formed by the Texas cities of Schertz, Seguin, Converse, Selma, and Cibolo to develop additional water supply options for those cities. The Corporation provides financial and administrative duties (including bookkeeping and record retention, purchasing, and monitoring contracts approved by the Board or General Manager) on a cost reimbursement basis under a Management Services Agreement with the CVLGC.

SECURITY FOR THE BONDS

The Contract

On January 1, 2011, the Corporation, SAWS, and the Cities originally entered the Contract, pursuant to which the Corporation is required to, and since effectuated, the design and construction of infrastructure improvements to the System for receipt from SAWS untreated groundwater. The Corporation currently delivers treated water to SAWS at the volume, rate, and quality set forth in the Contract. In return, SAWS pays to the Corporation amounts specified in the Contract as hereinafter described and constructed an emergency interconnect between the System and the SAWS System through which SAWS makes available to the Corporation potable water in the event the Corporation experiences an emergency event that precludes its ability to provide treated water to its customers.

Under the Contract, SAWS is obligated to pay to the Corporation, on a monthly basis, an amount equal to one twelfth of the annual debt service on the Bonds and other customary amounts due and owing and relating to the issuance of the Bonds (the "Bond Payment").

The Bond Payment commenced in the month that capitalized interest on the Refunded Obligations was exhausted and represented an unconditional obligation of SAWS after the Refunded Obligations were issued. The foregoing obligations exist regardless of whether SAWS actually takes any water under the Contract.

In addition, SAWS is obligated to pay to the Corporation (i) an amount (subject to annual reconciliation) calculated based upon a rate structure included in the Contract for Surplus Water (as defined in the Contract, being (essentially) treated water delivered to SAWS by the Corporation from its existing excess capacity) and (ii) an amount calculated based upon a rate structure included in the Contract for SAWS Water (as defined in the Contract, being (essentially) treated water delivered to SAWS by the Corporation from untreated water delivered to the Corporation by SAWS from its Buckhorn well-field). These amounts, in addition to the Bond Payment, are defined in the Contract to mean and referred to herein as the "Annual Payment."

Under the Contract, the Corporation is required to pay to SAWS an amount calculated based upon a rate structure included in the Contract for any Emergency Water (as defined in the Contract, being (essentially) potable water delivered to the Corporation by SAWS through the emergency interconnect constructed pursuant to the Contract).

The Contract provides that the obligation of SAWS to make the Annual Payment to the Corporation, and the obligation of the Corporation to make the payment to SAWS for its receipt of Emergency Water (if at all), represents an operating and maintenance expense of such applicable parties' respective utility system, payable from the gross revenues therefrom.

On January 1, 2017, the parties thereto entered into the first amendment to the Contract to provide for the minimum, annual purchase by SAWS from the Corporation of 500 acre-feet of "excess" Corporation water in each of the 2018, 2019, and 2020 calendar years. Thereafter, SAWS is under no obligation to purchase any of the Corporation's excess water. See "INVESTMENT CONSIDERATIONS – SAWS Future Water Needs" herein.

A copy of the complete Contract is attached hereto as Appendix F.

Pledged Revenues

The Bonds Similarly Secured (defined herein) are special obligations of the Corporation payable, as to principal and interest, from and secured solely by a lien on and pledge of the Pledged Revenues. The Resolution defines "Pledged Revenues" to mean (i) the Bond Payment portion of the Annual Payments, plus (ii) any additional revenues, income, receipts, or other resources, including, without limitation, any grants, donations, or income received or to be received from the United States Government, or any other public or private source, whether pursuant to an agreement or otherwise, which hereafter are pledged by the Corporation to the payment of the Bonds Similarly Secured.

THE BONDS DO NOT CONSTITUTE OR CREATE A DEBT OR LIABILITY OF THE STATE OF TEXAS, AND NEITHER THE FAITH AND CREDIT OF THE STATE OF TEXAS NOR THE TAXING POWER OF THE STATE OF TEXAS, THE CORPORATION, SAWS, THE CITIES OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE OF TEXAS IS IN ANY MANNER PLEDGED, GIVEN, OR LOANED TO THE PAYMENT OF THE BONDS; AND THE REGISTERED OWNERS OF THE BONDS DO NOT HAVE THE RIGHT TO DEMAND PAYMENT OF THE BONDS OUT OF ANY FUNDS OR SOURCES WHATSOEVER OTHER THAN THE PLEDGED REVENUES.

Rates and Charges

For the benefit of the registered owners of the Bonds Similarly Secured and in addition to all provisions and covenants in the laws of the State and in the Resolution, the Corporation has covenanted, while any of the Bonds Similarly Secured are Outstanding, to establish and maintain rates and charges for facilities and services afforded by the System that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Gross Revenues (defined below) in each Fiscal Year sufficient:

A. To pay all Maintenance and Operating Expenses, or any expenses required by statute to be a first claim on and charge against the Gross Revenues of the System;

B. To produce Net Revenues, together with any other lawfully available funds, sufficient to pay the principal of and interest on any Prior Lien Bonds hereafter issued by the Corporation and the amounts required to be deposited in any reserve, contingency, or redemption fund or account created for the payment and security of any Prior Lien Bonds, and any other obligations or evidences of indebtedness issued or incurred that are payable from and secured solely by a prior and first lien on and pledge of the Net Revenues of the System;

C. To produce Net Revenues, together with any other lawfully available funds, sufficient to pay the principal of and interest on any Junior Lien Obligations hereafter issued by the Corporation and the amounts required to be deposited in any reserve, contingency, or redemption fund or account created for the payment and security of any Junior Lien Obligations, and any other obligations or evidences of indebtedness issued or incurred that are payable from and secured solely by a junior and inferior lien on and pledge of the Net Revenues of the System;

D. To produce Net Revenues, together with any other lawfully available funds, sufficient to pay the principal of and interest on any Inferior Lien Obligations hereafter issued by the Corporation and the amounts required to be deposited in any reserve, contingency, or redemption fund or account created for the payment and security of any Inferior Lien Obligations, and any other obligations or evidences of indebtedness issued or incurred that are payable from and secured solely by a subordinate and inferior lien on and pledge of the Net Revenues of the System; and

E. To produce Net Revenues, together with any other lawfully available funds (including the Pledged Revenues) to pay the principal of and interest on the Bonds Similarly Secured (and which includes the Bonds) as the same become due and payable and to deposit the amounts required to be deposited in any special fund or account, including the Bond Fund and any debt service reserve fund hereafter created, created and established for the payment and security of the Bonds Similarly Secured (which includes the Bonds).

The Resolution defines the term "Gross Revenues" to mean all income and increment, including, but not limited to, any revenues, income, or connection fees which may be derived from the ownership and/or operation of the System as it is purchased, constructed or otherwise acquired, including payments pursuant to the Contract (**but specifically excluding the Bond Payment portion of the Annual Payments, which is made a part of and constitutes Pledged Revenues**), but shall not mean the income and increment derived from a contract or contracts with persons, corporations, municipal corporations, political subdivisions, or other entities which under the terms of the authorizing resolution(s) or order(s) that may be pledged for the requirements of the Corporation's Special Project Bonds (as defined in the Resolution) issued particularly to finance certain facilities (even though the facilities to be financed with the Special Project Bonds are physically connected to the System) needed in performing any such contract or contracts; provided, however, that the Board may utilize any revenues, including those generated by the Contract other than from the Bond Payment portion of the Annual Payments, in excess of the debt service requirements on the Bonds Similarly Secured and any Additional Obligations, as the same may be from time to time outstanding, for any lawful purpose in accordance with the Resolution and the Contract.

Additional Bonds and Additional Obligations

The Corporation reserves the right to issue additional obligations that are payable from a lien on and pledge of the Pledged Revenues on parity with the lien thereon and pledge thereof securing the Bonds (such additional obligations, the "Additional Bonds" and, together with the Bonds and the Original Bonds that remain outstanding after issuance of the Bonds and refunding of the Refunded Obligations, the "Bonds Similarly Secured") and Additional Obligations without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise. Additional Bonds, when issued, together with the Bonds and any other Bonds Similarly Secured from time to time outstanding, shall be payable from and secured by (i) a lien on and pledge of the Pledged Revenues and (ii) at the Corporation's discretion, a lien on and pledge of the Net Revenues, subject to the prior lien on and pledge of the Net Revenues securing the payment of any Additional Obligations issued by the Corporation. Additional Obligations, which include Prior Lien Bonds, Junior Lien Obligations, and Inferior Lien Obligations, when issued, shall be secured by a prior lien on and pledge of the Net Revenues that may be utilized by the Corporation to pay the debt service requirements on the Bonds (in addition to the Pledged Revenues) and any other Bonds Similarly Secured from time to time outstanding.

Funds and Accounts

System Fund

The Corporation has heretofore covenanted and agreed that the Gross Revenues of the System shall be deposited, as collected and received, into a separate fund or account heretofore created, established, and now maintained with the Depository known as the "System Fund" and that the Gross Revenues of the System shall be kept separate and apart from all other funds of the Corporation. The Corporation has covenanted that the portions of the Annual Payments other than the Bond Payment constitute Gross Revenues and shall be deposited upon receipt by the Corporation into the System Fund. All Gross Revenues deposited into the System Fund shall be pledged and appropriated to the extent required for the following uses and in the following order of priority:

FIRST: to the payment of all necessary and reasonable Maintenance and Operating Expenses or those required by statute or the Resolution to be a first charge on and claim against the Gross Revenues of the System.

SECOND: to the payment of the amounts required to be deposited into the bond, reserve, contingency, or redemption funds created and established for the payment of any Prior Lien Bonds hereafter issued by the Corporation as the same become due and payable.

THIRD: to the payment of the amounts required to be deposited into the bond, reserve, contingency, or redemption funds created and established for the payment of any Junior Lien Obligations hereafter issued by the Corporation as the same become due and payable.

FOURTH: to the payment of the amounts required to be deposited into the bond, reserve, contingency, or redemption funds created and established for the payment of any Inferior Lien Obligations hereafter issued by the Corporation as the same become due and payable.

FIFTH: to the payment of the amounts that must be deposited in any special funds or accounts, including the Bond Fund and any debt service reserve fund hereafter created, created and established for the payment and security of the Bonds Similarly Secured (which includes the Bonds).

Any Net Revenues remaining in the System Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other Corporation purpose now or hereafter permitted by law.

Bond Fund; Excess Bond Proceeds

For purposes of providing funds to pay the principal of and interest on the Bonds as the same become due and payable, the Corporation shall maintain, at the Depository, a separate and special fund or account created and known as the "Bond Fund." The Corporation has covenanted and agreed that the Pledged Revenues shall be deposited upon receipt by the Corporation into the Bond Fund. The

Corporation has also covenanted that there shall be deposited into the Bond Fund prior to each principal and interest payment date from the available Pledged Revenues an amount equal to one hundred percent (100%) of the amount required to fully pay the interest on and the principal of the Bonds then falling due and payable, such deposits to pay maturing principal and accrued interest on the Bonds to be made in substantially equal monthly installments on or before the tenth day of each month, beginning on January 10, 2020 (which represents an uninterrupted continuation of payments made on the 10th day of each month by the Corporation, previously with respect to the Original Bonds). If the Pledged Revenues in any month are insufficient to make the required payments into the Bond Fund, then the amount of any deficiency in such payment shall be added to the amount otherwise required to be paid into the Bond Fund in the next month.

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

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

Reserve Fund

The Corporation has not created, and there does not exist, a debt service reserve fund relating to or providing additional security for the Bonds, though the Corporation has, in the Resolution, reserved the right to create such a debt service reserve fund in conjunction with the future issuance of a series of Additional Bonds. In such case, the funding of the debt service reserve would be as specified in the Corporation resolution authorizing the issuance of such additional series of indebtedness, though the limitations on such funding from the System Fund shall limited in the manner as described in "Funds and Accounts – System Fund" above. By purchase of the Bonds, registered owners of Bonds are deemed to have consented to the terms relating to deposits and withdrawals to and from any debt service reserve fund hereafter created and established in connection with a future issuance of Additional Bonds.

INVESTMENT POLICY

Available Corporation funds are invested pursuant to Chapter 2256, Texas Government Code, as amended (the "PFIA") as authorized by State law and in accordance with investment policies approved and reviewed yearly by the Board. Both State law and the Corporation's investment policies are subject to change.

Legal Investments

Under State law, the Corporation is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, or otherwise meeting the requirements of the Texas Public Funds Investment Act; (8) certificates of deposit and share certificates that (i) are issued by or through an institution that has its main office or a branch in Texas and (a) are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, (b) are secured as to principal by obligations described in clauses (1) through (7) above, or (c) secured in any other manner and amount provided by law for Corporation deposits, or (ii) certificates of deposit where (a) the funds are invested by the Corporation through a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the Corporation as required by law, or a depository institution that has its main office or a branch office in the State of Texas that is selected by the Corporation; (b) the broker or the depository institution selected by the Corporation arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the Corporation, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the Corporation appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the United States Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 as custodian for the Corporation with respect to the certificates of deposit issued for the account of the Corporation; (9) fully collateralized repurchase agreements that (i) have a defined termination date, (ii) are fully secured by a combination of cash and obligations described in clauses (1) or (12), (iii) require the securities being purchased by the Corporation or cash held by the Corporation to be pledged to the Corporation, held in the Corporation's name and deposited at the time the investment is made with the Corporation or with a third party selected and approved by the Corporation, and (iv) are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time, and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (7) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (7) above and clauses (12) through (15) below, (ii) securities held as collateral under a loan are pledged to the Corporation, held in the

Corporation's name and deposited at the time the investment is made with the Corporation or a third party designated by the Corporation, (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas, and (iv) the agreement to lend securities has a term of one year or less; (11) certain bankers' acceptances if the bankers' acceptance (i) has a stated maturity of 270 days or fewer from the date of issuance, (ii) will be, in accordance with its terms, liquidated in full at maturity, (iii) is eligible for collateral for borrowing from a Federal Reserve Bank, and (iv) is accepted by a State or Federal bank, if the short-term obligations of the accepting bank or its holding company (if the accepting bank is the largest subsidiary) are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with (i) a stated maturity of 270 days or less from the date of issuance, and (ii) a rating of at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds that are (i) registered with and regulated by the United States Securities and Exchange Commission, (ii) provide the Corporation with a prospectus and other information required by the Securities and Exchange Act of 1934; and (iii) comply with Federal Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are (i) registered with the United States Securities and Exchange Commission, (ii) have an average weighted maturity of less than two years, and (iii) either (a) have a duration of one year or more and are invested exclusively in obligations described in this paragraph, or (b) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset- backed securities; (15) investment pools if the Corporation has authorized investment in the particular pool and the pool invests solely in investments permitted by the Texas Public Funds Investment Act, and is continuously rated no lower than "AAA" or "AAA-m" or at an equivalent rating by at least one nationally recognized rating service; and (16) guaranteed investment contracts that (i) have a defined termination date, (ii) are secured by obligations which meet the requirements of the Texas Public Funds Investment Act in an amount at least equal to the amount of bond proceeds invested under such contract, and (iii) are pledged to the Corporation and deposited with the Corporation or with a third party selected and approved by the Corporation.

Entities such as the Corporation 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, clauses (9) through (11) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to such investing entity or a third party designated such investing entity; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less.

The Corporation may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAm or an equivalent by at least one nationally recognized rating service. The Corporation 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

State law requires that the Corporation is required to invest its funds in accordance underwritten investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for Corporation funds, maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pool fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. As part of its formally adopted investment policy, all Corporation funds must be invested consistent with written investment strategies describing, with respect to each fund or group of funds under the Corporation's control, investment objectives for the particular fund using the following priorities (in order of importance): (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under State law, Corporation 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 Corporation must submit to the Board an investment report detailing (1) the investment position of the Corporation, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to (a) adopted investment strategy statements and (b) State law. No person may invest Corporation funds without express written authority from the Board.

Additional Provisions

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

Corporation policies require investments in accordance with applicable State law. All investments which are authorized by State statute, with the exception of bankers' acceptances, commercial paper, collateralized mortgage obligations, reverse repurchase agreements, no-load money market mutual funds, no-load mutual funds, and bonds issued, assumed or guaranteed by the State of Israel, are acceptable for investment purposes under the Corporation's Statement of Investment Policy. The Corporation generally invests in obligations of the United States or its agencies and instrumentalities.

Under State law, the Corporation may contract with an investment management firm registered under the Investment Advisers 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 Corporation retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the Corporation must do so by order, ordinance or resolution. The Corporation has not contracted with, and has no present intention of contracting with, any such investment management firm or the State Securities Board to provide such services.

Current Investments*

As of November 1, 2019, the following percentages of the Corporation's investable funds were invested as indicated below:

Category of Investments	Amount	Percentage	Term of Investments
Pools	$21,108,358	78.80%	Daily liquidity
Bank	27,327	0.10%	Daily liquidity
US Treasuries	5,650,000	21.10%	Less than 30 days
Total	$26,785,685	100.00%	

____

* Unaudited.

As of such date, the market value of such investments (as determined by the Corporation by reference to published quotations, dealer bids, and comparable information) was approximately 100% of their book value. No funds of the Corporation are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

TAX MATTERS

Tax Exemption

The delivery of the Bonds is subject to the opinion of Norton Rose Fulbright US LLP of San Antonio, Texas, Bond Counsel, to the effect that interest on the Bonds for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Bond Counsel's opinion appears in APPENDIX G hereto.

In rendering the foregoing opinions, Bond Counsel will rely upon the Financial Advisor's certification concerning the sufficiency of funds initially deposited to the Escrow Fund and the representations and certifications of the Corporation made in certificates pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the Corporation with the provisions of the Resolution subsequent to the issuance of the Bonds. The Resolution contains covenants by the Corporation with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of the proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

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

Tax Changes

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

Ancillary Tax Consequences

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

Tax Accounting Treatment of Discount Bonds

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

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

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

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

Tax Accounting Treatment of Premium Bonds

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

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

CONTINUING DISCLOSURE OF INFORMATION

The Corporation, in the Resolution, and SAWS, in the Contract and by separate resolution adopted by its governing body, have made the following agreements for the benefit of the holders and registered owners of the Bonds. Such parties are required to observe the agreements for so long as the Corporation remains obligated to advance funds to pay the Bonds and SAWS is required to advance funds to the Corporation in support of the Bonds under the Contract. Under the agreements, the Corporation and SAWS will be obligated to provide certain updated financial information and operating data annually and timely notice of specified events to the Municipal Securities Rulemaking Board (the "MSRB") (see "Availability of Information" below).

The Corporation and the SAWS will file certain updated financial information and operating data with EMMA (defined herein) annually. The information to be updated includes all quantitative financial information and operating data with respect to the Corporation of the general type included in Appendix A to this Official Statement, all quantitative financial information and operating data with respect to SAWS of the general type included in Appendix B to this Official Statement, and the information included in Appendices C and D. The Corporation and SAWS will update and provide this information within six months after the end of their respective fiscal years ending in or after 2019. The Corporation and SAWS will provide the updated information to the MSRB in an electronic format.

The Corporation and SAWS may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the United States Securities and Exchange Commission's (the "SEC") Rule 15c2-12 ("Rule 15c2-12"). The updated information will include audited financial statements, if the Corporation and/or SAWS commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the Corporation and SAWS will provide unaudited financial statements by the required time, and will provide audited financial statements when and if the audit report or reports become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendices C and D, the Resolution, or such other accounting principles as the Corporation and/or SAWS may be required to employ from time to time pursuant to State law or regulation.

The Corporation's current fiscal year end is September 30. Accordingly, the Corporation must provide updated information by March 31 of the following year, unless the Corporation changes its fiscal year. SAWS's current fiscal year end is December 31. Accordingly, SAWS must provide updated information by June 30 of the following year, unless SAWS changes its fiscal year. If the Corporation or SAWS changes its fiscal year, such entity will file notice of such change with the MSRB through EMMA.

Notice of Certain Events

The Corporation and/or SAWS, as applicable and appropriate, will file with the MSRB notice of any of the following events with respect to the Bonds not more than 10 business days after occurrence of the event: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of Registered Owners of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Corporation or SAWS, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the Corporation or SAWS or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional Paying Agent/Registrar or the change of name of a Paying Agent/Registrar, if material; (15) incurrence of a Financial Obligation of the Corporation or SAWS, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Corporation or SAWS, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Corporation or SAWS, any of which reflect financial difficulties. As used above in clause (12), the phrase "bankruptcy, insolvency, receivership or similar event" means the appointment of a receiver, fiscal agent or similar officer for the Corporation in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Corporation or SAWS, or if such jurisdiction has been assumed by leaving the governing body and officials or officers of the Corporation in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Corporation or SAWS. The Corporation and SAWS intend the words used in clauses (15) and (16) of the immediately preceding paragraph and in the definition of Financial Obligation to have the meanings ascribed to them in SEC Release No. 34-83885, dated August 20, 2018. In the Resolution, the Corporation adopted policies and procedures to ensure timely compliance of its continuing disclosure undertakings. SAWS has previously adopted such policies. Neither the Bonds nor the Resolution make any provision for liquidity enhancement or debt service reserves for the Bonds. In addition, the Corporation and SAWS as applicable will provide timely notice of any failure by the them to provide information, data, or financial statements in accordance with their agreement described above under "Annual Reports." The Corporation and SAWS will file each notice described in this paragraph with the MSRB.

Availability of Information

All information and documentation filing required to be made by the Corporation or SAWS in accordance with their respective undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB. The information provided to the MSRB will be available to the public free of charge via the Electronic Municipal Market Access ("EMMA") system through an Internet website accessible at www.emma.msrb.org.

Limitations and Amendments

The Corporation and SAWS have agreed to update information and the Corporation and SAWS have agreed to provide notices of specified events only as described above. The Corporation and SAWS have not agreed to provide other information that may be relevant or material to a complete presentation of their financial results of operations, condition or prospects or agreed to update any information that is provided, except as described above. The Corporation and SAWS make no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The Corporation and SAWS disclaim 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 and beneficial owners of Bonds may seek a writ of mandamus to compel the Corporation and SAWS to comply with their respective agreements.

The Corporation and SAWS may amend their respective continuing disclosure agreements 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 any of the Corporation and SAWS, if the applicable agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the Corporation and SAWS (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The Corporation and SAWS may also repeal or amend these provisions if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but in either case only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the Corporation or SAWS amends their respective agreement, each party agrees it must be included with the next financial information and operating data provided in accordance with its agreements described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided. The Corporation and SAWS may also amend or repeal the provisions of these continuing disclosure agreements if the United States Securities and Exchange Commission ("SEC") amends or repeals the applicable provision of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds, respectively, in the primary offering of the Bonds.

Compliance with Prior Undertakings

The Corporation and SAWS have, during the past five years, complied in all material respects with the respective continuing disclosure agreements made thereby in accordance with the Rule.

Certain tables associated with the City of Schertz' Utility System were not updated in accordance with its past continuing disclosure undertakings. Additionally, the City of Schertz' audits for fiscal years ending 2013, 2014, 2016, and 2017 were not linked to the CUSIP associated with the Corporation's obligations. A corrective filing, which provided updated tables, has since been made. Additionally, the aforementioned audits have been properly linked. Procedures have been implemented for prospective compliance.

RATING

S&P Global Ratings ("S&P") has assigned its enhanced municipal bond rating of "AA+" to the Bonds. See "CONTINUING DISCLOSURE OF INFORMATION - Compliance with Prior Undertakings" herein.

An explanation of the significance of such rating may be obtained from S&P. The rating of the Bonds by S&P reflects only the view of such company at the time the rating is given, and the Issuer makes no representation as to the appropriateness of such rating. There is no assurance that the rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by S&P, if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

OTHER INFORMATION

Litigation

On the date of initial delivery of the Bonds to the Underwriters, the Corporation will execute and deliver to the Underwriters a certificate to the effect that, except as disclosed herein, no litigation of any nature has been filed or is pending, as of that date, to restrain or enjoin the issuance or delivery of the Bonds or which would affect the provisions made for their payment or security or in any manner questioning the validity of the Bonds.

The Corporation. The Corporation filed a lawsuit against the Post Oak Clean Green, Inc. to prevent them from getting a permit and building a landfill in the aquifer recharge zone. As of the date of this report, the litigation is still ongoing as the Corporation is appealing the permit approved by Texas Commission on Environmental Quality. Management is of the opinion that any proceedings known to exist as of September 30, 2018 are not likely to have a material adverse effect on the Corporation's financial position. The Corporation is frequently involved in administrative and regulatory proceedings related to applications for various permits and approvals required in connection with the development, construction and operation of its water projects, including the SAWS Project. Any delay caused by protested applications to, or adverse rulings of, administrative bodies or regulatory agencies from which the Corporation must obtain a required permit or approval could delay implementation of its initiatives. Such delay could adversely affect the current status of the SAWS Project and could result in increased costs associated with the operation thereof.

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Corporation addresses these risks with appropriate insurance coverage.

Except as described herein, there is no litigation, proceeding, inquiry, or investigation pending by or before any court or other governmental authority or entity (or, to the best knowledge of the Corporation and the Cities, threatened) that adversely affects the obligation of the Corporation to deliver the Bonds, the security for, or the validity of, the Bonds or the financial condition of the Corporation or the Cities. As stated above, the Corporation's permits to produce water from its wells are subject to renewal which began in October 2019 through July 2020. The Corporation's permits for transportation of water outside the GCUWCD have a term of thirty years. In considering an application for renewal of a permit, the Corporation may be subjected to the imposition of additional limitations, including limitations on the amount of water that may be transferred under a permit, and conditions that may be difficult or expensive to satisfy. The rules of the district also provide that the district may revise or revoke a well production permit at any time if the district finds that the well is causing unreasonable effects on existing groundwater and surface water resources or existing permit holders. (See "INVESTMENT CONSIDERATIONS")

The City of Schertz. Schertz is a defendant in various tort claims and lawsuits with respect to general liability, automobile liability, and various contractual matters. In the opinion of Schertz's management, the outcome of the pending litigation will not have a material adverse effect on Schertz's, or Schertz's utility system's, financial position or operations.

The City of Seguin. Seguin is a defendant in various tort claims and lawsuits with respect to general liability, automobile liability, and various contractual matters. In the opinion of Seguin's management, the outcome of the pending litigation will not have a material adverse effect on Seguin's, or Seguin's utility system's, financial position or operations.

SAWS Litigation and Potential Litigation:

SAWS is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. That litigation includes lawsuits claiming damages that allege that SAWS caused personal injuries; claims from contractors for additional amounts under construction contracts; employment discrimination claims, and various other liability claims. The amount of damages in some of the pending lawsuits is capped under the Texas Tort Claims Act. The status of such litigation ranges from early discovery stage to various levels of appeal of judgments both for and against SAWS. SAWS intends to defend vigorously against the lawsuits; including the pursuit of all appeals; however, no prediction can be made, as of the date hereof, with respect to the liability of SAWS for such claims or the outcome of such lawsuits.

Spiess Construction Co., Inc. v. San Antonio Water System; Cause No. 2018-CI-0056 in the 408th Judicial District Court, Bexar County, Texas.

On January 11, 2018, Spiess Construction Co. filed suit against SAWS alleging that SAWS breached the construction contract for the C-5 Culebra-Castroville to Laredo & C-28 Zarzamora Creek-San Gabriel to NW 23rd St. project (SAWS Job Nos. 14-4507 and 14-4007) by not paying amounts due for work performed of approximately $353,000 and unpaid retainage of approximately $251,000, together with interest and attorneys' fees. SAWS' answer was filed on April 30, 2018. On June 29, 2018, SAWS filed a counterclaim for recovery of damages caused by Plaintiff's breaches of contract and for recovery of interest and attorneys' fees. SAWS has paid Spiess for work performed and unpaid retainage. The remaining claims are SAWS' damages. Discovery is proceeding. A trial date has been set for September 14, 2020.

Environmental Regulations

General

The Corporation and SAWS are subject to the environmental regulations of the State and the United States in the operation of their utility systems. These regulations are subject to change and the Corporation and SAWS may be required to expend substantial funds to meet the requirements of such regulatory authorities. See "INCORPORATION OF CERTAIN SAWS DISCLOSURE BY REFERENCE" herein.

Regulatory Climate

The election of President Donald Trump in November 2016 resulted in a host of new administrators to top government agencies, especially those positions affecting the environment. Since inauguration and throughout the Trump administration, officials continue to engage in efforts to roll back previous regulations promulgated by the Environmental Protection Agency (the "EPA") under previous presidential administrations.

Safe Drinking Water Act

In August 1996, amendments to the federal Safe Drinking Water Act were signed into law, with additional amendments following in subsequent years, including provisions relating to eliminating lead in drinking water. The federal Safe Drinking Water Act requires the EPA to regulate a wide variety of contaminants that may be present in drinking water, including volatile organic chemicals ("VOCs"), other synthetic organic chemicals, inorganic chemicals, microbiological contaminants, and radionuclide contaminants. The list of contaminants to be regulated is so lengthy that the amendments require the EPA to establish a schedule for developing regulations regarding the contaminants. There are several phases in the EPA's regulatory timetables that are to be undertaken over the next few years. The full impact is difficult to project at this time, and would be dependent upon what maximum contaminant levels may be set for some future parameters and enhanced water treatment rules. Many of these parameters, such as waterborne pathogens, radionuclides, and infection by-products contaminants may require treatment changes that have not as yet been established by the EPA. Continued changes in rules and regulations may continue to cause process modifications, which may increase the cost of the maintenance and operation of the Corporation's water treatment and distribution facilities. These modifications and upgrades may require increased capital expenditures, which may be financed by the issuance of additional revenue bonds.

Mitchell Lake Update

The information under the subcaption "THE SAN ANTONIO WATER SYSTEM – Sewer Management Program", as it pertains to Mitchell Lake, included in SAWS' most recent Final Official Statement, dated September 12, 2019, referenced herein under the caption "INCORPORATION OF CERTAIN SAWS DISCLOSURE BY REFERENCE", is updated as follows:

SAWS has completed an initial feasibility review for utilizing a wetlands system to treat water discharged from Mitchell Lake. A pilot study is currently underway, which will evaluate the performance of the wetlands in treating lake discharges. Depending on the results of the pilot study, a full-scale wetlands project is anticipated to be implemented in 2022.

Legal Matters

The Corporation will furnish a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding special obligations of the Corporation, and based upon examination of such transcript of proceedings, the legal opinion of Bond Counsel to the effect that the Bonds issued in compliance with the provisions of the Resolution are valid and legally binding special obligations of the Corporation and the interest on such Bonds is exempt from federal income taxation under existing statutes, published rulings, regulations, and court decisions (see "TAX MATTERS"). Though it represents the Financial Advisor, the Cities, SAWS, and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been retained by and only represents the Corporation in connection with the issuance of the Bonds. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement under the captions "PLAN OF FINANCING - Refunded Obligations," "THE BONDS," (except the subcaption "Defaults and Remedies" as to which no opinion is expressed), "SECURITY FOR THE BONDS," "REGISTRATION, TRANSFER AND EXCHANGE," "TAX MATTERS," "CONTINUING DISCLOSURE OF INFORMATION" (except the subcaption "Compliance with Prior Undertakings" as to which no opinion is expressed), "OTHER INFORMATION - Legal Matters" (except for the second paragraph thereof), "OTHER INFORMATION - Legal Investments in Texas," "OTHER INFORMATION - Registration and Qualification of Bonds for Sale," "SELECTED PROVISIONS OF THE RESOLUTION" attached as hereto Appendix E, and "FORM OF LEGAL OPINION OF BOND COUNSEL" attached hereto as Appendix G, and is of the opinion that the information relating to the Bonds, the Contract and the Resolution contained therein fairly and accurately describes the provisions thereof and is correct as to matters of law. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System.

Certain matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas. Certain legal matters relating to the validity and enforceability of the Contract will be passed upon by the Attorney General of Texas, the Corporation's general counsel, and for SAWS by its General Counsel.

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

Legal Investments in Texas

Section 1201.041, Texas Government Code (the "Public Security Procedures Act"), provides that the Bonds are negotiable instruments, investment securities to which Chapter 8, Texas Uniform Commercial Code applies, and legal and authorized investments for insurance companies, for fiduciaries or trustees and for a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. Texas law further provides that the Bonds are eligible to secure deposits of any public funds of the state, its agencies or political subdivisions and are lawful and sufficient security for those deposits to the extent of their market value. For political subdivisions in the State which have adopted investment policies and guidelines in accordance with the PFIA, the Bonds may have to be assigned a rating of at least "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 "RATING" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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

Registration and Qualification of Bonds for Sale

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

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

Financial Advisor

SAMCO Capital Markets, Inc. is employed as Financial Advisor to the City of Schertz, the City of Seguin and the Corporation to assist in the issuance of the Bonds. In this capacity, the Financial Advisor has assisted in drafting this Official Statement. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the Corporation or the Cities to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and the sale of the Bonds.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with its responsibilities to the Corporation and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

Underwriting

The Underwriters have agreed, subject to certain customary conditions, to purchase the Bonds at a price equal to $__________ (representing the par amount of the Bonds of $___________, plus a [net] reoffering premium of $____________, less an Underwriters' discount of $___________), plus accrued interest on the Bonds from their dated date to their date of initial delivery. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement pursuant to their responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

INCORPORATION OF CERTAIN SAWS DISCLOSURE BY REFERENCE

Though the Corporation is the issuer of the Bonds, the primary source of security for the Bonds' repayment is the Bond Payment portion of the Annual Payment paid by SAWS under the Contract, payment of which by SAWS is contingent upon SAWS' continued operation and maintenance of the SAWS System and collection of revenues for service thereby provided. This Official Statement includes some information regarding SAWS and the SAWS System, including various operational liabilities and matters relating to the Contract specifically, but does not provide a comprehensive view of SAWS, its operations, responsibilities, liabilities or challenges. SAWS is a frequent participant in the public municipal capital markets and, as such, its offering documents are publicly available online, without charge, at www.emma.msrb.org. Reference is made, specifically, to the Official Statement, dated as September 12, 2019, relating to the City of San Antonio, Texas Water System Junior Lien Revenue Refunding Bonds, Series 2019C (No Reserve Fund), for investors interested in obtaining more information regarding SAWS and the SAWS System.

FORWARD LOOKING STATEMENTS

The statements contained in this Official Statement, and in any other information provided by the Issuer, that are not purely historical, are forward-looking statements, including statements regarding the Issuer'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 Issuer on the date hereof, and the Issuer assumes no obligation to update any such forward-looking statements. It is important to note that the Issuer's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and 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 and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Issuer. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

CONCLUDING STATEMENT

The information set forth herein has been obtained from the Corporation's, SAWS', and the Cities' records, audited financial statements and other sources which are considered to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and the Resolution contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and the Resolution. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

MISCELLANEOUS

The Resolution authorizing the issuance of the Bonds approved the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorize its further use in the reoffering of the Bonds by the Underwriters.

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

This Official Statement has been approved by the Board of Directors of the Corporation for distribution in accordance with the provisions of the United States Securities and Exchange Commission's rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION

____
President, Board of Directors

ATTEST:

____
Secretary, Board of Directors

(this page intentionally left blank)

SCHEDULE I

Schertz-Seguin Local Government Corporation
Schedule of Refunded Obligations*

Series	Principal Amount ($)	Maturities	Interest Rates (%)	Redemption Date and Price
Schertz/Seguin Local Government Corporation Contract Revenue Bonds, Series 2012 (SAWS Expansion Water Treatment Project 2)	700,000	02/01/2021	4.000	02/01/2020 @ 100%
	725,000	02/01/2022	4.000	02/01/2020 @ 100%
	755,000	02/01/2023	4.000	02/01/2020 @ 100%
	785,000	02/01/2024	4.000	02/01/2020 @ 100%
	815,000	02/01/2025	3.000	02/01/2020 @ 100%
	840,000	02/01/2026	3.000	02/01/2020 @ 100%
	865,000	02/01/2027	3.125	02/01/2020 @ 100%
	895,000	02/01/2028 (1)	3.625	02/01/2020 @ 100%
	930,000	02/01/2029 (1)	3.626	02/01/2020 @ 100%
	965,000	02/01/2030 (1)	3.625	02/01/2020 @ 100%
	1,000,000	02/01/2031 (1)	3.625	02/01/2020 @ 100%
	1,035,000	02/01/2032 (1)	3.625	02/01/2020 @ 100%
	1,075,000	02/01/2033 (2)	4.000	02/01/2020 @ 100%
	1,120,000	02/01/2034 (2)	4.000	02/01/2020 @ 100%
	1,165,000	02/01/2035 (2)	4.000	02/01/2020 @ 100%
	1,210,000	02/01/2036 (2)	4.000	02/01/2020 @ 100%
	1,260,000	02/01/2037 (2)	4.000	02/01/2020 @ 100%
	1,315,000	02/01/2038 (2)	4.000	02/01/2020 @ 100%
	1,365,000	02/01/2039 (2)	4.000	02/01/2020 @ 100%
	1,425,000	02/01/2040 (2)	4.000	02/01/2020 @ 100%
	1,480,000	02/01/2041 (2)	4.000	02/01/2020 @ 100%

---
* *Preliminary, subject to change.*
(1) *Term Bond stated to mature on February 1, 2032.*
(2) *Term Bond stated to mature on February 1, 2041.*

(this page intentionally left blank)

APPENDIX A

Financial Information Regarding the
Schertz/Seguin Local Government Corporation

(this page intentionally left blank)

SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION

Schertz/Seguin Local Government Corporation, a public, non-profit corporation (the "Corporation" or the "Issuer") created by the Cities of Schertz and Seguin, Texas (each individually, a "City," and collectively, the "Cities"), pursuant to Subchapter D of Chapter 431, Texas Transportation Code, as amended (the "Act"), to aid, assist and act on behalf of the Cities in acquiring, constructing, leasing, improving, enlarging, extending, repairing, maintaining, and operating a water utility system. The Corporation employs a full-time manager that is governed by a board of five directors and two ex-officio members who are appointed by the City Council of each City. (See "THE CORPORATION.")

Corporation's Debt Statement[1]
(As of November 1, 2019)

Priority Bonds[2]		
Contract Revenue Bonds, Series 2001	$ 10,000,000	
New Series Bonds[2]		
Contract Revenue Refunding Bonds, New Series 2014	3,610,000	
Contract Revenue Improvement and Refunding Bonds, New Series 2015	38,850,000	
Contract Revenue Bonds, New Series 2016	42,410,000	
Contract Revenue Refunding Bonds, New Series 2018	19,045,000	
Additional Obligations[2]		
Texas Water Development Board Participation Loan, Series 2016	22,830,000	
Total Obligations Outstanding	136,745,000	
Parity Bonds[3]		
Contract Revenue Bonds, Series 2012 (San Antonio Water System Expansion Water Treatment Project 2)[1]	670,000	(1)
Contract Revenue Refunding Bonds, Series 2019 (San Antonio Water System Expansion Water Treatment Project 2) (the "Bonds")	19,985,000	(4)
Total Bonds Outstanding	$157,400,000	(4)

---
(1) *Excludes the Refunded Obligations.*
(2) *Secured by the revenues received pursuant to the Schertz/Seguin Contract.*
(3) *Secured by the revenues received pursuant to the Contract.*
(4) *Preliminary, subject to change.*

The Corporation has issued revenue bonds, currently outstanding in the amount of $157,400,000 to provide funds to build, improve, extend, enlarge and repair the Corporation's utility system, fund a reserve, and pay the costs of bond issuance (or to refund previously issued bonds). The bond resolutions relating to $136,745,000 in outstanding Bonds pledge intergovernmental contract revenues from the Cities of Schertz and Seguin (the participating governments) to bond holders. Under the intergovernmental water supply contract, the Cities of Schertz and Seguin are unconditionally obligated to pay their respective shares of annual contract revenue bond debt service on Priority Bonds and certain other amounts as operating expenses from their respective utility systems. Contributions to the Corporation are reflected as "Nonoperating Expenses" in the Utility Enterprise Fund. The bond resolution relating to Series 2012 issue, currently outstanding in the amount of $20,395,000, pledges revenues to be paid by the City of San Antonio, Texas, acting by and through the San Antonio Water System ("SAWS") to the Corporation pursuant to the Mutual Regional Water Supply Contract.

(the remainder of this page intentionally left blank)

Comparative Statement of Net Position
(As of September 30, 2018)

	2018	2017
ASSETS:		
Current Assets	$ 17,184,732	$ 15,279,192
Restricted Cash and Cash Equivalents	76,029,551	73,947,779
Property, Plant and Equipment	93,336,414	95,008,923
Other Assets	7,597	28,653,000
Total Assets	186,558,294	184,264,547
DEFERRED OUTFLOWS OF RESOURCES:	2,277,401	2,412,138
Deferred Change on Refunding		
LIABILITIES:		
Current Liabilities	6,656,284	5,522,205
Revenue Bonds (Less Current Maturities & Unamortized Discounts)	161,215,523	164,983,651
Total Liabilities	167,871,807	170,505,856
NET POSITION:		
Restricted	7,559,142	6,255,257
Invested in Capital Assets, Net of Related Debt	(2,296,656)	(1,956,872)
Unrestricted	15,701,402	11,872,444
Total Net Position	$20,963,888	$16,170,829

(the remainder of this page intentionally left blank)

Schertz/Seguin Local Government Corporation
Comparative Statements of Revenues, Expenses and Changes in Net Position

	2018	2017
Operating Revenue		
Water Usage Fees	$17,168,285	$16,415,653
Rents, Royalties & Leases	133,668	53,698
Impact Fees	883,005	849,289
Management Services Provided	120,456	121,823
Miscellaneous Fees	142,409	228,048
Total Operating Revenues	18,447,823	17,668,511
Operating Expenses		
Operations & Maintenance:		
Personnel Costs	1,127,255	981,171
Professional Services	379,330	267,438
Technical Services	371,865	368,381
Utilities	1,805,388	1,668,305
Repairs and Maintenance	408,379	295,016
General Supplies	513,840	505,013
Insurance	63,912	46,000
Other Operating Costs	69,213	56,949
Total Operations & Maintenance	4,739,282	4,188,273
Other Operating Expenses:		
Amortization of Lease Acquisition Costs	21,056	80,156
Annual Lease Payments - Water Rights	2,479,889	2,414,771
Depreciation	2,444,756	2,436,451
Total Other Operating Expenses	4,945,701	4,931,378
Total Operating Expenses	9,684,983	9,119,651
Operating Income (Loss)	8,762,840	8,548,860
Nonoperating Revenues (Expenses):		
Interest Income	1,190,130	772,494
Gains on Sale of Assets	41,109	1,414
Interest Expense and Fiscal Fees	(5,201,020)	(5,131,266)
Bond Insurance Costs	-	(916,291)
Total Nonoperating Revenues (Expenses)	(3,969,781)	(5,273,649)
Change in Net Position	4,793,059	3,275,211
Net Position - Beginning of Year	16,170,829	12,895,618
Net Position - End of Year	$20,963,888	$16,170,829

Source: The Corporation's audited financial statements.

Schertz/Seguin Local Government Corporation
Contract Revenue Refunding Bonds, Series 2019
(San Antonio Water System Expansion Water Treatment Project 2)

Debt Service
(Bonds Similarly Secured)

Fiscal Yr Ending 9/30	Existing Debt Service	Less: Refunded Obligations Debt Service*	The Bonds* Principal Due 2/1	Interest Due 2/1	Interest Due 8/1	Total Principal & Interest(1)	Total Debt Service*
2020	$ 1,510,187.50	$ 826,787.50		$ 199,850.00	$ 399,700.00	$ 599,550.00	$ 1,282,950.00
2021	1,512,787.50	1,512,787.50	$ 620,000.00	399,700.00	387,300.00	1,407,000.00	1,407,000.00
2022	1,509,287.50	1,509,287.50	645,000.00	387,300.00	374,400.00	1,406,700.00	1,406,700.00
2023	1,509,687.50	1,509,687.50	670,000.00	374,400.00	361,000.00	1,405,400.00	1,405,400.00
2024	1,508,887.50	1,508,887.50	695,000.00	361,000.00	347,100.00	1,403,100.00	1,403,100.00
2025	1,510,962.50	1,510,962.50	730,000.00	347,100.00	332,500.00	1,409,600.00	1,409,600.00
2026	1,511,137.50	1,511,137.50	760,000.00	332,500.00	317,300.00	1,409,800.00	1,409,800.00
2027	1,510,021.88	1,510,021.88	785,000.00	317,300.00	301,600.00	1,403,900.00	1,403,900.00
2028	1,510,284.38	1,510,284.38	820,000.00	301,600.00	285,200.00	1,406,800.00	1,406,800.00
2029	1,512,206.25	1,512,206.25	855,000.00	285,200.00	268,100.00	1,408,300.00	1,408,300.00
2030	1,512,859.38	1,512,859.38	890,000.00	268,100.00	250,300.00	1,408,400.00	1,408,400.00
2031	1,512,243.76	1,512,243.76	925,000.00	250,300.00	231,800.00	1,407,100.00	1,407,100.00
2032	1,510,359.38	1,510,359.38	960,000.00	231,800.00	212,600.00	1,404,400.00	1,404,400.00
2033	1,510,100.00	1,510,100.00	1,000,000.00	212,600.00	192,600.00	1,405,200.00	1,405,200.00
2034	1,511,200.00	1,511,200.00	1,045,000.00	192,600.00	171,700.00	1,409,300.00	1,409,300.00
2035	1,510,500.00	1,510,500.00	1,085,000.00	171,700.00	150,000.00	1,406,700.00	1,406,700.00
2036	1,508,000.00	1,508,000.00	1,125,000.00	150,000.00	127,500.00	1,402,500.00	1,402,500.00
2037	1,508,600.00	1,508,600.00	1,175,000.00	127,500.00	104,000.00	1,406,500.00	1,406,500.00
2038	1,512,100.00	1,512,100.00	1,225,000.00	104,000.00	79,500.00	1,408,500.00	1,408,500.00
2039	1,508,500.00	1,508,500.00	1,270,000.00	79,500.00	54,100.00	1,403,600.00	1,403,600.00
2040	1,512,700.00	1,512,700.00	1,325,000.00	54,100.00	27,600.00	1,406,700.00	1,406,700.00
2041	1,509,600.00	1,509,600.00	1,380,000.00	27,600.00		1,407,600.00	1,407,600.00
	$33,232,212.53	$32,548,812.53	$19,985,000.00	$5,175,750.00	$4,975,900.00	$30,136,650.00	$30,820,050.00

* *Preliminary, subject to change.*
(1) *Bond Payment portion of the Annual Payment made under the Contract equal to actual debt service on all Bonds Similarly Secured.*

APPENDIX B

Financial Information Regarding the
San Antonio Water System

(this page intentionally left blank)

STATISTICAL SECTION

The following statistical section is derived from SAWS' Comprehensive Annual Financial Report for the year ended December 31, 2018. (See "APPENDIX B, EXCERPTS FROM TRHE ANNUAL FINANCIAL REPORT.")

San Antonio Water System
SCHEDULE 1 - NET POSITION
(accrual basis of accounting)
(amounts in thousands)

	Fiscal Year									
	2018	2017	2016	2015 (a)	2014	2013	2012	2011	2010	2009
Net Position										
Net investment in capital assets	2,353,841	2,217,283	2,106,957	1,939,292	1,730,265	1,661,644	1,602,507	1,496,132	1,451,222	1,431,578
Restricted for operating reserve	56,642	54,143	52,279	45,801	43,385	40,656	38,389	35,227	33,955	34,649
Restricted for debt service	64,086	59,719	60,396	56,775	47,123	39,710	34,254	34,862	31,222	27,511
Restricted for debt service reserve	54,702	56,364	56,016	62,716	66,665	62,560	58,681	54,696	50,688	41,479
Restricted for construction	209,204	188,227	150,198	168,968	140,937	101,212	83,968	98,455	98,555	89,888
Unrestricted	368,348	278,542	187,503	126,352	137,207	118,285	116,179	120,363	113,419	153,503
Total Net Position	$ 3,106,823	$ 2,854,278	$ 2,613,349	$ 2,399,904	$ 2,165,582	$ 2,024,067	$ 1,933,978	$ 1,839,735	$ 1,779,061	$ 1,778,608

(a) Increase in amounts from 2014 to 2015 is partially due to the merger of SAWS and SAWS District Special Project effective January 1, 2015.

[The remainder of this page intentionally left blank]

San Antonio Water System
SCHEDULE 2 - CHANGE IN NET POSITION
(accrual basis of accounting)
(amounts in thousands)

	Fiscal Year									
	2018	2017	2016	2015 (a)	2014	2013	2012	2011	2010	2009
Operating revenues:										
Water delivery system	$ 218,399	$ 202,264	$ 190,913	$ 168,338	$ 127,708	$ 119,767	$ 121,078	$ 125,188	$ 106,864	$ 105,204
Water supply system	202,674	202,143	185,037	163,759	150,079	134,367	136,704	130,755	117,402	113,783
Wastewater system	259,124	250,977	234,966	213,833	210,704	195,584	168,368	150,520	132,408	133,641
Chilled water & steam system	10,849	11,368	11,541	11,102	11,152	12,621	12,378	11,631	12,223	12,714
	691,046	666,752	622,457	557,032	499,643	462,339	438,528	418,094	368,897	365,342
Operating expenses before depreciation:										
Salaries and fringe benefits	149,970	148,058	142,315	133,681	115,049	125,210	125,295	127,816	121,523	115,177
Contractual services	171,032	168,350	170,845	163,768	127,685	107,194	100,165	66,900	82,708	89,112
Materials and supplies	23,485	23,159	21,959	23,490	20,930	23,355	23,966	24,868	20,320	22,768
Other charges	11,718	11,150	12,702	8,129	12,355	20,423	21,790	21,756	36,883	24,398
Less: Costs capitalized to										
Construction in Progress	(31,612)	(32,275)	(32,426)	(37,822)	(30,964)	(31,834)	(33,640)	(32,282)	(34,945)	(35,643)
Internal Service Fund - net (gain)/loss										-
Operating expense before depreciat	324,593	318,442	315,395	291,246	245,055	244,348	237,576	209,058	226,489	215,812
Depreciation	154,422	152,072	142,856	141,259	123,111	111,375	103,034	98,374	107,761	86,535
Total operating expenses	479,015	470,514	458,251	432,505	368,166	355,723	340,610	307,432	334,250	302,347
Operating Income	212,031	196,238	164,206	124,527	131,477	106,616	97,918	110,662	34,647	62,995
Non-operating revenues:										
Interest and miscellaneous	22,488	10,407	8,146	6,079	5,792	5,410	6,149	5,955	3,625	4,511
Non-operating expenses:										
Interest expense	88,542	86,615	86,566	89,971	78,049	75,606	73,987	77,022	76,805	67,686
Debt issue costs/Amortization of deb	1,711	1,385	4,716	3,831	2,914	4,112	3,835	2,346	2,081	1,465
Other finance charges	1,957	2,697	2,121	2,041	2,726	2,361	2,934	2,881	2,936	2,508
(Gain)/Loss on sale of capital assets	(924)	(951)	(3,087)	(4,674)	(23)	(1,075)	(430)	(773)	(392)	104
Payments to City of San Antonio	18,287	17,276	14,228	12,683	13,089	11,528	11,161	10,926	9,565	9,740
Payments to other entities	101	108	109	106	114	130	122	124	124	119
Total non-operating expense	109,674	107,130	104,653	103,958	96,869	92,662	91,609	92,526	91,119	81,622
Increases (decreases) in net position, before capital contributions	124,845	99,515	67,699	26,648	40,400	19,364	12,458	24,091	(52,847)	(14,116)
Capital contributions										
Plant Contributions	59,761	60,643	73,889	71,967	49,081	32,891	44,787	23,263	27,162	42,190
Capital Recovery Fees	79,794	72,846	67,991	64,056	51,973	37,289	36,761	35,872	25,038	23,636
Contributions in Aid of Constructio	6,435	7,925	3,866	-	61	545	237	345	1,100	1,049
Total contributions	145,990	141,414	145,746	136,023	101,115	70,725	81,785	59,480	53,300	66,875
Change in net position	$ 270,835	$ 240,929	$ 213,445	$ 162,671	$ 141,515	$ 90,089	$ 94,243	$ 83,571	$ 453	$ 52,759

(a) Increase in amounts from 2014 to 2015 is partially due to the merger of SAWS and SAWS District Special Project effective January 1, 2015.

[The remainder of this page intentionally left blank]

San Antonio Water System

SCHEDULE 3 – NET POSITION IN SYSTEM

(accrual basis of accounting)

(amounts in thousands)

	Fiscal Year									
	2018	2017	2016	2015 (a)	2014	2013	2012	2011	2010	2009
Assets:										
Capital Assets, net of accumulated de	$ 5,266,084	$ 5,051,777	$ 4,886,091	$ 4,647,786	$ 4,089,478	$ 3,964,000	$ 3,771,228	$ 3,553,065	$ 3,362,867	$ 3,174,264
Cash and Investments	1,025,791	924,958	928,593	853,417	819,232	689,483	517,876	528,761	575,629	576,652
Other Assets	83,770	87,530	80,976	81,889	79,478	75,998	71,241	63,658	75,578	74,823
Total Assets	6,375,645	6,064,265	5,895,660	5,583,092	4,988,188	4,729,481	4,360,345	4,145,484	4,014,074	3,825,739
Deferred Outflows of Resources										
Deferred Charge on Bond Refunding	42,048	48,055	54,317	30,103	29,086	30,943	30,561	2,494	-	-
Deferred outflows - Pension & OPEI	33,411	33,428	28,115	16,083	-	-	-	-	-	-
Accumulated Decrease in Fair Value of Hedging Derivatives	9,332	11,857	12,965	16,394	15,520	8,372	19,746	18,380	5,575	-
Total Deferred Outflows of Resou	84,791	93,340	95,397	62,580	44,606	39,315	50,307	20,874	5,575	-
Liabilities:										
Revenue Bonds Payable (net)	2,834,570	2,735,739	2,840,282	2,730,363	2,507,419	2,348,834	2,083,545	1,898,839	1,832,523	1,743,689
Commercial Paper and Flexible Rate	215,695	278,060	241,610	224,005	138,550	186,655	170,745	214,930	244,650	173,650
Other Liabilities	279,501	287,200	293,023	284,617	221,243	209,240	222,384	212,854	163,415	129,792
Total Liabilities	3,329,766	3,300,999	3,374,915	3,238,985	2,867,212	2,744,729	2,476,674	2,326,623	2,240,588	2,047,131
Deferred Inflows of Resources										
Deferred inflows - pension & OPEB	23,847	2,328	2,793	6,783	-	-	-	-	-	-
Net Position in System	$ 3,106,823	$ 2,854,278	$ 2,613,349	$ 2,399,904	$ 2,165,582	$ 2,024,067	$ 1,933,978	$ 1,839,735	$ 1,779,061	$ 1,778,608
Percentage Net Position in System	48.1%	46.4%	43.6%	42.5%	43.0%	42.4%	43.8%	44.2%	44.3%	46.5%

(a) Increase in amounts from 2014 to 2015 is partially due to the merger of SAWS and SAWS District Special Project effective January 1, 2015.

San Antonio Water System

SCHEDULE 4 - WATER PRODUCTION, WATER USAGE AND WASTEWATER TREATED

(gallons in millions)

unaudited

						Total Direct Rate			
						Water		Sewer	
Fiscal Year	Gallons of Water Production (a)	Gallons of Water Usage	Gallons of Water Unbilled	Average Percent Unbilled	Gallons of Wastewater Treated (b)	Base Rate (c)	Usage Rate (d)	Base Rate (e)	Usage Rate (f)
2018	78,665	63,660	15,005	19.07%	50,775	$ 12.97	$ 23.34	$ 13.51	$ 15.84
2017	79,256	65,318	13,938	17.59%	50,945	11.82	22.09	13.04	15.29
2016	76,857	63,934	12,923	16.81%	49,282	10.90	21.18	12.35	14.48
2015 (g)	76,227	62,896	13,331	17.49%	48,563	7.75	19.73	12.75	14.04
2014	68,265	57,261	11,004	16.12%	50,689	7.49	18.98	11.99	13.20
2013	66,391	55,108	11,283	16.99%	50,076	7.31	17.81	11.54	12.71
2012	66,596	55,320	11,276	16.93%	49,055	7.31	17.95	9.92	10.91
2011	70,699	59,133	11,566	16.36%	49,918	7.10	15.72	8.73	9.60
2010	61,272	52,578	8,694	14.19%	48,151	7.10	18.73	8.73	8.58
2009	62,649	55,295	7,354	11.74%	51,987	6.77	18.73	7.76	8.58

(a) Pumpage is total potable water production less Aquifer Storage and Recovery recharge

(b) Represents amounts billed to customers. Residential Class customers are billed based on water usage during a consecutive three month billing period from November through March. All other customer classes are billed for wastewater treatment based on actual water usage during each monthly billing period.

(c) Rate shown is for 5/8" meters. See Schedule 8 for the rates of other meter sizes. Includes the State-Imposed TCEQ fee. See Schedule 14 for additional information.

(d) Represents standard (non-seasonal) usage charge for monthly residential water usage of 7,092 gallons per month. Includes water supply and EAA fees.

(e) Minimum service availability charge (includes charge for first 1,496 gallons). Includes the State-Imposed TCEQ fee.

(f) Represents usage charge for a residential customer based on winter average water consumption of 5,668 gallons per month.

(g) Amounts reflect the merger of SAWS and SAWS District Special Project effective January 1, 2015.

San Antonio Water System
SCHEDULE 5 - SALES BY SOURCE
(accrual basis of accounting)
(amounts in thousands)

	Fiscal Year									
	2018	2017	2016	2015 (a)	2014	2013	2012	2011	2010	2009
Water Sales:										
Residential Class	$123,006	$113,070	$100,982	$95,068	$74,062	$71,536	$72,620	$79,332	$66,410	$65,333
General Class	67,412	60,977	63,781	56,041	37,878	35,099	35,504	33,571	32,326	32,943
Wholesale Class	744	801	767	432	3,233	1,640	1,255	234	136	204
Irrigation Class	21,304	21,915	20,239	13,113	11,011	10,893	11,164	11,722	12,909	12,176
Total Water	212,466	196,763	185,769	164,654	126,184	119,168	120,543	124,859	111,781	110,656
Water Supply Fees										
Residential Class	86,003	85,809	73,518	60,067	48,270	43,121	44,163	51,696	45,312	45,909
General Class	50,086	47,129	42,748	44,746	39,355	32,393	32,537	31,586	29,764	30,403
Wholesale Class	790	874	865	588	7,196	3,227	2,294	202	158	178
Irrigation Class	15,122	16,571	15,437	14,491	12,551	12,057	12,058	13,029	7,154	6,288
Total Water Supply Fees	152,001	150,383	132,568	119,892	107,372	90,798	91,052	96,513	82,388	82,778
EAA Pass-through fees (b)										
Residential Class	12,526	13,108	14,110	10,915	9,654	9,905	10,841	4,767	5,423	3,605
General Class	8,687	8,865	9,640	7,380	6,874	6,991	7,352	2,930	3,648	2,387
Wholesale Class	119	123	157	114	1,271	659	509	18	19	14
Irrigation Class	1,241	1,434	1,605	1,136	1,061	1,134	1,242	540	765	494
Total Pass-through fees	22,573	23,530	25,512	19,545	18,860	18,689	19,944	8,255	9,855	6,500
Conservation Fees:										
Residential Class	2,644	2,727	2,189	2,246	1,956	2,454	2,986	3,682	2,814	2,962
General Class	8,990	8,345	8,453	7,004	6,498	6,606	7,040	6,702	4,461	4,008
Total Conservation	11,634	11,072	10,642	9,250	8,454	9,060	10,026	10,384	7,275	6,970
Wastewater Sales:										
Residential Class	146,684	142,530	134,860	124,992	125,051	116,775	98,674	88,702	79,118	81,202
General Class	92,427	88,551	80,696	71,267	68,371	62,300	54,175	48,271	41,768	41,343
Wholesale Class	10,659	9,936	8,729	8,064	7,848	7,599	6,761	6,105	5,044	5,225
Surcharge	6,245	6,259	6,292	5,401	5,450	5,438	5,134	4,815	4,861	4,648
Total Wastewater	256,015	247,276	230,577	209,724	206,720	192,112	164,744	147,893	130,791	132,418
TCEQ Pass-through fees (c)										
Water customers	1,683	1,420	1,460	1,412	1,169	1,086	1,064	1,178	964	-
Wastewater customers	465	435	448	429	433	347	411	464	280	-
	2,148	1,855	1,908	1,841	1,602	1,433	1,475	1,642	1,244	-
Recycled Water Sales	5,568	5,651	5,691	5,097	5,086	5,161	5,074	5,068	3,955	4,393
Stormwater Fees	5,221	5,209	4,967	4,797	4,420	5,058	4,558	4,158	3,745	3,358
Chilled Water & Steam (d)	10,849	11,368	11,541	11,184	11,251	12,719	12,485	11,715	12,337	12,714
Miscellaneous Fees and Charges	17,415	17,505	17,641	16,769	13,860	12,787	12,427	10,418	8,989	9,266
Provision for Uncollectible Accounts	(4,844)	(3,860)	(4,359)	(5,721)	(4,166)	(4,646)	(3,800)	(2,811)	(3,463)	(3,711)
Total Operating Revenue	$691,046	$666,752	$622,457	$557,032	$499,643	$462,339	$438,528	$418,094	$368,897	$365,342

(a) Amounts reflect the merger of SAWS and SAWS District Special Project effective January 1, 2015.
(b) EAA pass-through fees are designed to recoup fees charged by Edwards Aquifer Authority (EAA). The fee is charged based on water usage.
Any previous over or under recovery of fees is considered in determining the fees to be charged each year.
(c) TCEQ pass-through fees are designed to recoup fees charged by the Texas Commission on Environmental Quality (TCEQ). Fee is a per customer charge.
(d) Steam service was discontinued in June 2014

[The remainder of this page intentionally left blank]

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

	Fiscal Year									
	2018	2017	2016	2015 (a)	2014	2013	2012	2011	2010	2009
Water Sales (b):										
Residential Class	35,325	36,566	35,360	35,769	29,310	29,206	30,070	34,153	28,932	30,667
General Class	24,498	24,408	24,159	23,212	20,870	20,614	20,393	20,986	19,465	20,309
Wholesale Class	337	344	393	354	3,861	1,943	1,412	128	101	119
Irrigation Class	3,500	4,000	4,022	3,561	3,220	3,345	3,445	3,866	4,080	4,200
Total Water	63,660	65,318	63,934	62,896	57,261	55,108	55,320	59,133	52,578	55,295
Wastewater Sales:										
Residential Class	26,318	26,809	26,462	26,048	27,896	27,617	26,572	27,371	26,746	29,825
General Class	21,873	21,654	20,503	20,281	20,502	20,100	20,066	20,134	20,002	20,338
Wholesale Class	2,584	2,482	2,317	2,234	2,291	2,359	2,417	2,413	1,404	1,824
Total Wastewater	50,775	50,945	49,282	48,563	50,689	50,076	49,055	49,918	48,152	51,987
Conservation - Residential Class (c, d, & e)	8,658	9,572	6,611	2,284	2,296	2,520	3,026	4,106	2,935	3,469
Recycled Water Sales	18,346	18,949	18,436	18,421	18,323	18,359	18,129	18,990	14,968	16,321

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

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

	Fiscal Year									
	2018	2017	2016	2015 (a)	2014	2013	2012	2011	2010	2009
Water (b):										
Residential Class	473,333	465,241	457,485	450,725	347,789	343,667	339,204	335,280	331,853	327,610
General Class	28,682	28,518	29,155	28,366	23,777	23,713	23,582	23,369	23,225	23,242
Wholesale Class	9	9	9	9	7	8	8	7	7	7
Total Water	502,024	493,768	486,649	479,100	371,573	367,388	362,794	358,656	355,085	350,859
Irrigation Class (c)	10,465	10,260	9,291	9,829	8,966	8,821	8,633	8,479	8,350	8,202
Wastewater:										
Residential Class	424,127	416,996	409,988	402,409	395,574	390,256	383,553	378,380	373,755	368,948
General Class	25,754	25,544	25,352	25,175	25,079	25,021	24,824	24,550	24,407	24,285
Wholesale Class	12	12	12	12	12	12	12	12	12	12
Total Wastewater	449,893	442,552	435,352	427,596	420,665	415,289	408,389	402,942	398,174	393,245
Conservation - Residential Class (d & e)	149,940	159,994	83,991	18,539	20,716	20,867	23,804	33,708	21,791	26,665
Recycled Water	116	112	107	109	102	97	92	80	81	86

(a) Amounts reflect the merger of SAWS and SAWS District Special Project effective January 1, 2015.
(b) Water Supply and EAA fees are billed to water customers with water usage.
(c) Represents the number of customers included in Residential, General and Wholesale Classes which also have irrigation meters.
(d) As part of a rate restructuring which took place on January 1, 2016, a portion of all monthly residential water sales in excess of 7,482 gallons is allocated to fund conservation related programs. Prior to 2016, this allocation was limited to monthly sales in excess of 17,205 gallons.
(e) Effective January 1, 2017, District Special Project customers began paying for water service under the SAWS rate structure. As a result, a portion of the revenues from those customers was included in the revenue allocated to conservation. The increase in connections from the conservation allocation from 2016 to 2017 reflects this change.

[The remainder of this page intentionally left blank]

San Antonio Water System
SCHEDULE 8 – RESIDENTIAL CLASS RATES
(INSIDE CITY LIMITS)

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Water										
Service Availability Charge by meter size:										
5/8"	$ 12.77	$ 11.64	$ 10.72	$ 7.57	$ 7.31	$ 7.14	$ 7.14	$ 6.91	$ 6.91	$ 6.77
3/4"	$ 16.90	$ 15.41	$ 14.19	$ 10.63	$ 10.26	$ 10.01	$ 10.01	$ 9.68	$ 9.68	$ 8.59
1"	$ 25.12	$ 22.90	$ 21.09	$ 16.72	$ 16.14	$ 15.75	$ 15.75	$ 15.23	$ 15.23	$ 12.49
1-1/2"	$ 45.67	$ 41.63	$ 38.33	$ 31.94	$ 30.83	$ 30.09	$ 30.09	$ 29.10	$ 29.10	$ 22.25
2"	$ 70.30	$ 64.08	$ 59.01	$ 50.18	$ 48.44	$ 47.28	$ 47.28	$ 45.73	$ 45.73	$ 33.95
3"	$ 127.83	$ 116.53	$ 107.30	$ 92.80	$ 89.58	$ 87.44	$ 87.44	$ 84.56	$ 84.56	$ 61.27
4"	$ 209.99	$ 191.42	$ 176.26	$ 153.67	$ 148.33	$ 144.78	$ 144.78	$ 140.02	$ 140.02	$ 100.30
6"	$ 415.41	$ 378.67	$ 348.68	$ 305.86	$ 295.23	$ 288.17	$ 288.17	$ 278.69	$ 278.69	$ 197.89
8"	$ 661.90	$ 603.37	$ 555.59	$ 488.47	$ 471.50	$ 460.22	$ 460.22	$ 445.09	$ 445.09	$ 314.96
10"	$ 949.47	$ 865.51	$ 796.97	$ 701.52	$ 677.14	$ 660.95	$ 660.95	$ 639.22	$ 639.22	$ 451.57
12"	$ 1,771.12	$ 1,614.51	$ 1,486.66	$ 1,310.24	$ 1,264.71	$ 1,234.47	$ 1,234.47	$ 1,193.88	$ 1,193.88	$ 841.86
Reduction applied if usage is less than 2,993 gallons	$ (2.55)	$ (2.32)	$ (2.14)							
Usage *(per 100 gallons)*										
First 2,992 Gallons	$ 0.0737	$ 0.0672	$ 0.0619							
Next 1,497 Gallons	$ 0.1290	$ 0.1176	$ 0.1083							
Next 1,496 Gallons	$ 0.1658	$ 0.1511	$ 0.1391							
Next 1,496 Gallons	$ 0.2026	$ 0.1847	$ 0.1701							
Next 2,992 Gallons	$ 0.2395	$ 0.2183	$ 0.2010							
Next 4,489 Gallons	$ 0.2764	$ 0.2520	$ 0.2320							
Next 5,237 Gallons	$ 0.3316	$ 0.3023	$ 0.2784							
Over 20,199 Gallons	$ 0.4790	$ 0.4366	$ 0.4020							
Standard:										
First 5,985 gallons				$ 0.1006	$ 0.0971	$ 0.0948	$ 0.0948	$ 0.0917	$ 0.0917	
Next 6,732 gallons				$ 0.1457	$ 0.1406	$ 0.1372	$ 0.1372	$ 0.1327	$ 0.1327	
Next 4,488 gallons				$ 0.2053	$ 0.1982	$ 0.1935	$ 0.1935	$ 0.1871	$ 0.1871	
Over 17,205 gallons				$ 0.3596	$ 0.3471	$ 0.3388	$ 0.3388	$ 0.3277	$ 0.3277	
Seasonal (a):										
First 5,985 gallons				$ 0.1006	$ 0.0971	$ 0.0948	$ 0.0948	$ 0.0917	$ 0.0917	
Next 6,732 gallons				$ 0.1584	$ 0.1529	$ 0.1492	$ 0.1492	$ 0.1443	$ 0.1443	
Next 4,488 gallons				$ 0.2355	$ 0.2273	$ 0.2219	$ 0.2219	$ 0.2146	$ 0.2146	
Over 17,205 gallons				$ 0.4880	$ 0.4710	$ 0.4597	$ 0.4597	$ 0.4446	$ 0.4446	
Standard:										
First 7,481 gallons										$ 0.0906
Next 5,236 gallons										$ 0.1309
Next 4,488 gallons										$ 0.2058
Over 17,205 gallons										$ 0.3288
Seasonal (a):										
First 7,481 gallons										$ 0.0906
Next 5,236 gallons										$ 0.1423
Next 4,488 gallons										$ 0.2217
Over 17,205 gallons										$ 0.4246
Sewer										
Service Availability Charge by meter size (b):										
5/8"	$ 13.45	$ 12.98	$ 12.29	$ 12.69	$ 11.93	$ 11.49	$ 9.86	$ 8.68	$ 8.68	$ 7.76
3/4"	$ 14.79	$ 14.28	$ 13.52	$ 12.69	$ 11.93	$ 11.49	$ 9.86	$ 8.68	$ 8.68	$ 7.76
1"	$ 16.80	$ 16.22	$ 15.36	$ 12.69	$ 11.93	$ 11.49	$ 9.86	$ 8.68	$ 8.68	$ 7.76
1-1/2"	$ 23.53	$ 22.71	$ 21.51	$ 12.69	$ 11.93	$ 11.49	$ 9.86	$ 8.68	$ 8.68	$ 7.76
2"	$ 33.62	$ 32.45	$ 30.73	$ 12.69	$ 11.93	$ 11.49	$ 9.86	$ 8.68	$ 8.68	$ 7.76
3"	$ 67.23	$ 64.89	$ 61.45	$ 12.69	$ 11.93	$ 11.49	$ 9.86	$ 8.68	$ 8.68	$ 7.76
4"	$ 100.84	$ 97.34	$ 92.18	$ 12.69	$ 11.93	$ 11.49	$ 9.86	$ 8.68	$ 8.68	$ 7.76
6"	$ 168.07	$ 162.23	$ 153.63	$ 12.69	$ 11.93	$ 11.49	$ 9.86	$ 8.68	$ 8.68	$ 7.76
8"	$ 268.90	$ 259.56	$ 245.80	$ 12.69	$ 11.93	$ 11.49	$ 9.86	$ 8.68	$ 8.68	$ 7.76
10"	$ 403.38	$ 389.36	$ 368.71	$ 12.69	$ 11.93	$ 11.49	$ 9.86	$ 8.68	$ 8.68	$ 7.76
12"	$ 537.83	$ 519.14	$ 491.61	$ 12.69	$ 11.93	$ 11.49	$ 9.86	$ 8.68	$ 8.68	$ 7.76
Usage per 100 gallons (c):										
1,497 gallons - 2,992 gallons	$ 0.2874	$ 0.2774	$ 0.2627							
Over 2,992 Gallons	$ 0.4312	$ 0.4162	$ 0.3941							
All gallons in excess of 1,496				$ 0.3365	$ 0.3163	$ 0.3047	$ 0.2615	$ 0.2302	$ 0.2302	$ 0.2057

(a) Prior to 2016, Seasonal rates were applied to all billings beginning May 1 and ending on or about September 30 of each year. At all other times, the Standard rate was applied.
(b) Includes the first 1,496 gallons.
(c) Residential sewer charges are computed on the basis of average winter usage for 90 days during three consecutive billing periods beginning after November 15 and ending on or before March 15 of each year.

[The remainder of this page intentionally left blank]

San Antonio Water System
SCHEDULE 9 - RESIDENTIAL CLASS RATES (OUTSIDE CITY LIMITS)

	Fiscal Year									
	2018	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
Water										
Service Availability Charge by meter size:										
5/8"	$ 16.60	$ 15.14	$ 13.94	$ 9.86	$ 9.52	$ 9.29	$ 9.29	$ 8.98	$ 8.98	$ 8.78
3/4"	$ 21.97	$ 20.03	$ 18.44	$ 13.82	$ 13.34	$ 13.02	$ 13.02	$ 12.59	$ 12.59	$ 11.16
1"	$ 32.66	$ 29.78	$ 27.42	$ 21.72	$ 20.97	$ 20.47	$ 20.47	$ 19.80	$ 19.80	$ 16.23
1-1/2"	$ 59.37	$ 54.12	$ 49.83	$ 41.52	$ 40.08	$ 39.12	$ 39.12	$ 37.83	$ 37.83	$ 28.92
2"	$ 91.38	$ 83.30	$ 76.70	$ 65.26	$ 62.99	$ 61.48	$ 61.48	$ 59.46	$ 59.46	$ 44.14
3"	$ 166.18	$ 151.49	$ 139.49	$ 120.66	$ 116.47	$ 113.68	$ 113.68	$ 109.94	$ 109.94	$ 79.65
4"	$ 272.97	$ 248.84	$ 229.13	$ 199.78	$ 192.84	$ 188.23	$ 188.23	$ 182.04	$ 182.04	$ 130.39
6"	$ 540.02	$ 492.27	$ 453.29	$ 397.62	$ 383.80	$ 374.62	$ 374.62	$ 362.30	$ 362.30	$ 257.24
8"	$ 860.45	$ 784.37	$ 722.26	$ 635.03	$ 612.96	$ 598.30	$ 598.30	$ 578.63	$ 578.63	$ 409.45
10"	$ 1,234.30	$ 1,125.16	$ 1,036.06	$ 911.98	$ 880.29	$ 859.24	$ 859.24	$ 830.99	$ 830.99	$ 587.03
12"	$ 2,302.46	$ 2,098.87	$ 1,932.66	$ 1,703.33	$ 1,644.14	$ 1,604.82	$ 1,604.82	$ 1,552.05	$ 1,552.05	$ 1,094.42
Reduction applied if usage is less than 2,993 gallons	$ (3.32)	$ (3.03)	$ (2.79)							
Usage *(per 100 gallons)*										
First 2,992 Gallons	$ 0.0958	$ 0.0873	$ 0.0804							
Next 1,497 Gallons	$ 0.1676	$ 0.1528	$ 0.1407							
Next 1,496 Gallons	$ 0.2156	$ 0.1965	$ 0.1809							
Next 1,496 Gallons	$ 0.2634	$ 0.2401	$ 0.2211							
Next 2,992 Gallons	$ 0.3113	$ 0.2838	$ 0.2613							
Next 4,489 Gallons	$ 0.3593	$ 0.3275	$ 0.3016							
Next 5,237 Gallons	$ 0.4311	$ 0.3930	$ 0.3619							
Over 20,199 Gallons	$ 0.6228	$ 0.5677	$ 0.5227							
Standard:										
First 5,985 gallons				$ 0.1310	$ 0.1264	$ 0.1234	$ 0.1234	$ 0.1193	$ 0.1193	
Next 6,732 gallons				$ 0.1894	$ 0.1828	$ 0.1784	$ 0.1784	$ 0.1725	$ 0.1725	
Next 4,488 gallons				$ 0.2671	$ 0.2578	$ 0.2516	$ 0.2516	$ 0.2433	$ 0.2433	
Over 17,205 gallons				$ 0.4675	$ 0.4513	$ 0.4405	$ 0.4405	$ 0.4260	$ 0.4260	
Seasonal (a):										
First 5,985 gallons				$ 0.1310	$ 0.1264	$ 0.1234	$ 0.1234	$ 0.1193	$ 0.1193	
Next 6,732 gallons				$ 0.2060	$ 0.1988	$ 0.1940	$ 0.1940	$ 0.1876	$ 0.1876	
Next 4,488 gallons				$ 0.3062	$ 0.2956	$ 0.2885	$ 0.2885	$ 0.2790	$ 0.2790	
Over 17,205 gallons				$ 0.6341	$ 0.6121	$ 0.5975	$ 0.5975	$ 0.5779	$ 0.5779	
Standard:										
First 7,481 gallons										$ 0.1176
Next 5,236 gallons										$ 0.1702
Next 4,488 gallons										$ 0.2674
Over 17,205 gallons										$ 0.4274
Seasonal (a):										
First 7,481 gallons										$ 0.1176
Next 5,236 gallons										$ 0.1850
Next 4,488 gallons										$ 0.2882
Over 17,205 gallons										$ 0.5519
Sewer										
Service Availability Charge by meter size (b):										
5/8"	$ 16.14	$ 15.58	$ 14.75	$ 15.25	$ 14.33	$ 13.81	$ 11.85	$ 10.43	$ 10.43	$ 9.32
3/4"	$ 17.76	$ 17.14	$ 16.23	$ 15.25	$ 14.33	$ 13.81	$ 11.85	$ 10.43	$ 10.43	$ 9.32
1"	$ 20.17	$ 19.47	$ 18.44	$ 15.25	$ 14.33	$ 13.81	$ 11.85	$ 10.43	$ 10.43	$ 9.32
1-1/2"	$ 28.24	$ 27.26	$ 25.81	$ 15.25	$ 14.33	$ 13.81	$ 11.85	$ 10.43	$ 10.43	$ 9.32
2"	$ 40.35	$ 38.95	$ 36.88	$ 15.25	$ 14.33	$ 13.81	$ 11.85	$ 10.43	$ 10.43	$ 9.32
3"	$ 80.67	$ 77.87	$ 73.74	$ 15.25	$ 14.33	$ 13.81	$ 11.85	$ 10.43	$ 10.43	$ 9.32
4"	$ 121.02	$ 116.81	$ 110.62	$ 15.25	$ 14.33	$ 13.81	$ 11.85	$ 10.43	$ 10.43	$ 9.32
6"	$ 201.69	$ 194.68	$ 184.36	$ 15.25	$ 14.33	$ 13.81	$ 11.85	$ 10.43	$ 10.43	$ 9.32
8"	$ 322.70	$ 311.49	$ 294.97	$ 15.25	$ 14.33	$ 13.81	$ 11.85	$ 10.43	$ 10.43	$ 9.32
10"	$ 484.05	$ 467.23	$ 442.45	$ 15.25	$ 14.33	$ 13.81	$ 11.85	$ 10.43	$ 10.43	$ 9.32
12"	$ 645.40	$ 622.97	$ 589.93	$ 15.25	$ 14.33	$ 13.81	$ 11.85	$ 10.43	$ 10.43	$ 9.32
Usage per 100 gallons (c):										
1,497 gallons - 2,992 gallons	$ 0.3450	$ 0.3330	$ 0.3153	$ 0.4038	$ 0.3795	$ 0.3656	$ 0.3138	$ 0.2762	$ 0.2762	$ 0.2468
Over 2,992 Gallons	$ 0.5174	$ 0.4994	$ 0.4729	$ 0.4038	$ 0.3795	$ 0.3656	$ 0.3138	$ 0.2762	$ 0.2762	$ 0.2468

(a) Prior to 2016, Seasonal rates were applied to all billings beginning May 1 and ending on or about September 30 of each year. At all other times, the Standard rate was applied.
(b) Includes the first 1,496 gallons.
(c) Residential sewer charges are computed on the basis of average winter usage for 90 days during three consecutive billing periods beginning after November 15 and ending on or before March 15 of each year.

[The remainder of this page intentionally left blank]

San Antonio Water System
SCHEDULE 10 - GENERAL CLASS RATES
(INSIDE CITY LIMITS)

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Water										
Service Availability Charge by meter size:										
5/8"	$ 13.80	$ 12.58	$ 11.58	$ 10.53	$ 10.16	$ 9.92	$ 9.92	$ 9.59	$ 9.59	$ 9.81
3/4"	$ 19.71	$ 17.97	$ 16.55	$ 15.05	$ 14.53	$ 14.18	$ 14.18	$ 13.71	$ 13.71	$ 13.16
1"	$ 31.53	$ 28.74	$ 26.46	$ 24.08	$ 23.24	$ 22.68	$ 22.68	$ 21.93	$ 21.93	$ 19.21
1-1/2"	$ 61.05	$ 55.65	$ 51.24	$ 46.65	$ 45.03	$ 43.95	$ 43.95	$ 42.50	$ 42.50	$ 35.03
2"	$ 96.40	$ 87.88	$ 80.92	$ 73.74	$ 71.18	$ 69.48	$ 69.48	$ 67.20	$ 67.20	$ 52.83
3"	$ 179.02	$ 163.19	$ 150.27	$ 136.96	$ 132.20	$ 129.04	$ 129.04	$ 124.80	$ 124.80	$ 106.92
4"	$ 297.00	$ 270.74	$ 249.30	$ 227.28	$ 219.38	$ 214.13	$ 214.13	$ 207.09	$ 207.09	$ 176.40
6"	$ 591.95	$ 539.61	$ 496.88	$ 453.06	$ 437.32	$ 426.86	$ 426.86	$ 412.82	$ 412.82	$ 350.03
8"	$ 945.95	$ 862.31	$ 794.02	$ 723.99	$ 698.83	$ 682.12	$ 682.12	$ 659.69	$ 659.69	$ 543.20
10"	$ 1,358.90	$ 1,238.74	$ 1,140.64	$ 1,040.08	$ 1,003.94	$ 979.93	$ 979.93	$ 947.71	$ 947.71	$ 755.89
12"	$ 2,538.80	$ 2,314.31	$ 2,131.04	$ 1,943.21	$ 1,875.69	$ 1,830.83	$ 1,830.83	$ 1,770.63	$ 1,770.63	$ 1,191.85
Usage *(per 100 gallons)*										
Base (a)	$ 0.1803	$ 0.1644	$ 0.1514	$ 0.1218	$ 0.1176	$ 0.1148	$ 0.1148	$ 0.1110	$ 0.1110	
100-125% of base	$ 0.2076	$ 0.1892	$ 0.1742	$ 0.1457	$ 0.1406	$ 0.1372	$ 0.1372	$ 0.1327	$ 0.1327	
125-175% of base	$ 0.2706	$ 0.2467	$ 0.2272	$ 0.2042	$ 0.1971	$ 0.1924	$ 0.1924	$ 0.1861	$ 0.1861	
Over 175% of base	$ 0.3158	$ 0.2879	$ 0.2651	$ 0.2991	$ 0.2887	$ 0.2818	$ 0.2818	$ 0.2725	$ 0.2725	
Usage *(per 100 gallons)*										
Below base (b)										$ 0.1086
100-125% of base										$ 0.1257
125-150% of base										$ 0.1633
150-200% of base										$ 0.2138
Over 200% of base										$ 0.3160
Sewer										
Service Availability Charge by meter size (c):										
By meter size:										
5/8"	$ 13.45	$ 12.98	$ 12.29	$ 12.69	$ 11.93	$ 11.49	$ 9.86	$ 8.68	$ 8.68	$ 7.76
3/4"	$ 14.79	$ 14.28	$ 13.52	$ 12.69	$ 11.93	$ 11.49	$ 9.86	$ 8.68	$ 8.68	$ 7.76
1"	$ 16.80	$ 16.22	$ 15.36	$ 12.69	$ 11.93	$ 11.49	$ 9.86	$ 8.68	$ 8.68	$ 7.76
1-1/2"	$ 23.53	$ 22.71	$ 21.51	$ 12.69	$ 11.93	$ 11.49	$ 9.86	$ 8.68	$ 8.68	$ 7.76
2"	$ 33.62	$ 32.45	$ 30.73	$ 12.69	$ 11.93	$ 11.49	$ 9.86	$ 8.68	$ 8.68	$ 7.76
3"	$ 67.23	$ 64.89	$ 61.45	$ 12.69	$ 11.93	$ 11.49	$ 9.86	$ 8.68	$ 8.68	$ 7.76
4"	$ 100.84	$ 97.34	$ 92.18	$ 12.69	$ 11.93	$ 11.49	$ 9.86	$ 8.68	$ 8.68	$ 7.76
6"	$ 168.07	$ 162.23	$ 153.63	$ 12.69	$ 11.93	$ 11.49	$ 9.86	$ 8.68	$ 8.68	$ 7.76
8"	$ 268.90	$ 259.56	$ 245.80	$ 12.69	$ 11.93	$ 11.49	$ 9.86	$ 8.68	$ 8.68	$ 7.76
10"	$ 403.38	$ 389.36	$ 368.71	$ 12.69	$ 11.93	$ 11.49	$ 9.86	$ 8.68	$ 8.68	$ 7.76
12"	$ 537.83	$ 519.14	$ 491.61	$ 12.69	$ 11.93	$ 11.49	$ 9.86	$ 8.68	$ 8.68	$ 7.76
Usage *(per 100 gallons)*										
All gallons in excess of 1,496	$ 0.3851	$ 0.3717	$ 0.3520	$ 0.3365	$ 0.3163	$ 0.3047	$ 0.2615	$ 0.2302	$ 0.2302	$ 0.2057

(a) Since 2010, base has been defined as 100% of the previous year's annual usage divided by 12.
(b) Base was defined as 90% of the previous year's annual usage divided by 12.
(c) Per 100 gallons. Includes the first 1,496 gallons.

[The remainder of this page intentionally left blank]

San Antonio Water System
SCHEDULE 11 – GENERAL CLASS RATES
(OUTSIDE CITY LIMITS)

	Fiscal Year									
	2018	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
Water										
Service Availability Charge by meter size:										
5/8"	$ 16.87	$ 15.38	$ 14.16	$ 13.69	$ 13.21	$ 12.89	$ 12.89	$ 12.47	$ 12.47	$ 11.83
3/4"	$ 24.02	$ 21.90	$ 20.17	$ 19.56	$ 18.88	$ 18.43	$ 18.43	$ 17.82	$ 17.82	$ 15.72
1"	$ 38.30	$ 34.91	$ 32.15	$ 31.29	$ 30.20	$ 29.48	$ 29.48	$ 28.51	$ 28.51	$ 22.94
1-1/2"	$ 73.97	$ 67.43	$ 62.09	$ 60.65	$ 58.54	$ 57.14	$ 57.14	$ 55.26	$ 55.26	$ 41.69
2"	$ 116.73	$ 106.41	$ 97.98	$ 95.87	$ 92.54	$ 90.33	$ 90.33	$ 87.36	$ 87.36	$ 63.01
3"	$ 216.60	$ 197.45	$ 181.81	$ 178.06	$ 171.87	$ 167.76	$ 167.76	$ 162.24	$ 162.24	$ 125.31
4"	$ 359.21	$ 327.45	$ 301.52	$ 295.46	$ 285.19	$ 278.37	$ 278.37	$ 269.22	$ 269.22	$ 206.48
6"	$ 715.81	$ 652.52	$ 600.85	$ 588.98	$ 568.51	$ 554.91	$ 554.91	$ 536.66	$ 536.66	$ 409.39
8"	$ 1,143.74	$ 1,042.61	$ 960.05	$ 941.20	$ 908.49	$ 886.76	$ 886.76	$ 857.60	$ 857.60	$ 637.69
10"	$ 1,642.97	$ 1,497.69	$ 1,379.09	$ 1,352.11	$ 1,305.13	$ 1,273.92	$ 1,273.92	$ 1,232.03	$ 1,232.03	$ 891.35
12"	$ 3,069.37	$ 2,797.97	$ 2,576.40	$ 2,526.17	$ 2,438.39	$ 2,380.08	$ 2,380.08	$ 2,301.82	$ 2,301.82	$ 1,444.41
Usage *(per 100 gallons)*										
Base (a)	$ 0.2345	$ 0.2138	$ 0.1969	$ 0.1584	$ 0.1529	$ 0.1492	$ 0.1492	$ 0.1443	$ 0.1443	
100-125% of base	$ 0.2699	$ 0.2460	$ 0.2265	$ 0.1893	$ 0.1827	$ 0.1783	$ 0.1783	$ 0.1724	$ 0.1724	
125-175% of base	$ 0.3519	$ 0.3208	$ 0.2954	$ 0.2654	$ 0.2562	$ 0.2501	$ 0.2501	$ 0.2419	$ 0.2419	
Over 175% of base	$ 0.4105	$ 0.3742	$ 0.3446	$ 0.3887	$ 0.3752	$ 0.3662	$ 0.3662	$ 0.3542	$ 0.3542	
Usage *(per 100 gallons)*										
Below base (b)										$ 0.1410
100-125% of base										$ 0.1635
125-150% of base										$ 0.2121
150-200% of base										$ 0.2778
Over 200% of base										$ 0.4109
Sewer										
Service Availability Charge by meter size (c):										
By meter size:										
5/8"	$ 16.14	$ 15.58	$14.75	$15.25	$14.33	$13.81	$11.85	$10.43	$10.43	$9.32
3/4"	$ 17.76	$ 17.14	$16.23	$15.25	$14.33	$13.81	$11.85	$10.43	$10.43	$9.32
1"	$ 20.17	$ 19.47	$18.44	$15.25	$14.33	$13.81	$11.85	$10.43	$10.43	$9.32
1-1/2"	$ 28.24	$ 27.26	$25.81	$15.25	$14.33	$13.81	$11.85	$10.43	$10.43	$9.32
2"	$ 40.35	$ 38.95	$36.88	$15.25	$14.33	$13.81	$11.85	$10.43	$10.43	$9.32
3"	$ 80.67	$ 77.87	$73.74	$15.25	$14.33	$13.81	$11.85	$10.43	$10.43	$9.32
4"	$ 121.02	$ 116.81	$110.62	$15.25	$14.33	$13.81	$11.85	$10.43	$10.43	$9.32
6"	$ 201.69	$ 194.68	$184.36	$15.25	$14.33	$13.81	$11.85	$10.43	$10.43	$9.32
8"	$ 322.70	$ 311.49	$294.97	$15.25	$14.33	$13.81	$11.85	$10.43	$10.43	$9.32
10"	$ 484.05	$ 467.23	$442.45	$15.25	$14.33	$13.81	$11.85	$10.43	$10.43	$9.32
12"	$ 645.40	$ 622.97	$589.93	$15.25	$14.33	$13.81	$11.85	$10.43	$10.43	$9.32
Usage *(per 100 gallons)*										
All gallons in excess of 1,496	$ 0.4622	$ 0.4461	$ 0.4224	$ 0.4038	$ 0.3795	$ 0.3656	$ 0.3138	$ 0.2762	$ 0.2762	$ 0.2468

(a) Since 2010, base has been defined as 100% of the previous year's annual usage divided by 12.
(b) Base was defined as 90% of the previous year's annual usage divided by 12.
(c) Per 100 gallons. Includes the first 1,496 gallons.

[The remainder of this page intentionally left blank]

San Antonio Water System

SCHEDULE 12 - WHOLESALE CLASS RATES

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Water										
Service Availability Charge by meter size:										
6"	$ 536.70	$ 489.24	$ 450.50	$ 397.62	$ 383.80	$ 374.62	$ 374.62	$ 362.30	$ 362.30	$ 257.24
8"	$ 857.15	$ 781.36	$ 719.48	$ 635.03	$ 612.96	$ 598.30	$ 598.30	$ 578.63	$ 578.63	$ 409.45
10"	$ 1,230.99	$ 1,122.14	$ 1,033.28	$ 911.98	$ 880.29	$ 859.24	$ 859.24	$ 830.99	$ 830.99	$ 587.03
12"	$ 2,299.15	$ 2,095.85	$ 1,929.88	$ 1,703.33	$ 1,644.14	$ 1,604.82	$ 1,604.82	$ 1,552.05	$ 1,552.05	$ 1,094.42
Usage *(per 100 gallons)*										
Base (a)	$ 0.2091	$ 0.1906	$ 0.1755							
Over Base	$ 0.6274	$ 0.5719	$ 0.5266							
Usage *(per 100 gallons)*										
Base (a)				$ 0.1098	$ 0.1060	$ 0.1035	$ 0.1035	$ 0.1001	$ 0.1001	
100-125% of base				$ 0.1650	$ 0.1593	$ 0.1555	$ 0.1555	$ 0.1504	$ 0.1504	
125-175% of base				$ 0.2383	$ 0.2300	$ 0.2245	$ 0.2245	$ 0.2171	$ 0.2171	
Over 175% of base				$ 0.3369	$ 0.3252	$ 0.3174	$ 0.3174	$ 0.3070	$ 0.3070	
Below base (b)										$ 0.1025
100-125% of base										$ 0.1279
125-150% of base										$ 0.1760
150-200% of base										$ 0.2346
Over 200% of base										$ 0.3075
Sewer										
Service Availability Charge	$ 314.88	$ 303.94	$ 287.82	$ 149.02	$ 140.06	$ 134.93	$ 115.82	$ 101.95	$ 101.95	$ 91.11
Usage *(per 100 gallons)*	$ 0.4109	$ 0.3966	$ 0.3756	$ 0.3641	$ 0.3422	$ 0.3297	$ 0.2830	$ 0.2491	$ 0.2491	$ 0.2226

(a) Base is defined as 100% of the previous year's average annual usage divided by twelve or (effective June 18, 2015) as agreed to by the wholesale customer and approved by the SAWS Board of Trustees.

(b) Base was defined as 90% of the previous year's average annual usage divided by twelve.

[The remainder of this page intentionally left blank]

San Antonio Water System
SCHEDULE 13 – IRRIGATION CLASS RATES

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Inside City Limits										
Service Availability Charge by meter size:										
5/8"	$ 13.80	$ 12.58	$ 11.58	$ 10.53	$ 10.16	$ 9.92	$ 9.92	$ 9.59	$ 9.59	$ 9.81
3/4"	$ 19.71	$ 17.97	$ 16.55	$ 15.05	$ 14.53	$ 14.18	$ 14.18	$ 13.71	$ 13.71	$ 13.16
1"	$ 31.53	$ 28.74	$ 26.46	$ 24.08	$ 23.24	$ 22.68	$ 22.68	$ 21.93	$ 21.93	$ 19.21
1-1/2"	$ 61.05	$ 55.65	$ 51.24	$ 46.65	$ 45.03	$ 43.95	$ 43.95	$ 42.50	$ 42.50	$ 35.03
2"	$ 96.40	$ 87.88	$ 80.92	$ 73.74	$ 71.18	$ 69.48	$ 69.48	$ 67.20	$ 67.20	$ 52.83
3"	$ 179.02	$ 163.19	$ 150.27	$ 136.96	$ 132.20	$ 129.04	$ 129.04	$ 124.80	$ 124.80	$ 106.92
4"	$ 297.00	$ 270.74	$ 249.30	$ 227.28	$ 219.38	$ 214.13	$ 214.13	$ 207.09	$ 207.09	$ 176.40
6"	$ 591.95	$ 539.61	$ 496.88	$ 453.06	$ 437.32	$ 426.86	$ 426.86	$ 412.82	$ 412.82	$ 350.03
8"	$ 945.95	$ 862.31	$ 794.02	$ 723.99	$ 698.83	$ 682.12	$ 682.12	$ 659.69	$ 659.69	$ 543.20
10"	$ 1,358.90	$ 1,238.74	$ 1,140.64	$ 1,040.08	$ 1,003.94	$ 979.93	$ 979.93	$ 947.71	$ 947.71	$ 755.89
12"	$ 2,538.80	$ 2,314.31	$ 2,131.04	$ 1,943.21	$ 1,875.69	$ 1,830.83	$ 1,830.83	$ 1,770.63	$ 1,770.63	$ 1,191.85
Usage *(per 100 gallons)*										
First 8,229 gallons	$ 0.3279	$ 0.2989	$ 0.2752							
Next 9,725 gallons	$ 0.4589	$ 0.4183	$ 0.3852							
Next 144,362 gallons	$ 0.5901	$ 0.5379	$ 0.4953							
Over 162,316 gallons	$ 0.7540	$ 0.6873	$ 0.6329							
Standard:										
First 6,732 gallons				$ 0.1713	$ 0.1653	$ 0.1613	$ 0.1613	$ 0.1560	$ 0.1560	
Next 10,473 gallons				$ 0.2053	$ 0.1982	$ 0.1935	$ 0.1935	$ 0.1871	$ 0.1871	
Over 17,205 gallons				$ 0.3596	$ 0.3471	$ 0.3388	$ 0.3388	$ 0.3277	$ 0.3277	
Seasonal (a):										
First 6,732 gallons				$ 0.1713	$ 0.1653	$ 0.1613	$ 0.1613	$ 0.1560	$ 0.1560	
Next 10,473 gallons				$ 0.2384	$ 0.2301	$ 0.2246	$ 0.2246	$ 0.2172	$ 0.2172	
Over 17,205 gallons				$ 0.4936	$ 0.4764	$ 0.4650	$ 0.4650	$ 0.4497	$ 0.4497	
First 12,717 gallons										$ 0.1526
Next 4,488 gallons										$ 0.2290
Over 17,205 gallons										$ 0.3160
Outside City Limits										
Service Availability Charge by meter size:										
5/8"	$ 16.87	$ 15.38	$ 14.16	$ 13.69	$ 13.21	$ 12.89	$ 12.89	$ 12.47	$ 12.47	$ 11.83
3/4"	$ 24.02	$ 21.90	$ 20.17	$ 19.56	$ 18.88	$ 18.43	$ 18.43	$ 17.82	$ 17.82	$ 15.72
1"	$ 38.30	$ 34.91	$ 32.15	$ 31.29	$ 30.20	$ 29.48	$ 29.48	$ 28.51	$ 28.51	$ 22.94
1-1/2"	$ 73.97	$ 67.43	$ 62.09	$ 60.65	$ 58.54	$ 57.14	$ 57.14	$ 55.26	$ 55.26	$ 41.69
2"	$ 116.73	$ 106.41	$ 97.98	$ 95.87	$ 92.54	$ 90.33	$ 90.33	$ 87.36	$ 87.36	$ 63.01
3"	$ 216.60	$ 197.45	$ 181.81	$ 178.06	$ 171.87	$ 167.76	$ 167.76	$ 162.24	$ 162.24	$ 125.31
4"	$ 359.21	$ 327.45	$ 301.52	$ 295.46	$ 285.19	$ 278.37	$ 278.37	$ 269.22	$ 269.22	$ 206.48
6"	$ 715.81	$ 652.52	$ 600.85	$ 588.98	$ 568.51	$ 554.91	$ 554.91	$ 536.66	$ 536.66	$ 409.39
8"	$ 1,143.74	$ 1,042.61	$ 960.05	$ 941.20	$ 908.49	$ 886.76	$ 886.76	$ 857.60	$ 857.60	$ 637.69
10"	$ 1,642.97	$ 1,497.69	$ 1,379.09	$ 1,352.11	$ 1,305.13	$ 1,273.92	$ 1,273.92	$ 1,232.03	$ 1,232.03	$ 891.35
12"	$ 3,069.37	$ 2,797.97	$ 2,576.40	$ 2,526.17	$ 2,438.39	$ 2,380.08	$ 2,380.08	$ 2,301.82	$ 2,301.82	$ 1,444.41
Usage *(per 100 gallons)*										
First 8,229 gallons	$ 0.4262	$ 0.3885	$ 0.3577							
Next 9,725 gallons	$ 0.5967	$ 0.5439	$ 0.5008							
Next 144,362 gallons	$ 0.7671	$ 0.6993	$ 0.6439							
Over 162,316 gallons	$ 0.9802	$ 0.8935	$ 0.8227							
Standard:										
First 6,732 gallons				$ 0.2225	$ 0.2148	$ 0.2097	$ 0.2097	$ 0.2028	$ 0.2028	
Next 10,473 gallons				$ 0.2670	$ 0.2577	$ 0.2515	$ 0.2515	$ 0.2432	$ 0.2432	
Over 17,205 gallons				$ 0.4675	$ 0.4513	$ 0.4405	$ 0.4405	$ 0.4260	$ 0.4260	
Seasonal (a):										
First 6,732 gallons				$ 0.2225	$ 0.2148	$ 0.2097	$ 0.2097	$ 0.2028	$ 0.2028	
Next 10,473 gallons				$ 0.3100	$ 0.2992	$ 0.2920	$ 0.2920	$ 0.2824	$ 0.2824	
Over 17,205 gallons				$ 0.6416	$ 0.6193	$ 0.6045	$ 0.6045	$ 0.5846	$ 0.5846	
First 12,717 gallons										$ 0.1982
Next 4,488 gallons										$ 0.2976
Over 17,205 gallons										$ 0.4109

(a) Seasonal rates were applied to all billings beginning May 1 and ending on or about September 30 of each year. At all other times, the Standard rate was applied.

SAN ANTONIO WATER SYSTEM
SCHEDULE 14 – OTHER FEES

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Water Supply Fee (a):										
Usage *(per 100 gallons)*										
Residential Class										
First 2,992 Gallons	$ 0.0997	$ 0.0954	$ 0.0892							
Next 1,497 Gallons	$ 0.1744	$ 0.1669	$ 0.1561							
Next 1,496 Gallons	$ 0.2242	$ 0.2145	$ 0.2007							
Next 1,496 Gallons	$ 0.2741	$ 0.2623	$ 0.2454							
Next 2,992 Gallons	$ 0.3240	$ 0.3100	$ 0.2900							
Next 4,489 Gallons	$ 0.3738	$ 0.3577	$ 0.3346							
Next 5,237 Gallons	$ 0.4485	$ 0.4292	$ 0.4015							
Over 20,199 Gallons	$ 0.6477	$ 0.6198	$ 0.5798							
First 5,985 gallons				$ 0.1285	$ 0.1223	$ 0.1080	$ 0.1054	$ 0.1023	$ 0.1023	
Next 6,732 gallons				$ 0.1858	$ 0.1768	$ 0.1562	$ 0.1524	$ 0.1480	$ 0.1480	
Next 4,488 gallons				$ 0.2622	$ 0.2495	$ 0.2204	$ 0.2150	$ 0.2087	$ 0.2087	
Over 17,205 gallons				$ 0.4589	$ 0.4366	$ 0.3857	$ 0.3763	$ 0.3653	$ 0.3653	
All usage										$ 0.1529
General Class										
Base (b)	$ 0.1880	$ 0.1799	$ 0.1683	$ 0.1976	$ 0.1880	$ 0.1661	$ 0.1620	$ 0.1573	$ 0.1573	$ 0.1529
100-125% of base	$ 0.2163	$ 0.2070	$ 0.1936	$ 0.1976	$ 0.1880	$ 0.1661	$ 0.1620	$ 0.1573	$ 0.1573	$ 0.1529
125-175% of base	$ 0.2820	$ 0.2699	$ 0.2525	$ 0.1976	$ 0.1880	$ 0.1661	$ 0.1620	$ 0.1573	$ 0.1573	$ 0.1529
Over 175% of base	$ 0.3291	$ 0.3149	$ 0.2946	$ 0.1976	$ 0.1880	$ 0.1661	$ 0.1620	$ 0.1573	$ 0.1573	$ 0.1529
Wholesale Class										
Base (c)	$ 0.2449	$ 0.2344	$ 0.2193	$ 0.1976	$ 0.1880	$ 0.1661	$ 0.1620	$ 0.1573	$ 0.1573	$ 0.1529
Over Base	$ 0.7349	$ 0.7033	$ 0.6579	$ 0.1976	$ 0.1880	$ 0.1661	$ 0.1620	$ 0.1573	$ 0.1573	$ 0.1529
Irrigation Class										
First 8,229 gallons	$ 0.2460	$ 0.2354	$ 0.2202							
Next 9,725 gallons	$ 0.3444	$ 0.3296	$ 0.3083							
Next 144,362 gallons	$ 0.4429	$ 0.4238	$ 0.3964							
Over 162,316 gallons	$ 0.5660	$ 0.5416	$ 0.5066							
First 6,732 gallons				$ 0.1976	$ 0.1880	$ 0.1661	$ 0.1620	$ 0.1573	$ 0.1573	$ 0.1529
Next 10,473 gallons				$ 0.2622	$ 0.2495	$ 0.2204	$ 0.2150	$ 0.2087	$ 0.2087	$ 0.1529
Over 17,205 gallons				$ 0.4976	$ 0.4735	$ 0.4183	$ 0.4081	$ 0.3962	$ 0.3962	$ 0.1529
EAA Fee (d)	$ 0.03533	$ 0.03612	$ 0.04259	$ 0.03311	$ 0.03295	$ 0.03425	$ 0.03901	$ 0.01407	$ 0.01841	$ 0.01222
State-Imposed TCEQ Fees (e)										
Water Connection Fee	$ 0.20	$ 0.18	$ 0.18	$ 0.18	$ 0.18	$ 0.17	$ 0.17	$ 0.19	$ 0.19	
Wastewater Connection Fee	$ 0.06	$ 0.06	$ 0.06	$ 0.06	$ 0.06	$ 0.06	$ 0.06	$ 0.05	$ 0.05	

(a) Applies to all billed potable water.
(b) Base is defined as 100% of the previous year's average annual usage divided by twelve.
(c) Base is defined as 100% of the previous year's average annual usage divided by twelve or (effective June 18, 2015) as agreed to by the wholesale customer and approved by the SAWS Board of Trustees.
(d) Per 100 gallons. Applies to all billed potable water. Purpose of fee is to recover fees paid to Edwards Aquifer Authority for permitted water rights. Annual rate takes into account any cumulative deficit or surplus in the recovery, number of EAA water rights, and projected potable water sales in gallons for the year.
(e) Purpose is to recover fees paid to Texas Commission on Environmental Quality (TCEQ). Each fee is assessed monthly to all Residential, General, and Wholesale accounts as well as each apartment account based on the number of units. Annual rate takes into account any cumulative deficit or surplus in the recovery.

[The remainder of this page intentionally left blank]

San Antonio Water System
SCHEDULE 15 – RECYCLED WATER RATES

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Edwards Exchange Customers (a)										
Service Availability Charge by meter size:										
5/8"	$ 12.12	$ 11.24	$ 10.42	$ 9.51	$ 9.26	$ 9.04	$ 9.04	$ 8.74	$ 8.74	$ 8.74
3/4"	$ 15.77	$ 14.63	$ 13.56	$ 12.37	$ 12.05	$ 11.76	$ 11.76	$ 11.37	$ 11.37	$ 11.37
1"	$ 20.55	$ 19.06	$ 17.66	$ 16.11	$ 15.69	$ 15.31	$ 15.31	$ 14.81	$ 14.81	$ 14.81
1-1/2"	$ 32.65	$ 30.29	$ 28.07	$ 25.61	$ 24.95	$ 24.35	$ 24.35	$ 23.55	$ 23.55	$ 23.55
2"	$ 47.74	$ 44.29	$ 41.05	$ 37.45	$ 36.48	$ 35.61	$ 35.61	$ 34.44	$ 34.44	$ 34.44
3"	$ 126.98	$ 117.79	$ 109.17	$ 99.61	$ 97.03	$ 94.71	$ 94.71	$ 91.60	$ 91.60	$ 91.60
4"	$ 188.75	$ 175.09	$ 162.27	$ 148.06	$ 144.22	$ 140.77	$ 140.77	$ 136.14	$ 136.14	$ 136.14
6"	$ 360.05	$ 334.00	$ 309.55	$ 282.44	$ 275.12	$ 268.54	$ 268.54	$ 259.71	$ 259.71	$ 259.71
8"	$ 542.73	$ 503.46	$ 466.60	$ 425.73	$ 414.70	$ 404.78	$ 404.78	$ 391.47	$ 391.47	$ 391.47
10"	$ 744.20	$ 690.35	$ 639.81	$ 583.77	$ 568.64	$ 555.04	$ 555.04	$ 536.79	$ 536.79	$ 536.79
12"	$ 918.22	$ 851.78	$ 789.42	$ 720.27	$ 701.61	$ 684.83	$ 684.83	$ 662.31	$ 662.31	$ 662.31
Usage *(per 100 gallons)*										
Standard:										
Transferred amount	$ 0.0319	$ 0.0296	$ 0.0274	$ 0.0250	$ 0.0244	$ 0.0238	$ 0.0238	$ 0.0230	$ 0.0230	$ 0.0230
In excess of transferred amount	$ 0.1196	$ 0.1109	$ 0.1028	$ 0.0938	$ 0.0914	$ 0.0892	$ 0.0892	$ 0.0863	$ 0.0863	$ 0.0863
Seasonal (b):										
Transferred amount	$ 0.0319	$ 0.0296	$ 0.0274	$ 0.0250	$ 0.0244	$ 0.0238	$ 0.0238	$ 0.0230	$ 0.0230	$ 0.0230
In excess of transferred amount	$ 0.1271	$ 0.1179	$ 0.1093	$ 0.0997	$ 0.0971	$ 0.0948	$ 0.0948	$ 0.0917	$ 0.0917	$ 0.0917
Non-exchange Customers										
Service Availability Charge by meter size:										
5/8"	$ 12.12	$ 11.24	$ 10.42	$ 9.51	$ 9.26	$ 9.04	$ 9.04	$ 8.74	$ 8.74	$ 8.74
3/4"	$ 15.77	$ 14.63	$ 13.56	$ 12.37	$ 12.05	$ 11.76	$ 11.76	$ 11.37	$ 11.37	$ 11.37
1"	$ 20.55	$ 19.06	$ 17.66	$ 16.11	$ 15.69	$ 15.31	$ 15.31	$ 14.81	$ 14.81	$ 14.81
1-1/2"	$ 32.65	$ 30.29	$ 28.07	$ 25.61	$ 24.95	$ 24.35	$ 24.35	$ 23.55	$ 23.55	$ 23.55
2"	$ 47.74	$ 44.29	$ 41.05	$ 37.45	$ 36.48	$ 35.61	$ 35.61	$ 34.44	$ 34.44	$ 34.44
3"	$ 126.98	$ 117.79	$ 109.17	$ 99.61	$ 97.03	$ 94.71	$ 94.71	$ 91.60	$ 91.60	$ 91.60
4"	$ 188.75	$ 175.09	$ 162.27	$ 148.06	$ 144.22	$ 140.77	$ 140.77	$ 136.14	$ 136.14	$ 136.14
6"	$ 360.05	$ 334.00	$ 309.55	$ 282.44	$ 275.12	$ 268.54	$ 268.54	$ 259.71	$ 259.71	$ 259.71
8"	$ 542.73	$ 503.46	$ 466.60	$ 425.73	$ 414.70	$ 404.78	$ 404.78	$ 391.47	$ 391.47	$ 391.47
10"	$ 744.20	$ 690.35	$ 639.81	$ 583.77	$ 568.64	$ 555.04	$ 555.04	$ 536.79	$ 536.79	$ 536.79
12"	$ 918.22	$ 851.78	$ 789.42	$ 720.27	$ 701.61	$ 684.83	$ 684.83	$ 662.31	$ 662.31	$ 662.31
Usage *(per 100 gallons)*										
Standard:										
First 748,000 gallons	$ 0.1280	$ 0.1187	$ 0.1100	$ 0.1004	$ 0.0978	$ 0.0955	$ 0.0955	$ 0.0924	$ 0.0924	$ 0.0924
Over 748,000 gallons	$ 0.1308	$ 0.1213	$ 0.1124	$ 0.1026	$ 0.0999	$ 0.0975	$ 0.0975	$ 0.0943	$ 0.0943	$ 0.0943
Seasonal (b):										
First 748,000 gallons	$ 0.1376	$ 0.1276	$ 0.1183	$ 0.1079	$ 0.1051	$ 0.1026	$ 0.1026	$ 0.0992	$ 0.0992	$ 0.0992
Over 748,000 gallons	$ 0.1388	$ 0.1288	$ 0.1194	$ 0.1089	$ 0.1061	$ 0.1036	$ 0.1036	$ 0.1002	$ 0.1002	$ 0.1002

(a) Customers that have transferred Edwards Aquifer water rights to SAWS in exchange for recycled water.

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

[The remainder of this page intentionally left blank]

San Antonio Water System
Schedule 16 – Impact Fees

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Water										
Flow - All Areas	$ 1,182.00	$ 1,182.00	$ 1,182.00	$ 1,182.00	$ 1,182.00	$ 1,247.00	$ 1,247.00	$ 1,247.00	$ 1,098.00	$ 1,098.00
System Development:										
Low Elevation Service Area	$ 619.00	$ 619.00	$ 619.00	$ 619.00	$ 619.00	$ 579.00	$ 579.00	$ 579.00	$ 668.00	$ 668.00
Middle Elevation Service Area	$ 799.00	$ 799.00	$ 799.00	$ 799.00	$ 799.00	$ 774.00	$ 774.00	$ 774.00	$ 591.00	$ 591.00
High Elevation Service Area	$ 883.00	$ 883.00	$ 883.00	$ 883.00	$ 883.00	$ 966.00	$ 966.00	$ 966.00	$ 1,356.00	$ 1,356.00
Wastewater										
Treatment:										
Dos Rios/Leon Creek Service Area	$ 786.00	$ 786.00	$ 786.00	$ 786.00	$ 786.00	$ 552.00	$ 552.00	$ 552.00		
Medio Creek	$ 1,429.00	$ 1,429.00	$ 1,429.00	$ 1,429.00	$ 1,429.00	$ 1,379.00	$ 1,379.00	$ 1,379.00		
Upper and Lower Service Areas									$ 453.00	$ 453.00
Far West-Medio Service Areas									$ 901.00	$ 901.00
Collection:										
Medio Creek	$ 838.00	$ 838.00	$ 838.00	$ 838.00	$ 838.00	$ 582.00	$ 582.00	$ 582.00		
Upper Medina	$ 1,565.00	$ 1,565.00	$ 1,565.00	$ 1,565.00	$ 1,565.00	$ 1,053.00	$ 1,053.00	$ 1,053.00		
Lower Medina	$ 475.00	$ 475.00	$ 475.00	$ 475.00	$ 475.00	$ 594.00	$ 594.00	$ 594.00		
Upper Collection	$ 2,520.00	$ 2,520.00	$ 2,520.00	$ 2,520.00	$ 2,520.00	$ 1,795.00	$ 1,795.00	$ 1,795.00		
Middle Collection	$ 1,469.00	$ 1,469.00	$ 1,469.00	$ 1,469.00	$ 1,469.00	$ 1,142.00	$ 1,142.00	$ 1,142.00		
Lower Collection	$ 719.00	$ 719.00	$ 719.00	$ 719.00	$ 719.00	$ 552.00	$ 552.00	$ 552.00		
Lower Service Area									$ 413.00	$ 413.00
Upper Service Area									$ 691.00	$ 691.00
Far West-Medio Service Areas									$ 394.00	$ 394.00
Far West-Potranco, Big Sous, & Lucas Service Area									$ 772.00	$ 772.00
Water Supply - All Areas (a)	$ 2,796.00	$ 2,796.00	$ 2,796.00	$ 2,796.00	$ 1,590.00	$ 1,297.00	$ 1,297.00	$ 1,297.00	$ 1,242.00	$ 1,242.00

(a) 2015 rate effecive June 1, 2015

Impact fees are assessed per equivalent dwelling unit.

Meter Size	EQUIVALENT DWELLING UNITS									
5/8"	1	1	1	1	1	1	1	1	1	1
3/4"	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
1"	2	2	2	2	2	2	2	2	2	2
1-1/2"	5	5	5	5	5	5	5	5	5	5
2"	14	14	14	14	14	14	14	14	14	14
3"	30	30	30	30	30	30	30	30	30	30
4"	50	50	50	50	50	50	50	50	50	50
6"	105	105	105	105	105	105	105	105	105	105
8"	135	135	135	135	135	135	135	135	135	135
10"	190	190	190	190	190	190	190	190	190	190
12"	360	360	360	360	360	360	360	360	360	360

[The remainder of this page intentionally left blank]

San Antonio Water System
SCHEDULE 17 - TEN LARGEST CUSTOMERS - WATER
Current Year and Nine Years Ago

Customer	Principal Business	Usage (a) (million gallons)	%	Total Revenue (b) (in thousands)	%
Fiscal Year Ended December 31, 2018:					
CITY OF SAN ANTONIO	Municipal Entity	568	0.9%	$ 3,986	1.0%
HEB GROCERY	Grocery	612	1.0%	2,937	0.7%
SAN ANTONIO HOUSING AUTHORITY	Public Housing	440	0.7%	2,192	0.5%
METHODIST HEALTH CARE SYSTEM	Hospital System	310	0.5%	2,041	0.5%
NORTHSIDE INDEPENDENT SCHOOL DISTRICT	School System	310	0.5%	2,010	0.5%
BEXAR COUNTY	County Government	406	0.6%	1,896	0.5%
UNIVERSITY OF TEXAS AT SAN ANTONIO	University	248	0.4%	1,811	0.5%
NORTHEAST INDEPENDENT SCHOOL DISTRICT	School System	229	0.4%	1,398	0.3%
MARRIOTT HOTELS	Hotels	185	0.3%	1,293	0.3%
CPS ENERGY	Public Power Utility	257	0.4%	1,264	0.3%
Subtotal (10 largest)		3,565	5.6%	20,828	5.2%
Balance from Other Customers		60,095	94.4%	379,528.52	94.8%
Total		63,660	100.0%	$ 400,357	100.0%
Fiscal Year Ended December 31, 2009:					
CITY OF SAN ANTONIO	Municipal Entity	655	1.2%	$ 2,647	1.3%
ARCHON GROUP, L.P.	Commercial Real Estate	477	0.9%	2,259	1.1%
SAN ANTONIO HOUSING AUTHORITY	Public Housing	540	1.0%	1,759	0.8%
BAPTIST HEALTH SYSTEM	Hospitals	288	0.5%	1,663	0.8%
HEB GROCERY	Grocery	463	0.8%	1,492	0.7%
NORTHSIDE INDEPENDENT SCHOOL DISTRICT	School System	287	0.5%	1,096	0.5%
BEXAR COUNTY	County Government	315	0.6%	973	0.5%
CPS ENERGY	Public Power Utility	274	0.5%	813	0.4%
SAN ANTONIO INDEPENDENT SCHOOL DISTRICT	School System	181	0.3%	789	0.4%
NORTHEAST INDEPENDENT SCHOOL DISTRICT	School System	181	0.3%	678	0.3%
Subtotal (10 largest)		3,661	6.6%	14,169	6.8%
Balance from Other Customers		51,634	93.4%	192,735	93.2%
Total		55,295	100.0%	$ 206,904	100.0%

(a) Potable water only
(b) Includes Water Delivery, Water Supply, EAA fees, Conservation fees and TCEQ water fees.

[The remainder of this page intentionally left blank]

San Antonio Water System
SCHEDULE 18 - TEN LARGEST CUSTOMERS - WASTEWATER
Current Year and Nine Years Ago

Customer	Principal Business	Usage *(million gallons)*	%		Total Revenue *(in thousands)*	%
Fiscal Year Ended December 31, 2018:						
HEB GROCERY	Grocery	540	1.1%	$	3,014	1.2%
SAN ANTONIO HOUSING AUTHORITY	Public Housing	433	0.9%		1,749	0.7%
BEXAR COUNTY	County Government	339	0.7%		1,438	0.6%
CITY OF SAN ANTONIO	Municipal Entity	241	0.5%		1,125	0.5%
NORTHSIDE INDEPENDENT SCHOOL DISTRICT	School System	192	0.4%		889	0.4%
METHODIST HEALTH CARE SYSTEM	Hospital System	214	0.4%		885	0.4%
TOYOTA	Automobile Manufacturer	216	0.4%		834	0.3%
TOWERJAZZ TEXAS, INC.	Electronics	197	0.4%		785	0.3%
FRITO LAY, INC.	Food Manufacturer	64	0.1%		765	0.3%
MARRIOTT HOTELS	Hotels	170	0.4%		639	0.3%
Subtotal (10 largest)		2,606	5.4%		12,122	4.9%
Balance from Other Customers		45,585	94.6%		233,380	95.1%
Total		48,191	100.0%	$	245,502	100.0%
Fiscal Year Ended December 31, 2009:						
HEB GROCERY	Grocery	415	0.8%	$	1,761	1.4%
SAN ANTONO HOUSING AUTHORITY	Public Housing	548	1.1%		1,129	0.9%
ARCHON GROUP, L.P.	Commercial Real Estate	468	0.9%		951	0.7%
BEXAR COUNTY	County Government	248	0.5%		593	0.5%
CITY OF SAN ANTONIO	Municipal Entity	254	0.5%		546	0.4%
OAK FARMS DAIRY	Dairy Producer	61	0.1%		411	0.3%
FRITO LAY, INC.	Food Manufacturer	57	0.1%		396	0.3%
MAXIM INTEGRATED PRODUCT, INC.	Electronics	175	0.3%		356	0.3%
L & H PACKING COMPANY	Beef Processor	120	0.2%		348	0.3%
AMERICAN OPPORTUNITY FOR HOUSING	Housing Services	167	0.3%		341	0.3%
Subtotal (10 largest)		2,514	5.0%		6,833	5.4%
Balance from Other Customers		47,649	95.0%		120,360	94.6%
Total		50,163	100.0%	$	127,193	100.0%

Excludes Wholesale Wastewater usage and revenues.

[The remainder of this page intentionally left blank]

San Antonio Water System
SCHEDULE 19 – TEN LARGEST CUSTOMERS – WHOLESALE WASTEWATER
Current Year and Nine Years Ago

Customer	Principal Business		Total Revenue *(in thousands)*	%
Fiscal Year Ended December 31, 2018:				
LACKLAND AIR FORCE BASE	Military	$	2,706	25.4%
JOINT BASE SAN ANTONIO - FT. SAM HOUSTON	Military		2,139	20.1%
LEON VALLEY	Municipal Government		1,516	14.2%
ALAMO HEIGHTS	Municipal Government		1,336	12.5%
BEXAR COUNTY WATER CONTROL DISTRICT NO. 10	County Government		740	6.9%
BALCONES HEIGHTS	Municipal Government		591	5.5%
KIRBY	Municipal Government		590	5.5%
OLMOS PARK	Municipal Government		451	4.2%
LACKLAND ANNEX	Military		290	2.7%
AIR FORCE VILLAGE II	Military		131	1.2%
Subtotal (10 largest)			10,490	98.4%
Balance from Other Customers			169	1.6%
Total		$	10,659	100.0%
Fiscal Year Ended December 31, 2009:				
ALAMO HEIGHTS	Municipal Government	$	970	18.6%
LEON VALLEY	Municipal Government		923	17.7%
FT. SAM HOUSTON	Military		707	13.5%
LACKLAND AIR FORCE BASE	Military		648	12.4%
BEXAR COUNTY WATER CONTROL DISTRICT NO. 10	County Government		595	11.4%
OLMOS PARK	Municipal Government		340	6.5%
BALCONES HEIGHTS	Municipal Government		336	6.4%
KIRBY	Municipal Government		328	6.3%
LACKLAND AIR FORCE BASE/ANNEX @ MEDINA	Military		266	5.1%
HOLLYWOOD PARK	Municipal Government		77	1.5%
Subtotal (10 largest)			5,190	99.3%
Balance from Other Customers			35	0.7%
Total		$	5,225	100.0%

[The remainder of this page intentionally left blank]

San Antonio Water System

SCHEDULE 20 – RATIO OF TOTAL OUTSTANDING DEBT BY TYPE

($ in thousands, except debt per customer)

Unaudited

	Total Debt Outstanding by Type									
	Revenue Bonds (b)									
Year	Principal Outstanding	Unamortized Premium & (Discount)	Net Revenue Bonds Payable	Commercial Paper Notes (a)	Other Debt (b)	Total Debt Outstanding	Gross Revenues (c)	Ratio of Total Debt to Gross Revenue	Customer Connections (d)	Debt Per Customer Connection
2018	$ 2,631,215	$ 203,355	$ 2,834,570	$ 215,695	$ -	$ 3,050,265	$ 713,534	4.27	958,693	$ 3,182
2017	2,537,520	198,219	2,735,739	278,060	-	3,013,799	677,159	4.45	941,566	3,201
2016	2,630,350	209,932	2,840,282	241,610	-	3,081,892	630,603	4.89	926,165	3,328
2015	2,600,096	130,267	2,730,363	135,305	88,700	2,954,368	563,111	5.25	912,430	3,238
2014	2,398,555	108,864	2,507,419	138,550	-	2,645,969	505,435	5.24	798,177	3,315
2013	2,240,915	107,919	2,348,834	186,655	-	2,535,489	467,749	5.42	784,209	3,233
2012	1,987,810	95,735	2,083,545	170,745	-	2,254,290	444,677	4.85	777,374	2,777
2011	1,894,230	4,609	1,898,839	214,930	-	2,113,769	424,049	4.97	765,400	2,756
2010	1,844,985	(8,126)	1,836,859	244,650	-	2,081,509	372,522	5.61	756,642	2,762
2009	1,759,700	(11,073)	1,748,627	173,650	-	1,922,277	369,853	5.23	747,220	2,587

(a) Details regarding outstanding revenue bonds and commercial paper notes can be found in the notes to the financial statements.

(b) Includes notes payable and capital leases payable.

(c) Gross revenues are defined as operating revenues plus nonoperating revenues.

(d) Customer connections represent the combined number of billed accounts for water and wastewater services at fiscal year-end. Increase in connections from 2014 to 2015 is primarily due to the merger of SAWS and SAWS District Special Project effective January 1, 2015.

[The remainder of this page intentionally left blank]

San Antonio Water System
SCHEDULE 21 – PLEDGED REVENUE COVERAGE
($ in thousands)
Unaudited

			Net					Maximum Annual Debt Service Requirements			
	Gross	Operating	Available	Revenue Bond Debt Service (a)				Total		Senior Lien	
Year	Revenues (b)	Expenses (c)	Revenue	Principal	Interest (d)	Total	Coverage	Debt (e)	Coverage	Debt (e)	Coverage (f)
2018	$ 704,279	$ 324,593	379,686	$ 84,875	$ 103,922	$ 188,797	2.01	$ 194,518	1.95	$ 81,428	4.66
2017	668,998	318,442	350,556	82,840	102,236	185,076	1.89	185,076	1.89	81,440	4.30
2016	622,947	315,395	307,552	78,570	98,158	176,728	1.74	185,149	1.66	84,009	3.66
2015	555,712	291,246	264,466	71,355	101,064	172,419	1.53	178,516	1.48	114,320	2.31
2014	498,334	245,055	253,279	57,850	91,704	149,554	1.69	160,510	1.58	117,126	2.16
2013	460,776	244,348	216,428	47,315	86,058	133,373	1.62	152,496	1.42	117,126	1.85
2012	437,253	237,576	199,677	44,780	80,320	125,100	1.60	138,420	1.44	122,816	1.63
2011	417,077	209,058	208,019	39,730	79,534	119,264	1.74	132,226	1.57	112,715	1.85
2010	367,847	226,489	141,358	38,590	77,098	115,688	1.22	127,264	1.11	108,947	1.30
2009	366,753	215,812	150,941	34,900	71,824	106,724	1.41	121,367	1.24	101,917	1.48

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

[The remainder of this page intentionally left blank]

San Antonio Water System
SCHEDULE 22 - DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Calendar Years
Unaudited

Year	Population (a)	Median Age (a)	Personal Income (a) *(thousands of dollars)*	Per Capita Personal Income (a)	School Enrollment (a)	Building Permits - Dwelling Units (b)	Employment (c)	Unemployment Rate (c)
2018(*)						10,688	1,150,484	3.2%
2017	1,511,913	33.5	$ 36,308,882	$ 23,921	401,867	12,509	1,136,835	3.0%
2016	1,469,824	33.1	34,905,380	23,748	403,558	12,241	1,109,096	3.6%
2015	1,436,697	33.2	32,790,329	22,823	401,771	7,824	1,077,724	3.5%
2014	1,416,291	33.0	31,581,326	22,414	407,047	10,334	1,046,337	3.7%
2013	1,383,194	33.2	30,752,552	22,233	397,500	6,129	1,021,672	4.9%
2012	1,359,730	32.7	29,038,394	21,356	396,718	8,005	1,000,015	5.7%
2011	1,326,539	32.8	28,421,098	21,425	392,897	7,127	976,361	6.4%
2010	1,319,492	32.1	28,260,879	21,418	387,343	6,865	951,369	7.0%
2009	1,340,549	32.6	28,750,754	21,447	296,328	5,924	907,040	6.9%

(*) 2018 population, median age, personal income, per capita personal income and school enrollment data was not available. Building permits, employment and unemployment rate data is preliminary.
(a) Source: Finance Department, City of San Antonio, Texas
(b) Source: Real Estate Center, Texas A&M University, Building Permits (single & multi-family), San Antonio - New Braunfels Metropolitan Statistical Area
(c) Source: Bureau of Labor Statistics, San Antonio-New Braunfels Metropolitan Statistical Area, Total Employment and Unemployment rate

[The remainder of this page intentionally left blank]

San Antonio Water System
SCHEDULE 23 - PRINCIPAL EMPLOYERS
Current Year* and Nine Years Ago
Unaudited

	2017			2008		
Employer	**Employees**	**Rank**	**Percentage of Total City Employment [1]**	**Employees**	**Rank**	**Percentage of Total City Employment [2]**
Joint Base San Antonio (JBSA) - Lackland, Fort Sam & Randolph[3]	75,972	1	7.46%	59,826	1,3,6	7.19%
HEB Grocery	22,000	2	2.16%	19,249	2	2.31%
USAA	17,163	3	1.69%	14,443	4	1.73%
Northside Independent School District	13,969	4	1.37%	12,810	5	1.54%
City of San Antonio	12,231	5	1.20%	9,830	7	1.18%
Methodist Health Care System	9,292	6	0.91%	8,360	8	1.00%
North East Independent School District	8,960	7	0.88%	7,496	10	0.90%
San Antonio Independent School District	7,374	8	0.72%	9,000	9	0.96%
Baptist Health Systems	6,432	9	0.63%			
Wells Fargo	5,010	10	0.49%			
Total	178,403		17.51%	141,014		16.81%

Source: Economic Development Division, City of San Antonio, Texas, Book of Lists 2017, and Department of Defense personnel statistics.

* 2018 Principal Employers data is not available at this time.
[1] Percent based on an Employment Estimate of 1,018,200 of Non-Farm jobs in the San Antonio-New Braunfels, TX Metropolitan Statistical Area as of January 2017. Figure provided by the Texas Workforce Commission.

[2] Percent based on an Employment Estimate of 832,800 of Non-Farm jobs in the San Antonio-New Braunfels, TX Metropolitan Statistical Area as of January 2008 Figure provided by the Texas Workforce Commission.

[3] In fiscal year 2012, Lackland, Fort Sam and Randolph military operations were consolidated into Joint Base San Antonio. In fiscal year 2008, the employee counts were 33,893, 15,200, and 10,733, respectively.

Table provided courtesy of City of San Antonio Finance Department

[The remainder of this page intentionally left blank]

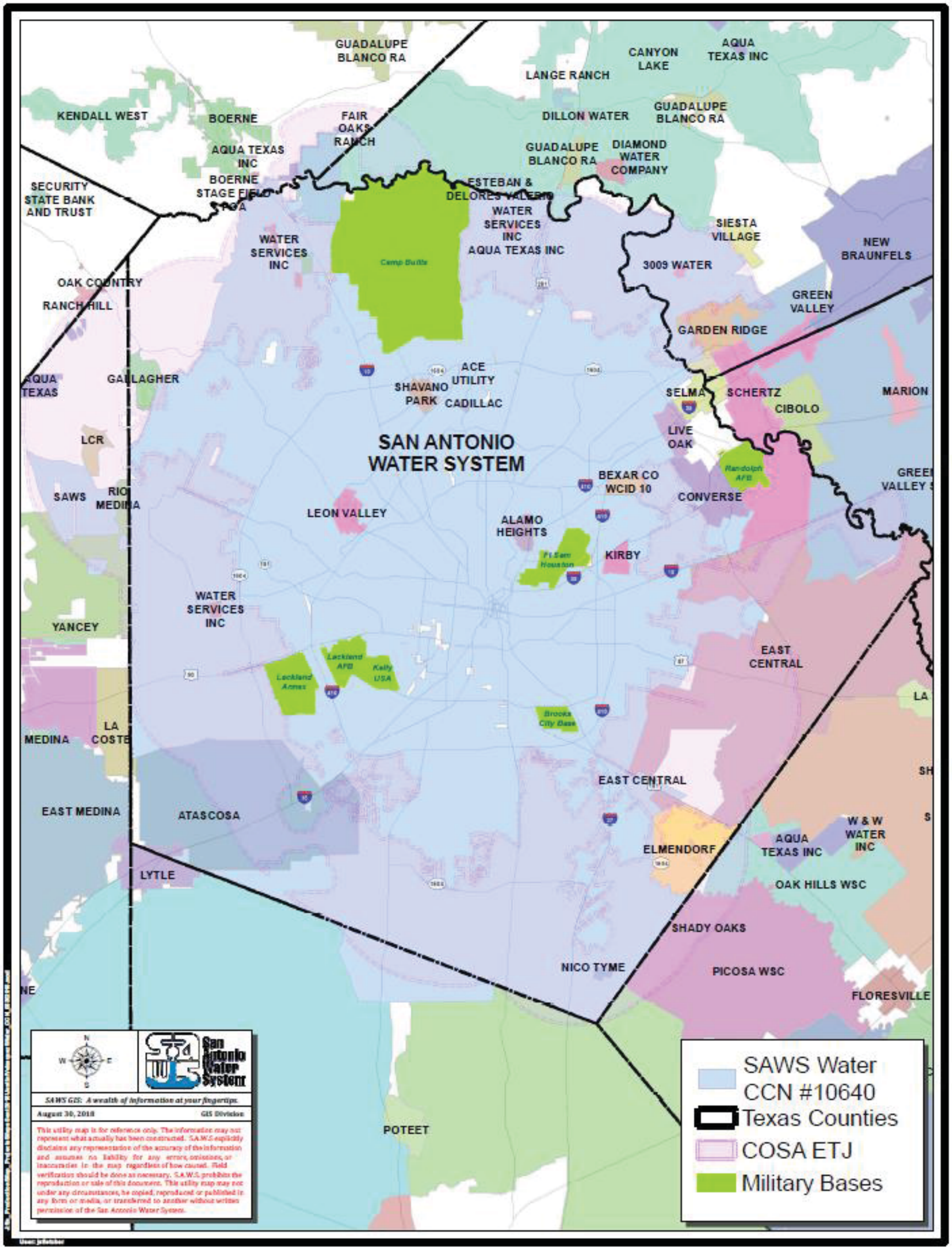
San Antonio Water System
SCHEDULE 24 - NUMBER OF EMPLOYEES BY FUNCTIONAL GROUP

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012 (a)	2011	2010	2009
Functional Group										
President/CEO	9	8	7	10	13	14	16	11	12	13
Production & Treatment Operations	358	299	302	138	131	292	363	353	358	368
Distribution & Collection Operations	517	561	540	485	446	455	482	416	430	435
Operation Services	24	112	112	346	257	116	166	189	178	180
Sewer System Improvements	35	33	33	31	31	28				
Public Affairs	57	51	24	28	26	24	32	32	32	32
Customer Service	230	231	229	233	235	229	222	215	206	210
Engineering & Construction	177	177	166	191	221	202	225	201	189	201
Water Resources	97	19	40	42	138	158	62	62	54	63
Financial Services	60	64	65	67	62	64	52	67	69	58
Information Services	91	89	92	72	65	64	57	57	54	58
Human Resources	42	42	45	42	35	44	27	50	49	48
Legal	36	37	37	39	39	42	44	16	16	30
	1,733	1,723	1,692	1,724	1,699	1,732	1,748	1,669	1,647	1,608

(a) In 2012 SAWS assumed operational control of the former Bexar Metropolitan Water District (BexarMet). The employee figures shown above include the employees of the former BexarMet beginning in 2012. As the merger of the former BexarMet into SAWS was not completed until January 1, 2015, a number of these employees were allocated to the special purpose entity formulated to maintain this entity until completion of the mreger. The number of employees allocated to this special purpose entity during the years 2012, 2013 and 2014 were 70, 207 and 204, respectively.

[The remainder of this page intentionally left blank]

San Antonio Water System
MAP 1 – MAP OF WATER SERVICE AREA



San Antonio Water System
SCHEDULE 25 - CAPITAL ASSETS
(amounts in thousands)

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Water Delivery (a)	$ 2,732,899	$ 2,760,533	$ 2,664,891	$ 2,489,921	$ 1,998,502	$ 1,882,369	$ 1,806,882	$1,680,136	$ 1,621,171	$ 1,548,754
Water Supply:										
Water Resources	1,052,048	1,047,530	1,036,861	740,434	708,825	628,445	585,055	556,979	546,491	429,129
Recycle	177,846	181,281	178,219	177,487	159,171	159,059	155,556	152,993	151,640	151,184
Conservation	563	561	559	558	511	465	436	444	441	335
Stormwater	310	314	321	354	302	277	211	179	187	183
Wastewater	2,813,016	2,796,525	2,702,938	2,551,584	2,390,077	2,202,056	1,968,415	1,858,386	1,761,832	1,704,933
Chilled Water and Steam	65,553	61,280	62,800	61,162	51,117	56,929	53,011	52,948	52,957	52,007
Working Capital	-	-	-	-	-	-	-	-	-	-
Construction in Progress	506,810	332,635	228,595	485,962	368,688	506,829	571,547	522,438	415,810	427,971
Total assets before accumulated depreciation	7,349,045	7,180,659	6,875,184	6,507,462	5,677,193	5,436,429	5,141,113	4,824,503	4,550,529	4,314,496
Accumulated Depreciation	2,082,961	2,128,882	1,989,093	1,859,676	1,587,715	1,472,429	1,369,885	1,271,438	1,187,662	1,140,232
Net Capital Assets	$ 5,266,084	$ 5,051,777	$ 4,886,091	$ 4,647,786	$ 4,089,478	$ 3,964,000	$ 3,771,228	$3,553,065	$ 3,362,867	$ 3,174,264

(a) Increase in Water Delivery capital assets from 2014 to 2015 is primarily due to the merger of SAWS and SAWS District Special Project effective January 1, 2015.

[The remainder of this page intentionally left blank]

San Antonio Water System
SCHEDULE 26 - OPERATING AND CAPITAL INDICATORS - WATER
Unaudited

	Fiscal Year									
	2018	2017	2016	2015 (f)	2014	2013	2012	2011	2010	2009
Rainfall (Inches)	41.20	27.33	43.92	44.22	27.63	32.00	39.40	17.58	37.39	30.69
Customers/Connections (a)	505,627	496,543	488,705	482,821	373,920	367,408	365,099	360,281	356,546	352,059
Water Pumpage (Million Gallons)										
Annual Water Pumped	85,092	90,454	88,016	83,138	69,834	69,020	70,338	74,627	69,591	68,191
ASR Recharge (b)	6,427	11,198	11,159	6,911	1,569	2,629	3,742	3,928	8,320	5,542
ASR Production (b)	1,453	387	697	1,903	6,374	4,793	1,446	4,309	556	472
Annual Pumped for Usage	78,665	79,256	76,857	76,227	68,265	66,391	66,596	70,699	61,272	62,649
Average Daily Water Pumped	233.1	245.6	240.5	227.8	191.3	189.1	192.2	204.5	190.7	186.8
Maximum Daily Water Pumped	301.1	302.8	359.9	335.0	261.0	270.2	264.0	265.6	314.0	273.8
Metered Usage (Million Gallons)	63,660	65,318	63,934	62,896	57,261	55,108	55,320	59,133	52,578	55,295
Available Water Supply (Million Gallons)										
Permitted Edwards Aquifer rights (c)	89,989	92,632	93,289	94,144	83,126	82,902	84,822	84,640	85,035	81,923
Non-Edwards supply (d)	25,905	26,655	23,331	23,005	12,931	11,476	7,431	6,098	6,132	6,256
Stored in ASR (e)	55,138	50,240	39,429	28,967	23,959	28,764	30,928	28,632	29,013	21,249
Total water available for production	171,032	169,527	156,049	146,116	121,086	122,484	123,080	119,393	120,077	109,320
Number of Wells in Service	182	191	191	182	147	149	143	139	144	140
Overhead Storage Capacity (Million Gallons)	120.1	117.1	119.9	119.9	101.8	91.3	81.2	81.2	73.9	66.5
Total Storage Capacity (Million Gallons)	287.6	277.2	269.2	261.7	220.6	197.4	183.7	184.1	180.8	166.2
Miles of Water Main in Place	7,144	7,060	6,961	6,831	5,259	5,072	5,022	4,988	4,936	4,866
Water Main Breaks	2,329	1,843	1,194	2,363	2,018	1,863	2,128	3,397	1,475	3,212
Fire Hydrants in Place	41,553	40,872	39,988	38,460	28,753	28,323	27,914	27,566	27,115	26,599

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

(b) Gallons pumped for ASR recharge and ASR production are included in annual water pumped.

(c) Based on permitted rights authorized by the Edwards Aquifer Authority (EAA) as of December 31st. Under current EAA rules, authorized amounts are subject to reductions of 20% to 44% during drought conditions.

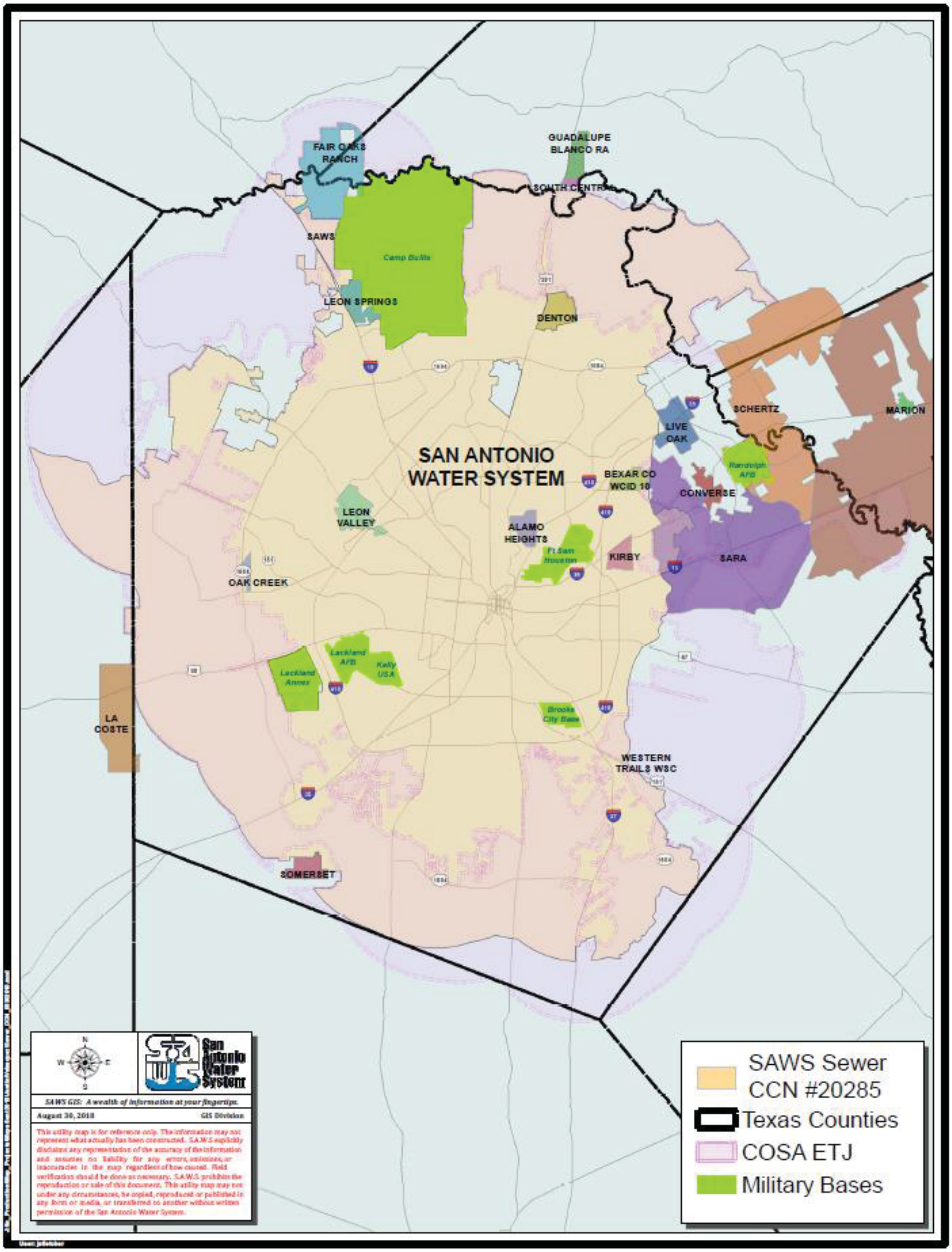
(d) Includes water available under contracts to purchase or produce water from the Trinity Aquifer, Carrizo Aquifer, Canyon Lake, Medina Lake and Lake Dunlap as well as SAWS brackish desalination plant. There are no legally imposed reductions in these supplies during drought; however, production of water from certain of these sources is physically limited during periods of drought.

(e) Represents cumulative net amount stored in ASR (Recharge - Net production)

(f) Increase in amounts from 2014 to 2015 reflect the merger of SAWS and SAWS District Special Project effective January 1, 2015.

[The remainder of this page intentionally left blank]

San Antonio Water System
MAP 2 – MAP OF WASTEWATER SERVICE AREA



San Antonio Water System
SCHEDULE 27 - MONTHLY RESIDENTIAL SERVICE CHARGES FOR TEN MAJOR TEXAS CITIES - WATER
Unaudited

CITY	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Arlington										
6000 Gallons	$25.50	$24.20	$24.20	$22.40	$21.12	$19.49	$19.49	$19.49	$19.47	$18.99
9000 Gallons	$33.87	$32.57	$32.57	$29.78	$27.96	$25.55	$25.55	$25.55	$25.53	$24.84
Austin										
6000 Gallons	$37.02	$38.35	$38.35	$37.37	$37.21	$29.74	$26.16	$26.16	$20.34	$19.18
9000 Gallons	$68.34	$70.30	$70.30	$66.88	$62.60	$51.74	$35.40	$35.40	$28.68	$27.04
Corpus Christi [1]										
6000 Gallons	$44.05	$42.37	$42.37	$34.76	$34.76	$32.25	$30.55	$28.97	$27.76	$25.54
9000 Gallons	$68.93	$66.29	$66.29	$55.78	$55.78	$51.79	$48.76	$45.67	$43.30	$39.10
Dallas										
6000 Gallons	$20.77	$21.69	$21.35	$20.86	$19.87	$19.39	$18.58	$17.62	$16.72	$16.16
9000 Gallons	$32.77	$34.71	$34.10	$33.25	$31.60	$30.70	$29.23	$27.67	$26.17	$25.16
El Paso [2]										
6000 Gallons	$27.19	$25.23	$23.82	$21.62	$17.84	$17.84	$17.01	$16.53	$16.53	$16.53
9000 Gallons	$35.82	$33.21	$31.28	$28.42	$24.10	$24.10	$22.99	$22.34	$22.34	$22.34
Ft. Worth										
6000 Gallons	$30.82	$29.39	$28.60	$26.62	$24.82	$23.32	$23.32	$22.33	$22.25	$21.75
9000 Gallons	$42.73	$41.14	$40.77	$38.49	$36.05	$34.55	$34.55	$33.08	$32.92	$32.42
Houston										
6000 Gallons	$34.46	$33.52	$32.42	$31.97	$30.62	$30.26	$27.78	$25.51	$23.65	$21.91
9000 Gallons	$50.42	$49.03	$47.42	$46.76	$44.78	$44.27	$40.62	$37.30	$34.60	$30.67
Lubbock										
6000 Gallons	$41.09	$44.56	$44.56	$45.18	$43.86	$45.00	$45.00	$40.02	$40.02	$34.02
9000 Gallons	$62.00	$58.84	$58.84	$63.72	$56.79	$57.00	$57.00	$48.03	$48.03	$43.99
Plano										
6000 Gallons	$29.48	$29.48	$25.98	$25.98	$25.41	$23.10	$22.55	$20.50	$20.50	$19.35
9000 Gallons	$40.07	$40.07	$35.28	$35.28	$33.72	$30.66	$29.18	$26.53	$26.53	$25.05
San Antonio (Standard) [2]										
6000 Gallons	$30.72	$28.65	$27.09	$23.50	$22.65	$21.54	$21.67	$19.59	$19.85	$22.11
9000 Gallons	$47.40	$44.37	$41.96	$34.43	$33.16	$31.37	$31.53	$28.44	$28.83	$30.40

Source: Based on rates posted on each respective city's website.

Note - Most charges are for a 5/8" meter; Arlington, Lubbock, and Plano charges are for a 3/4" meter.

[1] Includes Raw Water Pass Through Charge of $0.992 per 1,000 gallons.

[2] Assumes Standard rates for all periods in 2015 and prior and includes Water Supply Fee in all periods.

[The remainder of this page intentionally left blank]

San Antonio Water System
SCHEDULE 28 - OPERATING AND CAPITAL INDICATORS – WASTEWATER
Unaudited

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Customers/Connections (a)	453,066	445,023	437,460	429,609	424,257	416,801	412,275	405,119	400,096	395,161
Effluent Volumes For Major Facilities										
(million gallons per day)										
Dos Rios										
Permit Flow	125.00	125.00	125.00	125.00	125.00	125.00	125.00	125.00	125.00	125.00
Average Annual Flow	94.70	94.46	98.26	93.84	85.20	78.47	79.04	74.97	86.47	74.37
Maximum Monthly Average Flow	114.90	106.44	117.01	112.44	91.19	86.78	87.01	76.63	103.66	89.36
Leon Creek										
Permit Flow	46.00	46.00	46.00	46.00	46.00	46.00	46.00	46.00	46.00	46.00
Average Annual Flow (two outfalls)	35.91	35.52	38.59	35.04	28.98	37.68	38.62	35.07	38.83	34.99
Maximum Monthly Average Flow (two outfalls)	46.36	38.61	45.06	44.26	39.03	44.16	43.77	36.46	45.30	64.74
Medio Creek										
Permit Flow	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00
Average Annual Flow	6.84	6.43	7.73	6.92	7.08	7.76	7.29	6.83	7.53	6.32
Maximum Monthly Average Flow	8.75	7.08	9.73	8.24	7.49	8.45	8.14	6.97	8.71	7.45
Total										
Permit Flow	187.00	187.00	187.00	187.00	187.00	187.00	187.00	187.00	187.00	187.00
Average Annual Flow	137.45	136.41	144.58	135.79	121.26	124.26	124.95	116.87	132.83	115.68
Maximum Monthly Average Flow	170.01	152.13	171.80	162.54	137.71	139.40	138.92	120.06	157.67	161.55
Amount Treated Annually (millions of gallons)	50,775	50,945	49,282	48,563	50,689	50,076	49,055	49,918	48,151	51,987
Amount Treated Peak Day (millions of gallons)	235	245	311	286	196	221	199	160	258	194
Miles of Sewer Main In Place	5,535	5,482	5,375	5,322	5,247	5,238	5,200	5,163	5,118	5,085
Number of Manholes in Place	108,580	107,247	105,346	103,874	100,017	99,037	98,136	97,280	96,200	95,541
Number of Lift Stations	154	151	155	153	156	155	159	159	158	164

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

[The remainder of this page intentionally left blank]

San Antonio Water System
Schedule 29 - Monthly Residential Service Charges for Ten Major Texas Cities – Wastewater
Unaudited

CITY	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Arlington										
6000 Gallons	$38.02	$34.98	$31.56	$31.10	$30.26	$28.03	$28.03	$27.37	$26.89	$25.97
9000 Gallons	$50.56	$47.52	$42.69	$42.20	$41.24	$38.02	$38.02	$37.03	$36.31	$35.03
Austin										
6000 Gallons	$60.66	$62.30	$62.30	$59.86	$55.84	$54.40	$54.30	$50.35	$48.77	$46.28
9000 Gallons	$90.93	$93.35	$93.95	$89.68	$83.23	$81.22	$81.06	$75.49	$73.22	$69.47
Corpus Christi										
6000 Gallons	$45.60	$60.79	$60.79	$52.23	$52.23	$46.96	$43.21	$43.21	$40.80	$35.95
9000 Gallons	$60.15	$80.86	$80.86	$69.48	$69.48	$62.71	$57.69	$57.69	$54.47	$48.01
Dallas										
6000 Gallons	$36.94	$37.06	$36.56	$35.78	$34.15	$33.80	$33.00	$31.70	$29.99	$29.33
9000 Gallons	$53.02	$53.20	$52.49	$51.38	$49.00	$48.50	$47.40	$45.50	$43.01	$42.11
El Paso										
6000 Gallons	$22.82	$21.14	$19.73	$17.79	$16.48	$16.48	$15.68	$15.22	$15.22	$15.22
9000 Gallons	$30.48	$28.23	$26.35	$23.77	$22.01	$22.01	$20.93	$20.31	$20.31	$20.31
Ft. Worth										
6000 Gallons	$38.10	$35.53	$34.49	$30.60	$27.96	$27.96	$26.84	$26.27	$26.27	$25.67
9000 Gallons	$53.90	$50.05	$48.49	$43.16	$39.39	$39.39	$37.70	$36.86	$36.86	$36.26
Houston										
6000 Gallons	$42.39	$41.23	$39.87	$39.31	$37.65	$37.20	$34.15	$31.38	$29.09	$24.84
9000 Gallons	$67.53	$65.68	$63.51	$62.62	$59.97	$59.25	$54.40	$49.98	$46.34	$36.69
Lubbock										
6000 Gallons	$38.26	$35.02	$35.02	$28.70	$27.50	$27.50	$27.50	$24.30	$24.30	$22.10
9000 Gallons	$49.39	$44.53	$44.53	$36.05	$34.25	$34.25	$34.25	$30.45	$30.45	$28.25
Plano										
6000 Gallons	$41.57	$41.57	$39.23	$37.40	$34.40	$33.54	$33.54	$33.54	$33.54	$33.54
9000 Gallons	$58.13	$58.13	$54.86	$52.31	$47.51	$46.32	$46.32	$46.32	$46.32	$46.32
San Antonio										
6000 Gallons	$30.78	$29.71	$28.13	$27.91	$26.24	$25.26	$21.70	$19.12	$19.10	$17.02
9000 Gallons	$43.72	$42.20	$39.96	$38.00	$35.73	$34.40	$29.54	$26.02	$26.00	$23.20

Source: Based on rates posted on each respective city's website.

[The remainder of this page intentionally left blank]

(this page intentionally left blank)

APPENDIX C

General Purpose Financial Statements for the San Antonio Water System
for the Fiscal Year Ended December 31, 2018

(this page intentionally left blank)

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of San Antonio Water System (SAWS), a component unit of the City of San Antonio, Texas, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise SAWS' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of SAWS, as of December 31, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, SAWS adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits Other Than Pension* effective January 1, 2018. The cumulative effect of the change is shown in the current year. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information as of and for the years ended December 31, 2018 and 2017, is fairly stated in all material respects in relation to the financial statements as a whole.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. The introduction, statistical section and bonded debt schedules and analyses information as identified in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we express no opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated March 27, 2019, on our consideration of SAWS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SAWS' internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Austin, Texas
March 27, 2019

Management's Discussion and Analysis

(Unaudited)

This Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and provides a narrative overview and analysis of financial activities and performance as detailed in the Comprehensive Annual Financial Report (CAFR) for fiscal years ending December 31, 2018 and 2017. Please read it in conjunction with SAWS' financial statements including the notes to the financial statements and required supplemental information, which follow this section.

FINANCIAL HIGHLIGHTS

- SAWS' net position increased by $252.5 million during 2018, including an increase in unrestricted net position of $89.8 million.
- Total assets and deferred outflows of resources increased $302.8 million from 2017 to 2018, including net capital asset growth of $214.3 million and an increase in unrestricted cash and investments of $109.1 million.
- SAWS refunded $40.8 million in long-term debt, reducing future debt service payments by nearly $7.9 million and resulting in an economic gain of $2.9 million.
- Operating revenues increased $24.3 million or 4% from 2017 to 2018 primarily due to rate adjustments implemented during the year.
- Total debt coverage was 2.01x for 2018 compared to 1.89x for 2017.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- *Statements of Net Position* - present information on all of SAWS' assets, deferred outflows of resources, liabilities and deferred inflows of resources as of the end of each calendar year, with the net amount reported as SAWS' net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of SAWS is improving or deteriorating.
- *Statements of Revenues, Expenses and Changes in Net Position* - present information showing how SAWS' net position changed during the years presented on an accrual basis. This statement measures the success of SAWS' activities and can be used to determine whether SAWS has successfully recovered all its costs through its rates and other charges.
- *Statements of Cash Flows* – reflect cash receipts and payments for operating, non-capital financing, capital and related financing, and investing activities for the years presented.
- *San Antonio Water System Fiduciary Funds Statements of Fiduciary Net Position* – present information on SAWS single-employer postretirement benefit plans' assets and liabilities, with the difference between the two reported as net position held in trust for pension and other postemployment benefits.
- *San Antonio Water System Fiduciary Funds Statements of Changes in Fiduciary Net Position* – present information showing how the fiduciary funds' net position changed during the years presented on an accrual basis.
- *Notes to financial statements* - provide additional information that is essential to a full understanding of the data provided in the financial statements, such as SAWS' accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

- *Required Supplemental Information* – Historical information is presented concerning SAWS' defined benefit plans including changes in the net pension and other postemployment benefit liabilities, annual contributions made to benefit plans, and annual investment returns.

Supplemental information is presented to provide supporting schedules, which are not a required part of the basic financial statements.

- *Supplemental Schedules* – Includes schedules that provide information relative to the sources and uses of funds in accordance with SAWS' founding ordinance and budgetary information and combining schedules for the fiduciary funds.

Other information is presented for additional analysis and is also not a required part of the basic financial statements.

- *Statistical Section* – Presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about SAWS' overall financial health.
- *Bonded Debt Schedules and Analyses* – Includes detailed schedules that provide information relative to SAWS' various bond obligations.

FINANCIAL ANALYSIS – FINANCIAL POSITION

CONDENSED NET POSITION INFORMATION				2018-2017		2017-2016	
	As of December 31,			Increase	%	Increase	%
(amounts in thousands)	2018	2017	2016	(Decrease)	Change	(Decrease)	Change
Current assets	$ 757,380	$ 643,337	$ 560,924	$ 114,043	18%	$ 82,413	15%
Capital assets, net	5,266,084	5,051,777	4,886,091	214,307	4%	165,686	3%
Other non-current assets	352,181	369,151	448,645	(16,970)	(5%)	(79,494)	(18%)
Total Assets	6,375,645	6,064,265	5,895,660	311,380	5%	168,605	3%
Deferred outflows of resources	84,791	93,340	95,397	(8,549)	(9%)	(2,057)	(2%)
Total Assets and Deferred Outflows of Resources	6,460,436	6,157,605	5,991,057	302,831	5%	166,548	3%
Current liabilities	226,505	215,280	222,787	11,225	5%	(7,507)	(3%)
Non-current liabilities	3,103,261	3,085,719	3,152,128	17,542	1%	(66,409)	(2%)
Total Liabilities	3,329,766	3,300,999	3,374,915	28,767	1%	(73,916)	(2%)
Deferred inflows of resources	23,847	2,328	2,793	21,519	924%	(465)	(17%)
Total Liabilities and Deferred Inflows of Resources	3,353,613	3,303,327	3,377,708	50,286	2%	(74,381)	(2%)
Net Position:							
Net investment in capital assets	2,353,841	2,217,283	2,106,957	136,558	6%	110,326	5%
Restricted	384,634	358,453	318,889	26,181	7%	39,564	12%
Unrestricted	368,348	278,542	187,503	89,806	32%	91,039	49%
Total Net Position	$ 3,106,823	$ 2,854,278	$ 2,613,349	$ 252,545	9%	$ 240,929	9%

Net Position: SAWS' net position increased $252.5 million from 2017 to 2018 and increased $240.9 million from 2016 to 2017. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of SAWS is improving or deteriorating. Other considerations, both financial and non-financial, should also be evaluated such as economic conditions, population growth, availability of water supplies and credit ratings. These considerations are addressed in MD&A or other sections of this CAFR.

The largest portion of SAWS' net position reflects its net investment in capital assets. SAWS' net investment in capital assets represents the carrying value of capital assets and capital related deferred outflows of resources, less capital related borrowings. The primary reasons for an increase in the net investment in capital assets are capital assets acquired with non-debt resources, including assets contributed by developers, and repayments of debt. Depreciation expense serves to decrease the net investment in capital assets. SAWS' net investment in capital assets increased by $136.6 million between 2017 and 2018 and $110.3 million from 2016 to 2017.

Funds that have been restricted for a specific purpose by legally enforceable legislation and bond covenants are classified as restricted net position. In accordance with City of San Antonio Ordinance 75686, SAWS must maintain an operating reserve equal to two months of the annual maintenance and operations budget. SAWS is also required to make monthly transfers to a Debt Service Fund sufficient to make the semi-annual debt service payments on outstanding bonds. Cash and investments restricted for construction purposes, net of any related liabilities, are also reflected in these totals. Finally, SAWS must accumulate and maintain a Debt Service Reserve equal to 100% of the maximum annual debt service requirements for senior lien debt obligations plus the average annual debt service on all junior lien debt obligations secured by the Debt Service Reserve. SAWS may provide surety policies equal to all or part of the required debt service reserve. Restricted net position increased $26.2 million from 2017 to 2018 and increased $39.6 million from 2016 to 2017 primarily due to changes in amounts restricted for construction.

The remaining balance of SAWS' net position is unrestricted and may be used for any allowable purpose as outlined in Ordinance 75686. Unrestricted net position increased $89.8 million from 2017 to 2018 and $91.0 million from 2016 to 2017 as funds provided by operations exceeded transfers to the Debt Service Fund and capital expenditures paid with renewal and replacement funds. Additionally, during 2018 SAWS adopted GASB Statement No. 75, which resulted in the recording of a change to unrestricted net position as of January 1, 2018 of $18.3 million. For further information on adopting GASB Statement No. 75, refer to Note L.

Remainder of this page is intentionally left blank

FINANCIAL ANALYSIS – REVENUES, EXPENSES AND CHANGES IN NET POSITION

During 2018, SAWS recorded a change in net position of $270.8 million, which consisted of income before capital contributions of $124.8 million and capital contributions of $146.0 million. In 2017, SAWS' change in net position was $240.9 million, which consisted of income before capital contributions of $99.5 million and capital contributions of $141.4 million.

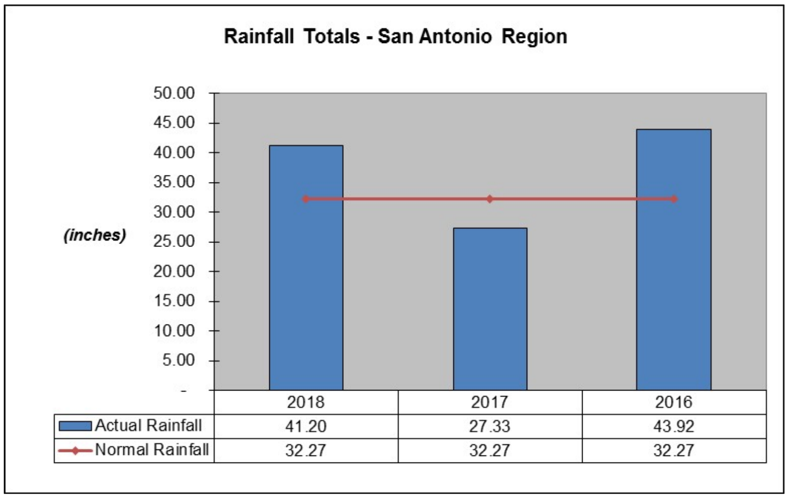
CONDENSED REVENUES, EXPENSES AND CHANGES IN NET POSITION INFORMATION							
				2018-2017		2017-2016	
		As of December 31,		Increase	%	Increase	%
(amounts in thousands)	2018	2017	2016	(Decrease)	Change	(Decrease)	Change
Operating revenues							
Water delivery system	$ 218,399	$ 202,264	$ 190,913	$ 16,135	8%	$ 11,351	6%
Water supply system	202,674	202,143	185,037	531	0%	17,106	9%
Wastewater system	259,124	250,977	234,966	8,147	3%	16,011	7%
Chilled water	10,849	11,368	11,541	(519)	(5%)	(173)	(1%)
Total operating revenues	691,046	666,752	622,457	24,294	4%	44,295	7%
Non-operating revenues	22,488	10,407	8,146	12,081	116%	2,261	28%
Total Revenues	713,534	677,159	630,603	36,375	5%	46,556	7%
Operating expenses							
Salaries and fringe benefits	149,970	148,058	142,315	1,912	1%	5,743	4%
Contractual services	171,032	168,350	170,845	2,682	2%	(2,495)	(1%)
Materials and supplies	23,485	23,159	21,959	326	1%	1,200	5%
Other charges	11,718	11,150	12,702	568	5%	(1,552)	(12%)
Less costs capitalized to							
construction in progress	(31,612)	(32,275)	(32,426)	663	(2%)	151	0%
Depreciation expense	154,422	152,072	142,856	2,350	2%	9,216	6%
Total operating expenses	479,015	470,514	458,251	8,501	2%	12,263	3%
Non-operating expenses							
Interest expense	88,542	86,615	86,566	1,927	2%	49	0%
Debt issue costs	1,711	1,385	4,716	326	24%	(3,331)	(71%)
Other finance charges	1,957	2,697	2,121	(740)	(27%)	576	27%
Gain on sale of capital assets	(924)	(951)	(3,087)	27	(3%)	2,136	(69%)
Payments to City of San Antonio	18,287	17,276	14,228	1,011	6%	3,048	21%
Payments to other entities	101	108	109	(7)	(6%)	(1)	(1%)
Total non-operating expenses	109,674	107,130	104,653	2,544	2%	2,477	2%
Total Expenses	588,689	577,644	562,904	11,045	2%	14,740	3%
Increase in net position							
before capital contributions	124,845	99,515	67,699	25,330	25%	31,816	47%
Capital Contributions	145,990	141,414	145,746	4,576	3%	(4,332)	(3%)
Change in Net Position	270,835	240,929	213,445	29,906	12%	27,484	13%
Net Position, beginning of year*	2,835,988	2,613,349	2,399,904	222,639	9%	213,445	9%
Net Position, end of year	$ 3,106,823	$ 2,854,278	$ 2,613,349	$ 252,545	9%	$ 240,929	9%

** Net position as of January 1, 2018 was reduced by $18,290,000 related to the adoption of GASB Statement No. 75. Periods prior to 2018 do not reflect the requirements of this statement.*

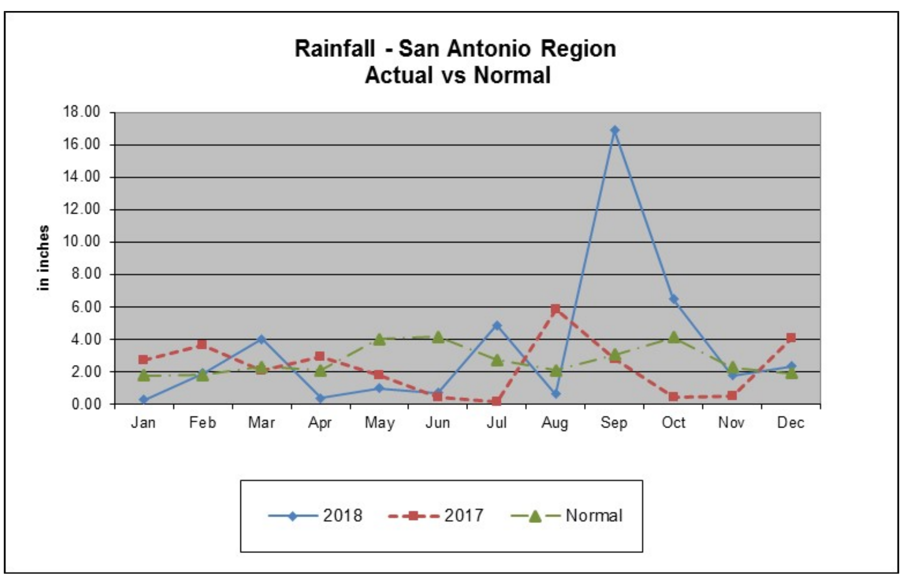
Operating Revenues: SAWS' operating revenues are provided by its four core businesses: Water Delivery, Water Supply, Wastewater, and Chilled Water. Changes in operating revenues from year to year are largely the result of weather conditions, customer growth and changes in rates for service. SAWS' operating revenues increased from $666.8 million in 2017 to $691.0 million in 2018. An average rate increase of 5.8% that took effect in January more than offset a decrease in water usage of 2.5%, which resulted in the increase in operating revenue from 2017. Customer growth of 1.7% also contributed to the growth in operating revenues in 2018.

SAWS' operating revenues increased from $622.5 million in 2016 to $666.8 million in 2017. The biggest contributors to the increase in revenues was an average rate increase of 6.8% that went into effect in 2017 for most of SAWS customers and an increase in water usage over the prior year of 2.7%. Beginning in 2017, a class of SAWS customers located in the former District Special Project (DSP) service area moved to the rates paid by all other SAWS customers. Customer growth averaged 1.6% during 2017, contributing to the growth in operating revenues in 2017.

The Water Delivery core business is responsible for the actual distribution of water from its source to the customer's premises. Operating revenues for this business are derived through a combination of a monthly service charge that is dependent upon the size of the customer's water meter and a volume charge that relates to the customer's metered water usage. Water Delivery operating revenues increased $16.1 million or 8% to $218.4 million for 2018 largely as a result of the 9.7% rate adjustment for this business unit, which went into effect in January. Water Delivery operating revenues increased $11.4 million or 6% from 2016 to 2017 largely as a result of a rate increase of 8.6% and increased usage of 2.7%. The transition of former DSP customers to SAWS rates in 2017 partially offset the impact of the SAWS rate increase.



Total rainfall was 41.20 inches for 2018, approximately 28% above normal rainfall of 32.27 inches and nearly 51% more than 2017 rainfall of 27.33 inches. 2017 total rainfall was nearly 40% less than 2016 rainfall of 43.92 inches.



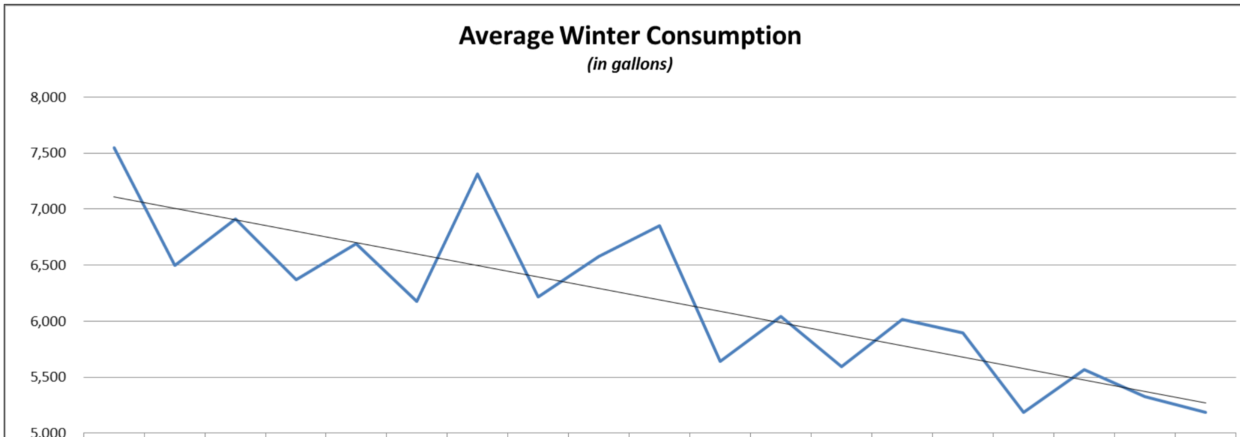
The Water Supply core business is responsible for all functions related to the development and provision of additional water resources. In order to support the costs associated with these initiatives, in 2000, SAWS implemented a separate funding mechanism, known as the Water Supply Fee, for water supply development and water quality protection. Certain other charges are also included in Water Supply operating revenues including the following:

- pass-through fees designed to recoup the annual fees paid to the Edwards Aquifer Authority (EAA) for permitted water rights
- meter fees and volumetric charges to customers utilizing recycled water for industrial or irrigation purposes
- allocated portions of water delivery revenues designed to fund residential and commercial conservation programs and debt service associated with water supply and recycle projects in progress prior to the implementation of a separate Water Supply Fee

Water Supply operating revenues increased $0.5 million or 0.3% from 2017 to $202.7 million for 2018 as a result of a 4.5% water supply rate increase that mitigated decreased water usage. Water Supply operating revenues increased $17.1 million or 9% from 2016 to 2017 as a result of a 6.9% rate increase and increased water usage. The transition of DSP customers to SAWS rates also served to increase Water Supply operating revenues in 2017.

The collection and treatment of wastewater is the primary function of the Wastewater core business. More than half of Wastewater operating revenues are generated by residential customers. The residential portion of Wastewater operating revenue is calculated based upon the average metered water usage of each residential wastewater customer during a three consecutive month billing period from November 15th through March 15th. This average, referred to as the average winter consumption (AWC), goes into effect with the April billing each year and continues for a period of twelve months.

The following chart depicts SAWS AWC since 2000. While periods of extremely dry weather lead to spikes in the AWC, water conservation efforts have resulted in an overall downward trend in the AWC. Heavier rainfall at the beginning of the 2017 and 2018 winter average measurement period resulted in a decrease in the AWC of 4.2% and 2.5%, respectively.



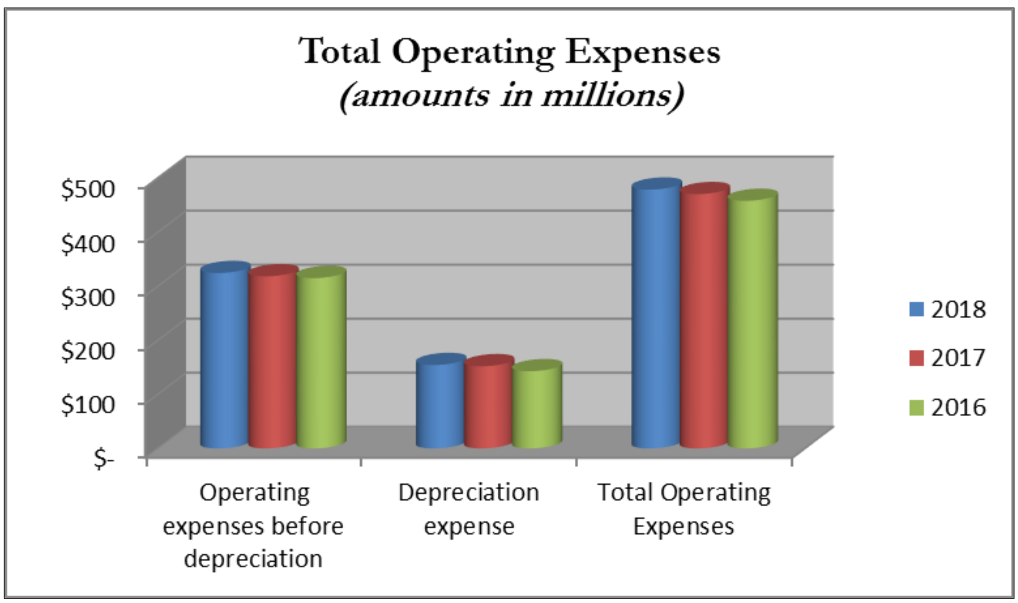
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
AWC	7,552	6,495	6,910	6,369	6,690	6,178	7,314	6,214	6,581	6,855	5,642	6,042	5,596	6,014	5,896	5,186	5,567	5,328	5,188

Wastewater operating revenues increased $8.1 million or 3% to $259.1 million in 2018 primarily due to a rate increase of 3.6% and customer growth of 1.7%. Wastewater operating revenues increased $16 million or 7% in 2017 primarily due to a rate increase of 5.6% and customer growth of 1.7%.

The Chilled Water core business is responsible for providing cooling services to customers, including various downtown hotels, City of San Antonio facilities, the Alamodome, Port Authority of San Antonio tenants and Hemisfair Plaza tenants. Operating revenues for this core business consist of a fixed base load demand charge for each customer and a pass-through charge to recover utility costs. Operating revenues for this core business decreased slightly to $10.8 million for 2018 from $11.4 million for 2017. Chilled Water operating revenues for 2017 were down slightly from $11.5 million in 2016

Non-operating revenues: Non-operating revenues, which primarily represent interest income earned on investments and the federal interest subsidy on SAWS Build America Bonds (BABs), increased $12.1 million in 2018 from 2017 and $2.3 million in 2017 from 2016 due to an increase in investment income associated with both an increase in the average investment balance and an increase in the yield on investments.

Operating Expenses: Total 2018 operating expenses of $479.0 million increased $8.5 million or 1.8% from 2017 primarily due to increased spending on employee health insurance, infrastructure maintenance, and conservation programs.



Salary and benefit related costs increased $1.9 million or 1.3% from 2017 to 2018 largely as a result of increased spending on employee health insurance and merit adjustments given to employees, which more than offset a decrease in pension related expenses. Contractual services increased $2.7 million or 1.6% in 2018 as an increase in spending in conservation programs, maintenance expense, and contractual professional services more than offset the decrease in purchased water payments. Depreciation expense increased $2.4 million or 1.5% as result of capital additions during the year.

Total 2017 expenses of $470.5 million increased $12.3 million or 2.7% from 2017 levels as increases in salaries and benefits, and depreciation were partially offset by decreases in contractual services and other charges. Salary and benefit related costs increased from 2016 largely as a result of merit adjustments given to employees and a 1.7% increase in filled positions. Contractual services decreased in 2017 as a decrease in purchased water payments and contractual services related to sewer line condition assessment and cleaning more than offset the increase in electrical expenses associated with SAWS new groundwater desalination facility. The increase in depreciation expense resulted from capital additions during the year, including the groundwater desalination plant that came online in early 2017.

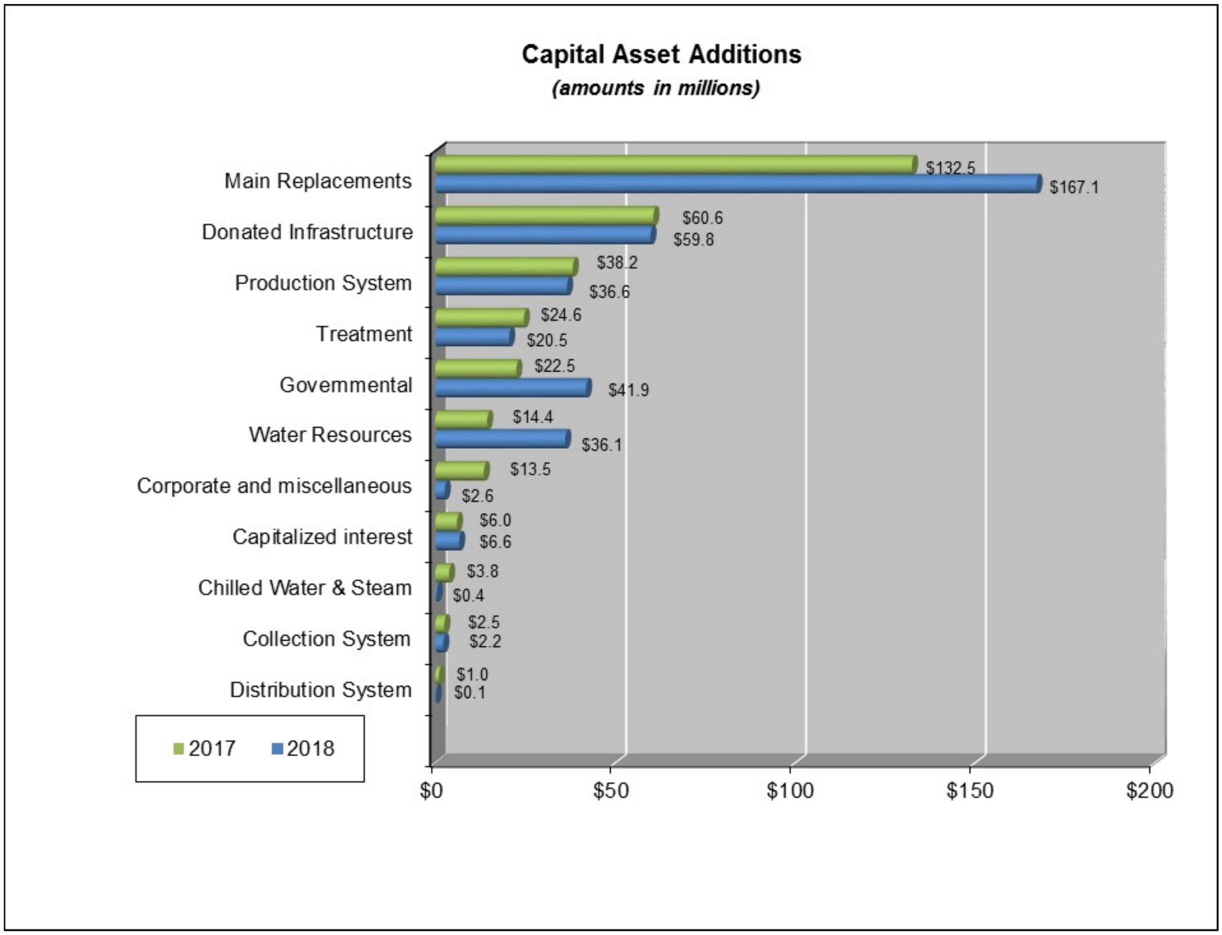
Non-operating Expenses: Non-operating expenses increased $2.5 million or 2.4% in 2018 driven by an increase in interest expense and payments to the City of San Antonio. The $1.9 million increase in interest expense reflects a rise in short-term borrowing costs, while the increase in the payments to the City of San Antonio are attributable to increased revenues. Non-operating expenses increased $2.5 million or 2% in 2017 as an increase in payments to the City of San Antonio and a reduction in the gain on sale of assets was partially offset by a decrease in debt issue costs.

Capital Contributions: Capital contributions for 2018 totaled $146.0 million which represents an increase of $4.6 million from 2017. While capital recovery fees increased 10% from 2017, plant contributions from developers decreased 1%. In 2017, capital contributions totaled $141.4 million, a decrease of $4.3 million from 2016.

CAPITAL CONTRIBUTIONS				2018-2017		2017-2016	
		As of December 31,		Increase	%	Increase	%
($ in thousands)	2018	2017	2016	(Decrease)	Change	(Decrease)	Change
Plant Contributions	$ 59,761	$ 60,643	$ 73,889	$ (882)	(1%)	$ (13,246)	(18%)
Capital Recovery Fees	79,794	72,846	67,991	6,948	10%	4,855	7%
Contributions in Aid of Construction	6,435	7,925	3,866	(1,490)	(19%)	4,059	-
Total Capital Contributions	$ 145,990	$ 141,414	$ 145,746	$ 4,576	3%	$ (4,332)	(3%)

CAPITAL ASSET ACTIVITY

During 2018 SAWS' total capital assets (net of accumulated depreciation) grew from $5.1 billion to $5.3 billion, while during 2017, net capital assets increased from $4.9 billion to $5.1 billion. Capital asset additions were $373.9 million in 2018 and $319.6 million in 2017. The following graph shows the additions for each year by general category.



Construction in progress (CIP) was $506.8 million at December 31, 2018 and $332.6 million at December 31, 2017. The increase in CIP was primarily due to increased capital spending for wastewater projects that are required to comply with the EPA Consent Decree. Overall, SAWS is committed under various contracts for completion of construction or acquisition of capital assets totaling $577.1 million as of December 31, 2018. For further information on capital assets, refer to Note E.

LONG-TERM DEBT ACTIVITY

In 2018, SAWS issued $219.3 million in junior lien bonds in two transactions. The proceeds of the bonds, including premiums, were used to refund $40.8 million in revenue bonds, $125.7 million in commercial paper notes, provide funds for capital improvement projects, and pay the cost of issuance. Additionally, SAWS issued $67 million in commercial paper notes to provide funds for capital improvement projects.

In 2017, SAWS issued $190.5 million in junior lien bonds in two transactions. The proceeds of the bonds, including premiums, were used to refund $200.5 million in bonds and pay the cost of issuance. Additionally, SAWS issued $40 million in commercial paper to provide funds for capital improvement projects.

SAWS intends to reissue maturing commercial paper and ultimately refund such maturities with proceeds from the issuance of long-term revenue bonds. Consistent with this intent, SAWS classifies outstanding commercial paper notes as long-term debt.

In April 2018, the three major credit rating agencies, Standard & Poor's Rating Service, Moody's Investors Services, and Fitch Ratings, affirmed SAWS' credit ratings. SAWS' high quality credit ratings are based on its large and diverse service area, sound financial management, long-term planning of water supply and infrastructure needs, and competitive water and sewer rates. SAWS' commercial paper ratings were last updated in September 2018 based on a new revolving credit agreement with JPMorgan Chase Bank, N.A. For additional information on the commercial paper program, refer to Note H.

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

SAWS' bond ordinance requires the maintenance of a debt coverage ratio of at least 1.25x the current annual debt service on outstanding senior lien debt. As of December 31, 2018 and 2017 SAWS was in compliance with the terms and provisions of the ordinances and documents related to its outstanding bonds and commercial paper.

FINANCIAL RATIOS	2018	2017	2016
Current Year Debt Coverage‡:			
Senior Lien Debt	6.69x	6.06x	3.88x
All Debt	2.01x	1.89x	1.74x
Maximum Annual Debt Coverage‡:			
Senior Lien Debt	4.66x	4.30x	3.66x
All Debt	1.95x	1.89x	1.66x
Net Position Ratio			
(net position/total liabilities + net position)	48.1%	46.4%	43.6%

‡ *Debt service is net of federal interest subsidy.*

ECONOMIC OUTLOOK FOR THE FUTURE

In December 2017 the San Antonio City Council approved rate increases projected to increase the bill of the average residential customer 4.7% effective January 1, 2019. In November 2015, City Council also pre-approved Water Supply fee rate adjustments for 2020 to support the continued development of additional water supplies, including the Vista Ridge project.

Average customer connections grew 1.7% in 2018 and 1.6% in 2017. The San Antonio region is positioned to see continued growth during the foreseeable future. While customer growth can help offset increasing operating costs, continuing costs to address infrastructure issues, including SAWS' EPA Consent Decree will likely require future rate adjustments in addition to those adjustments already approved by City Council.

CONTACTING SAWS' FINANCIAL MANAGEMENT

This Comprehensive Annual Financial Report is provided to our citizens, customers, investors and creditors as a general overview of SAWS' financial condition and results of operation with a general explanation of the factors affecting the finances of the organization. It is provided to demonstrate SAWS' accountability for the revenues it collects and the expenditures it makes for the services provided. If you have questions about this report or need additional financial information, contact either of the following:

Cecilia Velasquez
Director of Accounting/Controller
Email: Cecilia.Velasquez@saws.org

Douglas P. Evanson
Sr.Vice President/Chief Financial Officer
Email: Doug.Evanson@saws.org

Mailing address:
San Antonio Water System
PO Box 2449
San Antonio, TX 78298

Information about the San Antonio Water System can also be obtained through the Internet at www.saws.org.

BASIC FINANCIAL STATEMENTS

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

	December 31, 2018	December 31, 2017
CURRENT ASSETS		
Unrestricted Current Assets		
Cash and cash equivalents	$ 58,064	$ 36,688
Investments	436,823	349,074
Accounts receivable, net of allowances for uncollectible accounts	69,490	74,378
Other current assets	14,280	11,809
Total unrestricted current assets	578,657	471,949
Restricted Current Assets:		
Cash and cash equivalents	16,473	350
Investments	162,250	171,038
Total restricted current assets	178,723	171,388
Total Current Assets	757,380	643,337
NONCURRENT ASSETS		
Unrestricted Noncurrent Assets		
Accounts receivable, non current	-	1,343
Restricted Noncurrent Assets:		
Cash and cash equivalents	55,453	92,663
Investments	296,728	275,145
Capital Assets:		
Utility plant in service	6,479,861	6,491,982
Less allowance for depreciation	2,082,961	2,128,882
	4,396,900	4,363,100
Land, water rights and other intangible assets	362,374	356,042
Construction in progress	506,810	332,635
Total capital assets (net of accumulated depreciation)	5,266,084	5,051,777
Total Noncurrent Assets	5,618,265	5,420,928
TOTAL ASSETS	6,375,645	6,064,265
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on bond refunding	42,048	48,055
Deferred outflows - pension	18,103	33,428
Deferred outflows - OPEB	15,308	-
Accumulated decrease in fair value of hedging derivative	9,332	11,857
Total Deferred Outflows of Resources	84,791	93,340
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 6,460,436	$ 6,157,605

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

	December 31, 2018	December 31, 2017
CURRENT LIABILITIES		
Current Liabilities To Be Paid From Unrestricted Assets		
Accounts payable	$ 41,715	$ 36,012
Customers' deposits	15,571	14,135
Accrued vacation payable	5,492	5,422
Accrued payroll and benefits	4,966	4,775
Accrued claims payable	8,197	7,187
Sundry payables and accruals	1,630	1,638
Total unrestricted current liabilities	77,571	69,169
Current Liabilities To Be Paid From Restricted Assets		
Accrued interest payable	16,153	15,624
Payables under construction contracts	41,841	41,902
Commercial paper notes	3,880	3,710
Revenue bonds payable within one year	87,060	84,875
Total restricted current liabilities	148,934	146,111
Total Current Liabilities	226,505	215,280
NONCURRENT LIABILITIES		
Accrued vacation payable	4,321	4,122
Net pension liability	38,919	72,056
Net OPEB obligation	-	68,933
Net OPEB liability	88,180	-
Derivative instrument	12,516	15,394
Commercial paper notes	211,815	274,350
Revenue bonds payable after one year, net of unamortized premiums and discounts	2,747,510	2,650,864
Total Noncurrent Liabilities	3,103,261	3,085,719
TOTAL LIABILITIES	3,329,766	3,300,999
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pension	17,807	2,328
Deferred inflows - OPEB	6,040	-
Total Deferred Inflows of Resources	23,847	2,328
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES	3,353,613	3,303,327
NET POSITION		
Net investment in capital assets	2,353,841	2,217,283
Restricted for operating reserve	56,642	54,143
Restricted for debt service	64,086	59,719
Restricted for debt service reserve	54,702	56,364
Restricted for construction	209,204	188,227
Unrestricted	368,348	278,542
TOTAL NET POSITION	$ 3,106,823	$ 2,854,278

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

This Page
Intentionally Left Blank

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

	2018	2017
OPERATING REVENUES		
Water delivery system	$ 218,399	$ 202,264
Water supply system	202,674	202,143
Wastewater system	259,124	250,977
Chilled water system	10,849	11,368
Total operating revenues	691,046	666,752
OPERATING EXPENSES		
Salaries and fringe benefits	149,970	148,058
Contractual services	171,032	168,350
Material and supplies	23,485	23,159
Other charges	11,718	11,150
Less costs capitalized to construction in progress	(31,612)	(32,275)
Total operating expenses before depreciation	324,593	318,442
Depreciation expense	154,422	152,072
Total operating expenses	479,015	470,514
Operating income	212,031	196,238
NONOPERATING REVENUES		
Interest earned and miscellaneous	22,488	10,407
NONOPERATING EXPENSES		
Interest expense	88,542	86,615
Debt issue costs	1,711	1,385
Other finance charges	1,957	2,697
Gain on sale of capital assets	(924)	(951)
Payments to the City of San Antonio	18,287	17,276
Payments to other entities	101	108
Total nonoperating expenses	109,674	107,130
Increase in net position, before capital contributions	124,845	99,515
Capital contributions	145,990	141,414
CHANGE IN NET POSITION	270,835	240,929
NET POSITION, BEGINNING OF YEAR (restated)	2,835,988	2,613,349
NET POSITION, END OF YEAR	$ 3,106,823	$ 2,854,278

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

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

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 692,882	$ 655,310
Cash paid to vendors for operations	(197,889)	(193,126)
Cash paid to employees for services	(128,300)	(126,581)
Net cash provided by operating activities	366,693	335,603
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payments to the City of San Antonio	(12,440)	(12,075)
Payments to other entities	(102)	(107)
Net cash used for noncapital financing activities	(12,542)	(12,182)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of capital assets	1,115	1,125
Proceeds from capital recovery fees	79,794	72,846
Proceeds from contributions in aid of construction	6,435	7,925
Payments for the acquisition and construction of plant and equipment	(305,551)	(259,026)
Proceeds from commercial paper	67,000	40,000
Payments for retirement of commercial paper	(3,710)	(3,550)
Proceeds from revenue bonds	82,101	2,112
Payments for retirement of revenue bonds	(84,875)	(82,840)
Payments of interest on commercial paper	(5,490)	(4,875)
Payments of interest on revenue bonds	(107,469)	(106,424)
Payments for bond related expenses	(1,711)	(1,385)
Payments for bank charges	(1,999)	(2,660)
Net cash used for capital and related financing activities	(274,360)	(336,752)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(745,515)	(856,812)
Maturity of investments	646,050	831,638
Interest income and other	19,963	11,470
Net cash used for investing activities	(79,502)	(13,704)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	289	(27,035)
CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR	129,701	156,736
CASH AND CASH EQUIVALENTS, AT END OF YEAR	$ 129,990	$ 129,701

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

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

RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENTS OF CASH FLOWS TO STATEMENTS OF NET POSITION

	2018	2017
Cash and Cash Equivalents		
Unrestricted	$ 58,064	$ 36,688
Restricted		
Current	16,473	350
Restricted - Noncurrent	55,453	92,663
	$ 129,990	$ 129,701

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	2018	2017
Operating Income	$ 212,031	$ 196,238
Adjustments to reconcile operating income to net cash provided by operating activities:		
Non-cash revenues from City of San Antonio	(5,847)	(5,202)
Provision for uncollectible accounts	4,844	3,860
Charge-off of prior year construction expenditures to operating expense	5,002	1,663
Depreciation expense	154,422	152,072
Change in assets, deferred outflows of resources, liabilities and deferred inflows of resources:		
(Increase)/Decrease in accounts receivable	1,386	(9,923)
(Increase)/Decrease in other current assets	(1,023)	220
(Increase)/Decrease in deferred outflows - Pension	15,325	(5,313)
(Increase)/Decrease in deferred outflows - OPEB	(1,598)	-
(Increase)/Decrease in accounts payable	4,825	(3,971)
Increase in customers' deposits	1,436	754
Increase in accrued vacation payable	269	691
Increase in accrued payroll and benefits	191	637
Increase/(Decrease) in claims payables	1,010	(86)
Increase in sundry payables and accruals	(1,210)	-
Increase/(Decrease) in net pension liability	(33,136)	9,034
Decrease in net OPEB obligation	-	(4,606)
Decrease in net OPEB liability	(12,753)	-
Increase/(Decrease) in deferred inflows - pension	15,479	(465)
Increase/(Decrease) in deferred inflows - OPEB	6,040	-
Total adjustments	154,662	139,365
Net cash provided by operating activities	$ 366,693	$ 335,603

NONCASH CAPITAL, FINANCING AND INVESTING ACTIVITIES

	2018	2017
Plant contributions received from developers	$ 59,761	$ 60,643
Accrued but unpaid liabilities related to capital acquisitions	41,841	41,902
Unrealized (gain)/loss on investments	(1,079)	1,774
Bond proceeds deposited into an escrow account for purposes of refunding:		
Revenue Bonds	40,755	202,495
Commercial Paper	125,655	-
Noncash payments to City of San Antonio	5,847	5,202
Total noncash capital and financing activities	$ 272,780	$ 312,016

This Page
Intentionally Left Blank

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

	December 31, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	$ 1,323	$ 1,733
Investments, at fair value		
Mutual funds - stock	154,396	168,814
Mutual funds - bonds	102,686	103,297
Other Investments	16,127	1,765
Total Investments	273,209	273,876
TOTAL ASSETS	274,532	275,609
LIABILITIES	-	-
NET POSITION RESTRICTED FOR POST EMPLOYMENT BENEFITS	$ 274,532	$ 275,609

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

	2018	2017
ADDITIONS		
Employer contributions	$ 24,783	$ 22,856
Participant contributions	3,362	3,147
Investment income/(loss)	(11,427)	39,060
Total additions	16,718	65,063
DEDUCTIONS		
Benefit payments	17,257	15,182
Administrative expenses	538	545
Total deductions	17,795	15,727
NET INCREASE/(DECREASE) IN NET POSITION	(1,077)	49,336
NET POSITION RESTRICTED FOR POST EMPLOYMENT BENEFITS - BEGINNING	275,609	226,273
NET POSITION RESTRICTED FOR POST EMPLOYMENT BENEFITS - ENDING	$ 274,532	$ 275,609

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

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: On April 30, 1992, the San Antonio City Council approved Ordinance No. 75686 which provided for the consolidation of all city owned utilities related to water including the water, wastewater, and water reuse systems as the San Antonio Water System (SAWS). Management and control of SAWS is vested in the SAWS Board of Trustees (Board) consisting of the Mayor of San Antonio and six members who are appointed by the San Antonio City Council. In addition to appointing members of the Board, the City Council must approve all changes in SAWS rates and any debt issued by SAWS.

SAWS has been defined in City Ordinance No. 75686 (City Ordinance) as all properties, facilities, and plants currently owned, operated and maintained by the City of San Antonio, Texas (the City) and/or the Board, for the supply, treatment, transmission and distribution of treated potable water, chilled water and steam, for the collection and treatment of wastewater and for water reuse, together with all future extensions, improvements, purchases, repairs, replacements and additions thereto, and any other projects and programs of SAWS.

The City currently manages a storm water system. The City has not incorporated the storm water system within SAWS; however, SAWS administers certain aspects of the storm water program on behalf of the City, including billing accounts and providing certain technical services, for a fee.

The fiduciary financial statements include three fiduciary funds related to SAWS employee benefit plans: the San Antonio Water System Retirement Plan (SAWSRP), the District Special Project Retirement Income Plan (DSPRP) and the San Antonio Water System Retiree Health Trust (SAWS OPEB Plan). All three plans are governed by the Board which may amend plan provisions, and which is responsible for the management of plan assets. SAWSRP and DSPRP are single-employer pension plans and are tax-qualified plans under Section 401 (a) of the Internal Revenue Code. SAWS OPEB Plan assets are held in a trust established under the provisions of the Internal Revenue Code of 1986 Section 115.

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

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

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

SAWS implemented the following new GASB pronouncements during the current year:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB).* This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB.* The scope of this Statement addresses the accounting and financial reporting for OPEB that is provided to employees of state and local governmental employers. The major provisions of this Statement include:
  - The difference between the present value of projected benefit payments to be provided to current active and inactive employees that is attributable to those employees' past periods of service and the OPEB plan's fiduciary net position be on the employer's Statement of Net Position as either a net OPEB asset or liability
  - The majority of the changes in the net OPEB asset or liability are to be recognized immediately as an expense. Some changes are to be reported as deferred inflows and/or deferred outflows of resources and amortized to expense over prescribed periods of time, based on the nature of the deferred item.

  Information required by this Statement is provided in Note K of these financial statements. The impact of implementing this Statement on the 2017 financial statements is provided in Note L to these financial statements.

- GASB Statement No. 86, *Certain Debt Extinguishment Issues.* This Statement provides guidance for in-substance defeasance of debt in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. In financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance. The guidance provided by this Statement has no current impact for SAWS.

The following additional GASB pronouncements will be implemented in the future. Once implemented, application of these standards may restate portions of these financial statements.

- GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for Asset Retirement Obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. This Statement requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. SAWS will implement this Statement in 2019.

- GASB Statement No. 87, *Leases*. This Statement requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after June 15, 2019. SAWS will implement this Statement in 2020.

- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements*. This Statement defines debt for purposes of disclosure in notes to financial statements and establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowing (for example, a government entering into a loan agreement with a lender) and direct placements (for example, a government issuing a debt security directly to an investor). Direct borrowings and direct placements have terms negotiated directly with the investor or lender and are not offered for public sale. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. SAWS will implement this Statement in 2019.

- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will no longer be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, earlier adoption is encouraged. SAWS will implement this Statement in 2019.

- GASB Statement No. 90, *Majority Equity Interests*. This Statement specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. SAWS holds no equity interests in a legally separate organization at December 31, 2018. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. SAWS will implement this Statement in 2019.

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

Revenue and Expense Classification: Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of SAWS are charges to customers for water supply, water delivery, wastewater, and chilled water services. Operating expenses include costs of service, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Pensions: For purposes of measuring the Net Pension Liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the SAWSRP, TMRS and DSPRP plans and additions to/from the SAWSRP, TMRS and DSPRP fiduciary net position have been determined using the same basis as they are reported by SAWSRP, TMRS, and DSPRP. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Postemployment Benefits Other Than Pensions (OPEB): For purposes of measuring the Net OPEB Liability, deferred outflows of resources and deferred inflows of resources related to SAWS OPEB, and SAWS OPEB expense, information about the fiduciary net position of the SAWS OPEB plan and additions to/from the SAWS OPEB fiduciary net position have been determined using the same basis as they are reported by the SAWS OPEB plan. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Annual Budget: Approximately sixty days prior to the beginning of each fiscal year, an annual budget is presented to the Board for consideration. This budget is prepared on an accrual basis and serves as a tool in controlling and administering the management and operation of the organization. The annual budget reflects an estimate of gross revenues and disposition of these revenues in accordance with the flow of funds required by Ordinance No. 75686 (See Note B). Once the annual budget has been approved by the Board, the budget is submitted to City Council for review and consultation.

Restricted Resources: When an expenditure is made for purposes for which both restricted and unrestricted resources are available, it is SAWS policy to choose the appropriate resource based on the availability of resources and funding goals established by management for those expenditures.

Cash Equivalents: SAWS considers investments with an original maturity of three months or less at the time of purchase to be cash equivalents.

Investments: City Ordinance No. 75686, SAWS' Investment Policy, and Texas state law allow SAWS to invest in direct obligations of the United States or its agencies and instrumentalities. Other allowable investments include direct obligations of the State of Texas or its agencies and instrumentalities; secured certificates of deposit issued by depository institutions that have their main office or a branch office in the State of Texas; defined bankers acceptances and commercial paper; collateralized direct repurchase agreements, reverse repurchase agreements; no-load money market mutual funds; investment pools; municipal bonds; and other types of secured or guaranteed investments. These investments are subject to market risk, interest rate risk, and credit risk which may affect the value at which these investments are recorded. Under the provisions of GASB Statement No. 31, money market investments, including US Treasury and agency obligations, with a remaining maturity at time of purchase of one year or less are reported at amortized cost. All other investments are reported at fair value.

Accounts Receivable: Accounts receivable are recorded at the invoiced amounts plus an estimate of unbilled revenue receivable. The allowance for uncollectible accounts is management's best estimate of the amount of probable credit losses based on account delinquencies and historical write-off experience. Account balances are written off against the allowance when it is probable the receivable will not be recovered. SAWS wrote off account balances totaling $5.4 million in 2018 and $1.5 million in 2017. A provision to increase the allowance for uncollectible accounts is recorded as an offset to operating revenue. The provision for uncollectible accounts was $4.8 million in 2018 and $3.9 million in 2017.

Inventory: Inventories are valued at lower of cost or market using the weighted average cost method. Inventories are reported in the Statements of Net Position in Other Current Assets. Inventories (net) totaled $5.8 million at December 31, 2018 and $5.6 million at December 31, 2017.

Restricted Assets: Assets restricted by City Ordinance, which incorporates the bond indentures, to pay current liabilities are reported as current assets in the Statement of Net Position, regardless of their relative liquidity. Assets restricted for the acquisition of capital assets or to pay noncurrent liabilities are reported as noncurrent assets in the Statement of Net Position.

Capital Assets: Assets in service are capitalized when the unit cost is greater than or equal to $5,000. Utility plant additions are recorded at cost, which includes materials, labor, direct internal costs, and interest capitalized during construction. Included in capital assets are intangible assets, which consist of purchased water rights and land easements, costs associated with acquiring additional Certificates of Convenience and Necessity (CCN) related to new service areas and development costs for internally generated computer software. Assets acquired through capital leases are recorded on the cost basis and included in utility plant in service. Assets acquired through contributions, such as those from developers, are recorded at estimated acquisition value at date of donation. Maintenance, repairs, and minor renewals are charged to operating expense; major plant replacements are capitalized.

Capital assets are depreciated on the straight-line method. This method is applied to all individual assets except distribution and collection mains and intangible assets. Groups of mains are depreciated on the straight-line method over an estimated average useful life of 50 years. Mains are included in the Distribution and transmission system asset category and the Collection system category. Intangible assets not considered to have indefinite useful lives are amortized over their estimated useful life. Capital assets are tested for impairment when a significant unexpected decline in its service utility occurs. The following table shows an estimated range of useful lives used in providing for depreciation of capital assets:

Structures and improvements	25 - 50	years
Pumping and purification equipment	10 - 50	years
Distribution and transmission system	17.5 - 50	years
Collection system	50	years
Treatment facilities	25	years
Equipment and machinery	5 - 20	years
Furniture and fixtures	3 - 10	years
Computer equipment	5	years
Software	3 - 10	years
Intangible assets (definite useful life)	20	years

Capitalized Interest: Interest expense during the construction period is capitalized as part of the cost of capital assets. SAWS capitalized $6.6 million of interest in 2018 and $6 million in 2017.

Capital Contributions: Capital Contributions consist of plant contributions from developers, capital recovery fees, and contributions in aid of construction and/or grant proceeds received from governmental agencies for facility expansion. Capital Contributions are recognized in the Statement of Revenues, Expenses, and Changes in Net Position, after non-operating revenues (expenses), when eligibility requirements are met.

Capital recovery fees are charged to customers to connect to the water or wastewater system. By Texas law, these fees are to be used for capital expenditures that expand infrastructure capacity or to reimburse SAWS for the cost associated with existing excess infrastructure capacity. In certain instances, infrastructure that facilitates expansion of SAWS' service capacity is contributed by developers. In these instances, SAWS records the donated infrastructure as plant contributions and may abate future capital recovery fees due from the developer equal to a portion of the acquisition value of the of the infrastructure contributed. SAWS abated future capital recovery fees of $337,000 in 2018 and $4,377,000 in 2017. These abatements are conditional based on the type of development and in certain instances, time requirements and geographic restrictions.

Deferred Outflows and Inflows of Resources: In addition to assets, liabilities, and net position, the Statement of Net Position includes separate sections for deferred outflows and inflows of resources. A deferred outflow of resources represents a consumption of net position that applies to a future period(s) and therefore, will not be recognized as an outflow of resources until the applicable future period. A deferred inflow of resources is an acquisition of net position that is applicable to future reporting period(s) and therefore, will not be recognized as an inflow of resources until the applicable future period.

Deferred charge on bond refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized to interest expense over the shorter of the life of the refunded or refunding debt using the interest method.

Deferred outflows – pension and *Deferred inflows – pension* result from contributions made by SAWS to its defined benefit pension plans after the measurement date of Net Pension Liability as well as changes in the Net Pension Liability not yet reflected in pension expense. Changes in the Net Pension Liability not yet reflected in pension expense include differences between projected and actual earnings on pension plan investments, expected and actual experience with regard to economic or demographic factors and changes in assumptions about future economic or demographic factors. Differences between projected and actual earnings are recognized in pension expense over a closed five year period. Other changes are recognized in pension expense using a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees participating in the plans.

Deferred outflows – OPEB and *Deferred inflows – OPEB* result from contributions made by SAWS to its OPEB plan after the measurement date of Net OPEB Liability as well as changes in the Net OPEB Liability not yet reflected in pension expense. Changes in the Net OPEB Liability not yet reflected in pension expense include differences between projected and actual earnings on OPEB plan investments, expected and actual experience with regard to economic or demographic factors and changes in assumptions about future economic or demographic factors. Differences between projected and actual earnings are recognized in OPEB expense over a closed five year period. Other changes are recognized in pension expense using a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees participating in the plans.

SAWS is a party to an interest rate swap agreement which serves to hedge interest rates on a portion of SAWS' variable rate debt. The agreement qualifies as a derivative instrument and meets the requirements of an effective hedge in accordance with GASB Statements No. 53 and 64. As a result, hedge accounting is used to account for the changes in the fair value of the swap agreement. *Accumulated decrease in fair value of hedging derivative* represents the change in the fair value of the interest rate swap that has not been recognized in the Statement of Revenues, Expenses and Changes in Net Position due to the use of hedge accounting. For more information about this derivative instrument see Note G.

Customer Deposits: SAWS collects an advance deposit from new customers to secure payment of the customer's final bill. The deposit is refundable once the customer has demonstrated an acceptable payment history of no more than two late payments within the first twelve month period. SAWS may collect an additional deposit for customers whose service has been turned off for non-payment and need to restore service.

Compensated Absences: It is SAWS' policy to accrue earned but unused employee vacation pay as well as the employer portion of Social Security taxes and required employer pension contributions related to the accrued vacation pay. The total vacation paid in the current year is used as the estimated amount to be due within one year. Sick leave is not accrued as a terminating employee is not paid for accumulated sick leave.

Revenue Bonds & Commercial Paper: SAWS issues revenue bonds to finance capital improvement projects, refund outstanding bonds to reduce future debt service payments, and pay the cost of issuance. All SAWS' revenue bonds are secured by a lien on and pledge of net revenues of the system. Additionally, certain SAWS' bonds are further secured by the maintenance of a reserve fund established for the benefit of the bondholders. SAWS maintains a commercial paper program that is used to provide funds for the interim financing of a portion of its capital improvements.

Self-Insurance: SAWS is self-insured for a portion of workers' compensation, employee's health, employer's liability, public officials' liability, property damage, and certain elements of general liability. A liability has been recorded for the estimated amount of eventual loss which will be incurred on claims arising prior to the end of the period including incurred but not reported claims.

Derivative Instrument: As noted above, SAWS is a party to an interest rate swap agreement that qualifies as a derivative instrument. Additionally, mutual fund investments held by SAWS fiduciary funds may use derivatives as part of their investment strategy. These mutual funds are comingled pools, rather than individual securities.

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications: Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE B - CITY ORDINANCE NO. 75686

Funds Flow: City Ordinance requires that SAWS' gross revenues be applied in sequence to: (1) System Fund for payment of current maintenance and operating expenses including a reserve equal to two months of budgeted maintenance and operating expenses for the current fiscal year; (2) Debt Service Fund requirements of Senior Lien Obligations; (3) Reserve Fund requirements of Senior Lien Obligations; (4) Interest and Sinking Fund and Reserve Fund requirements of Junior Lien Obligations; (5) Interest and Sinking Fund and Reserve Fund requirements of Subordinate Lien Obligations; (6) Payment of amounts required on Inferior Lien Obligations, and (7) Transfers to the City's General Fund and to the Renewal and Replacement Fund.

Payments to the City's General Fund: The City Ordinance requires SAWS to make payments to the City each month after making all other payments required by the City Ordinance. The amount of the payment is determined by City Council from time to time and cannot exceed 5% of Gross Revenues. Gross Revenues consist of all revenue with respect to the operation and ownership of SAWS with the exception of capital contributions, payments received under the CPS Energy contract, the federal subsidy of interest on Build America Bonds and earnings on funds deposited in the Project Fund and Reserve Fund until the Reserve Fund contains the required reserve amount. Currently SAWS pays 2.7% of Gross Revenues to the City. Payments to the City are reported as non-operating expense in the Statement of Revenues, Expenses and Changes in Net Position.

Reuse Contract: SAWS has a contract with CPS Energy, the city owned electricity and gas utility, for the provision of reuse water. According to the City Ordinance, the revenues derived from the contract have been restricted in use to only reuse activities and are excluded from gross revenue for purposes of calculating any payments to the City's General Fund.

Pledged Revenues: Net Revenues of SAWS have been pledged to the payment and security of its debt obligations. Net Revenues are defined by the City Ordinance as SAWS' Gross Revenues after deducting operating expenses before depreciation.

No Free Service: The City Ordinance also provides for no free services except for municipal fire-fighting purposes.

NOTE C – CASH AND INVESTMENTS

San Antonio Water System

The following is a reconciliation of cash and investments reported in the Statements of Net Position to deposits and investments disclosed in this note for December 31, 2018 and 2017.

(amounts in thousands)	December 31, 2018	December 31, 2017
Reported in Statements of Net Position:		
Cash and Cash Equivalents:		
Unrestricted	$ 58,064	$ 36,688
Restricted - current	16,473	350
Restricted - noncurrent	55,453	92,663
Total cash and cash equivalents	129,990	129,701
Investments:		
Unrestricted	436,823	349,074
Restricted - current	162,250	171,038
Restricted - noncurrent	296,728	275,145
Total investments	895,801	795,257
Total Cash, Cash Equivalents and Investments	$ 1,025,791	$ 924,958
Reported amounts in note for:		
Deposits	$ 9,112	$ 35,258
Investments	1,016,679	889,700
Total Deposits and Investments	$ 1,025,791	$ 924,958

Deposits: As of December 31, 2018, SAWS' funds are deposited in demand and savings accounts at Frost Bank, SAWS' general depository bank. As required by state law, all SAWS' deposits are fully collateralized and/or are covered by federal depository insurance. At December 31, 2018 and 2017, the collateral pledged was held by the Federal Home Loan Bank – Dallas and Federal Reserve Bank – Boston, respectively, under SAWS' name so SAWS incurred no custodial credit risk. At December 31, 2018, the bank balance of SAWS' demand and savings accounts was $7,665,000 and the reported amount was $9,112,000 which included $27,000 of cash on hand. At December 31, 2017, the bank balance of SAWS' demand and savings accounts was $10,955,000 and the reported amount was $35,258,000 which included $29,000 of cash on hand. The primary reason for the difference between the bank balance and the reported balance related to two investments totaling $23,021,000 that matured on December 31, 2017 but were not posted by the bank until January 2, 2018.

Investments: As of December 31, 2018, investments include securities issued by the United States government and its agencies and instrumentalities, municipal securities, money market funds and investment pools. Securities purchased are held in safekeeping by SAWS' depository bank, Frost Bank and registered as securities of SAWS. Money Market Funds are managed by Frost Bank, UMB Bank, US Bank, and Bank of New York Mellon and are invested in securities issued by the U.S. government or by U.S. Agencies. Funds in investment pools are invested in TexPool Prime. TexPool Prime may invest in commercial paper and certificates of deposit, as well as obligations of the U.S. government or its agencies and instrumentalities, and repurchase agreements as allowed under the Public Funds Investment Act (PFIA). All investments in money market funds and investment pools are reported at amortized cost. Amortized cost approximates fair value for these investments.

The following tables provide information related to SAWS investments at December 31, 2018 and 2017.

December 31, 2018
(dollars in thousands)

Investment Type	Reported Value	Fair Value	Allocation Based on Fair Value	Standard & Poors Rating	Weighted Average Maturity (in days)
U.S. Treasury Securities	$ 262,934	$ 262,910	26%	AA+	352
U.S. Agency Notes	626,801	626,796	62%	AA+/A-1+	397
Municipal Bonds	6,066	6,066	1%	AA/AA+	712
Money Market Mutual Funds held in Escrow:					
Bank of New York Mellon	20,691	20,691	2%	AAAm	1
US Bank	946	946	0%	AAAm	1
UMB Bank	7,987	7,987	1%	AAAm	1
Frost Bank	9,025	9,025	1%	AAAm	1
Texpool Prime Local Government Pool	82,229	82,229	8%	AAAm	1
Total Investments	$ 1,016,679	$ 1,016,650	100%		340

December 31, 2017
(dollars in thousands)

Investment Type	Reported Value	Fair Value	Allocation Based on Fair Value	Standard & Poors Rating	Weighted Average Maturity (in days)
U.S. Treasury Securities	$ 178,534	$ 178,523	20%	AA+	279
U.S. Agency Notes	616,724	616,574	69%	AA+/A-1+	285
Money Market Mutual Funds held in Escrow:					
Bank of New York Mellon	20,356	20,356	2%	AAAm	1
US Bank-Fidelity MMF	8,281	8,281	1%	AAAm	1
Frost Bank	525	525	0%	AAAm	1
Texpool Prime Local Government Pool	65,280	65,280	7%	AAAm	1
Total Investments	$ 889,700	$ 889,539	100%		254

Interest Rate Risk: Interest rate risk is the risk that a change in market interest rates of fixed income securities will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses due to rising interest rates, SAWS' investment policy limits its investments maturities to no more than five years. At December 31, 2018 the longest remaining maturity for any investment was slightly under five years and 59% of the investment portfolio matures in less than one year.

Credit Risk: Credit risk is the risk that an issuer of financial securities will not fulfill its obligations to the holder of the obligation. In accordance with its investment policies, SAWS manages exposure to credit risk by limiting its investments in long-term obligations of other states and cities to those with a credit rating of "A" or better. Additionally, any short-term investments require a rating of at least "A-1" or "P-1".

Concentration of Credit Risk: Concentration of credit risk for investments is the risk of loss attributable to the magnitude of an investment in a single issuer. SAWS' investment policy does not limit the amount it may invest in U.S. Treasury securities, government-guaranteed securities, or government-sponsored entity securities. However, in order to manage its exposure to concentration of credit risk, the investment policy does limit the amount that can be invested in any one government-sponsored issuer to no more than 50% of the total investment portfolio, and no more than 30% of the total investment portfolio in any non-government issuer unless it is fully collateralized.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of a financial institution failure, SAWS' deposits or collateral securities may not be returned to it. For SAWS, this risk is completely mitigated by (1) insurance coverage provided by the custodian that protects against loss of cash or securities held in custody and (2) collateral in the form of Treasury Securities over the Federal Deposit Insurance Corporation limit. Texas public fund accounts are collateralized at 100%.

As of December 31, 2018 and 2017, the percentage of the investment portfolio for government-sponsored issuers was as follows:

	December 31,	
	2018	2017
Federal Home Loan Bank	26%	32%
Federal Farm Credit Bank	16%	11%
Federal National Mortgage Association	10%	15%
Federal Home Loan Mortgage Corporation	9%	11%
Federal Agricultural Mortgage Corporation	1%	0%

Fair Value Measurement: SAWS categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The following tables summarize SAWS investments by the fair value hierarchy as of December 31, 2018 and 2017.

(amounts in thousands)	December 31, 2018	Fair Value Measurements Using Level 1	Level 2	Level 3
Investments by fair value level				
U.S. Treasury Securities	$ 262,910	$ -	$ 262,910	$ -
U.S. Agency Notes	626,796	-	626,796	-
Municipal Bonds	6,066	-	6,066	-
Total investments measured at fair value	$ 895,772	$ -	$ 895,772	$ -

(amounts in thousands)	December 31, 2017	Fair Value Measurements Using Level 1	Level 2	Level 3
Investments by fair value level				
U.S. Treasury Securities	$ 178,523	$ -	$ 178,523	$ -
U.S. Agency Notes	616,574	-	616,574	-
Total investments measured at fair value	$ 795,097	$ -	$ 795,097	$ -

Securities classified in Level 2 of the fair value hierarchy are valued using interest rate curves and credit spreads applied to the terms of the debt instruments (maturity and coupon interest) and consider the counterparty rating.

Restricted Cash and Investments: Cash and investments are restricted for a variety of purposes based on the requirement set forth in City Ordinance 75686, state law or SAWS policy. The following table summarizes both current and noncurrent restricted cash and investments by purpose at December 31, 2018 and 2017.

(amounts in thousands)	December 31, 2018	2017
Restricted for:		
Operations	$ 56,642	$ 54,143
Debt Service	80,239	75,343
Debt Service Reserve	87,147	88,944
Construction - accrued liabilities	41,841	41,902
Construction - capital recovery fees	209,204	188,227
Construction - bond proceeds	55,830	90,637
Total Restricted Cash & Investments	$ 530,904	$ 539,196

The requirements of City Ordinance 75686 stipulate that SAWS must accumulate and maintain a reserve equal to 100% of the maximum annual debt service requirements for senior lien debt obligations. Additional City ordinances require SAWS to maintain a debt service reserve equal to the average annual debt service on all junior lien debt obligations secured by a reserve fund. Not all SAWS junior lien debt obligations require the security of a debt service reserve. Increases in the required reserve amount may be deposited into a reserve account over a five year period. Ordinance 75686 allows for SAWS to provide surety policies equal to all or part of the required reserve. SAWS may use bond proceeds to make the required deposits related to new debt issued. Debt service reserve deposits are required to be maintained until a) the revenue bonds mature, b) the surety policy provider's credit ratings improve to the minimum ratings required under SAWS bond ordinance, or c) new surety policies are provided that meet the requirements of the bond ordinance.

The following table summarizes the cash and investments restricted for Debt Service Reserve at December 31, 2018 and 2017 based on the allocation of the funds between junior lien and senior lien bond requirements.

	December 31,	
(amounts in thousands)	2018	2017
Deposits	$ -	$ 12,984
Restricted for Junior Lien Bonds	18,441	13,185
Restricted for Senior Lien Bonds	68,706	62,775
Total Cash & Investments - Debt Service Reserve	$ 87,147	$ 88,944

Funds restricted for construction include amounts needed to pay accrued construction liabilities, collected but unspent capital recovery fees and unspent bond proceeds. Funds restricted for accrued construction liabilities and unspent bond proceeds are completely offset by related liabilities. By state law, capital recovery fees are restricted for the construction of the infrastructure upon which the calculation of the fee is based.

San Antonio Water System Fiduciary Funds

The fiduciary financial statements include three fiduciary funds related to SAWS employee benefit plans: the San Antonio Water System Retirement Plan (SAWSRP), the District Special Project Retirement Income Plan (DSPRP) and the San Antonio Water System Retiree Health Trust (SAWS OPEB Trust).

While the SAWSRP and DSPRP plans have no specific policy relating to plan investments, plan trustees have instituted a plan to invest approximately 60% of plan assets in equity securities and the remainder in fixed income securities. Plan investments are not automatically rebalanced, however, contributions to the plan are invested in a manner to adhere to the investment plan.

In 2012, SAWS established the SAWS OPEB Plan for the exclusive purpose of funding health and life benefits provided to eligible retirees and their dependents. It is the policy of SAWS OPEB Plan to invest 50% - 70% of its assets in equity securities, 25% - 50% in fixed income securities and 0% - 5% in cash. SAWS OPEB Plan utilizes an investment manager to make recommendations as to the appropriate target portfolio weightings among major asset classes. Additionally, the investment manager has full discretionary authority to buy, hold, and sell investments subject to the guidelines as defined in SAWS OPEB Plan's investment policy.

The following tables summarize fiduciary fund investments by plan and in total at December 31, 2018 and 2017.

December 31, 2018
(dollars in thousands)

Investment Type	SAWSRP	DSPRP	SAWS OPEB Plan	Total All Plans	Allocation Based on Fair Value
Collective, Pooled & Mutual Funds:					
Domestic Equity	$ 73,450	$ 3,021	$ 29,289	$ 105,760	38.5%
International Equity	34,581	109	9,429	44,119	16.1%
Domestic Debt	79,684	354	22,648	102,686	37.4%
Real Estate	14,072			14,072	5.1%
Balanced/Asset Allocation	4,517			4,517	1.6%
Commodities		56		56	0.0%
Money Market Mutual Funds			1,323	1,323	0.5%
Standard Insurance Company:					0.0%
Guaranteed Long-term Fund		1,999		1,999	0.7%
Total Investments	$ 206,304	$ 5,539	$ 62,689	$ 274,532	100.0%

December 31, 2017
(dollars in thousands)

Investment Type	SAWSRP	DSPRP	SAWS OPEB Plan	Total All Plans	Allocation Based on Fair Value
Collective, Pooled & Mutual Funds:					
Domestic Equity	$ 126,660	$ 3,420	$ 26,778	$ 156,858	56.9%
International Equity	2	135	8,686	8,823	3.2%
Domestic Debt	81,597	386	21,314	103,297	37.5%
Balanced/Asset Allocation	3,133	-	-	3,133	1.1%
Commodities	-	69	-	69	0.0%
Money Market Mutual Funds	-	-	1,733	1,733	0.6%
Standard Insurance Company:					
Guaranteed Long-term Fund	-	1,696	-	1,696	0.6%
Total Investments	$ 211,392	$ 5,706	$ 58,511	$ 275,609	100.0%

The Standard Insurance Company Guaranteed Long-term Fund is reported at contract value at December 31, 2018 and 2017. Money market mutual funds are reported at amortized cost, which approximates fair value. The other fiduciary fund investments are reported at net asset value at December 31, 2018 and 2017. Money market funds are reported as Cash and Cash Equivalents in the Statements of Fiduciary Net Position.

Fiduciary Fund investments are not subject to the Public Funds Investment Act. The investments are subject to the following risks:

Credit Risk: The individual investments held by the Collective, Pooled and Mutual funds at December 31, 2018 and December 31, 2017 were not rated. The Standard Insurance Company Guaranteed Long-term Fund had a rating of A- by Standard & Poors at December 31, 2018 and 2017.

Concentration of Credit Risk: As of December 31, 2018 and 2017, more than 99% of fiduciary fund investments were in collective, pooled and mutual funds. The following funds exceeded 5% of fiduciary net position:

	December 31, 2018
Principal Core Plus Bond Separate Account-Z	24.64%
Principal LargeCap S&P 500 Index Separate Account-Z	14.13%
Principal MidCap S&P 400 Index Separate Account-Z	7.40%
Principal Diversified International Separate Account-Z	7.39%
Principal SmallCap S&P 600 Index Separate Account-Z	5.23%
Principal International SmallCap Separate Account-Z	5.20%
Principal U.S. Property Separate Account-Z	5.13%
	2017
Principal LargeCap S&P 500 Index Fund	45.91%
LDI Intermediate Duration Separate Account - Z	14.94%
LDI Extended Duration Separate Account - Z	7.38%
LDI Long Term Duration Separate Account - Z	7.23%

Interest Rate Risk: The effective duration of the Domestic Debt funds was 5.6 years at December 31, 2018 and 15.3 years at December 31, 2017. The Standard Insurance Company Guaranteed Long-term Fund had an effective duration of 4.8 years at December 31, 2018 and December 31, 2017.

NOTE D – ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31, 2018 and 2017:

(amounts in thousands)	2018	2017
Current:		
Receivable from customers	$ 42,126	$ 53,449
Unbilled revenue	33,213	27,274
Receivable from other governmental agencies	1,593	1,872
Less: Allowance for doubtful accounts	(7,442)	(8,217)
	69,490	74,378
Noncurrent:		
Receivable from other governmental agencies	-	1,343
Total accounts receivable	$ 69,490	$ 75,721

In connection with a settlement agreement, Lower Colorado River Authority (LCRA) is required to make eight annual payments of $1.4 million to SAWS beginning November 1, 2012 through November 1, 2019. The discounted value of the payments to be received from LCRA in the future is reported in accounts receivable, of which $1.3 million was classified as noncurrent at December 31, 2017.

Remainder of this page is intentionally left blank

NOTE E – CAPITAL ASSETS

A summary of capital asset activity for the year ended December 31, 2018 is as follows:

(amounts in thousands)	December 31, 2017	Increases	Transfers	Decreases	December 31, 2018
Capital Assets, not being depreciated:					
Land	$ 106,995	$ 1,358	$ 4,867	$ 97	$ 113,123
Water rights purchased	248,677	-	204	-	248,881
Other intangible assets	370	-	-	-	370
Construction in progress	332,635	361,728	(182,551)	5,002	506,810
Total capital assets, not being depreciated/amortized	688,677	363,086	(177,480)	5,099	869,184
Capital assets, being depreciated					
Structures and improvements	990,234	265	(163,937)	955	825,607
Pumping and purification equipment	246,915	191	1,124	16	248,214
Distribution and transmission system	2,624,318	-	57,464	101,200	2,580,582
Treatment facilities	2,257,245	103	269,606	91,932	2,435,022
Equipment and machinery	293,596	8,077	8,065	2,954	306,784
Furniture and fixtures	6,595	-	-	-	6,595
Computer equipment	24,538	2,051	(139)	2,993	23,457
Software	47,187	149	5,297	387	52,246
Other intangible assets	1,354	-	-	-	1,354
Total capital assets being depreciated/amortized	6,491,982	10,836	177,480	200,437	6,479,861
Less accumulated depreciation					
Structures and improvements	(259,147)	26,397	-	(937)	(231,813)
Pumping and purification equipment	(70,252)	(7,828)	-	(16)	(78,064)
Distribution and transmission system	(824,043)	(49,774)	-	(101,200)	(772,617)
Treatment facilities	(794,179)	(96,861)	-	(91,932)	(799,108)
Equipment and machinery	(127,564)	(19,484)	-	(2,926)	(144,122)
Furniture and fixtures	(6,065)	(82)	-	-	(6,147)
Computer equipment	(19,079)	(1,994)	-	(2,945)	(18,128)
Software	(28,042)	(4,724)	-	(387)	(32,379)
Other intangible assets	(511)	(72)	-	-	(583)
Total accumulated depreciation	(2,128,882)	(154,422)	-	(200,343)	(2,082,961)
Total capital assets, being depreciated/amortized	4,363,100	(143,586)	177,480	94	4,396,900
Capital assets, net	$ 5,051,777	$ 219,500	$ -	$ 5,193	$ 5,266,084

In, 2018, SAWS evaluated the distribution and transmission mains and retired approximately $200 million of fully depreciated assets.

A summary of capital asset activity for the year ended December 31, 2017 is as follows:

(amounts in thousands)	December 31, 2016	Increases	Transfers	Decreases	December 31, 2017
Capital Assets, not being depreciated:					
Land	$ 101,074	$ -	$ 5,959	$ 38	$ 106,995
Water rights purchased	248,677	-	-	-	248,677
Other intangible assets	370	-	-	-	370
Construction in progress	228,595	309,263	(203,560)	1,663	332,635
Total capital assets, not being depreciated/amortized	578,716	309,263	(197,601)	1,701	688,677
Capital assets, being depreciated					
Structures and improvements	872,002	54	118,331	153	990,234
Pumping and purification equipment	336,421	515	(89,861)	160	246,915
Distribution and transmission system	2,623,479	2	837	-	2,624,318
Treatment facilities	2,186,893	-	70,379	27	2,257,245
Equipment and machinery	185,956	7,814	104,348	4,522	293,596
Furniture and fixtures	6,124	-	471	-	6,595
Computer equipment	31,324	1,418	(7,713)	491	24,538
Software	52,915	529	809	7,066	47,187
Other intangible assets	1,354	-	-	-	1,354
Total capital assets being depreciated/amortized	6,296,468	10,332	197,601	12,419	6,491,982
Less accumulated depreciation					
Structures and improvements	(235,680)	(23,620)	-	(153)	(259,147)
Pumping and purification equipment	(62,288)	(7,998)	-	(34)	(70,252)
Distribution and transmission system	(776,744)	(47,299)	-	-	(824,043)
Treatment facilities	(746,566)	(47,640)	-	(27)	(794,179)
Equipment and machinery	(113,455)	(18,631)	-	(4,522)	(127,564)
Furniture and fixtures	(5,945)	(120)	-	-	(6,065)
Computer equipment	(17,370)	(2,200)	-	(491)	(19,079)
Software	(30,603)	(4,495)	-	(7,056)	(28,042)
Other intangible assets	(442)	(69)	-	-	(511)
Total accumulated depreciation	(1,989,093)	(152,072)	-	(12,283)	(2,128,882)
Total capital assets, being depreciated/amortized	4,307,375	(141,740)	197,601	136	4,363,100
Capital assets, net	$ 4,886,091	$ 167,523	$ -	$ 1,837	$ 5,051,777

Asset Impairment: SAWS periodically reviews its capital assets for possible impairment. As part of SAWS' capital improvement program, SAWS incurs costs to design capital improvement projects. These costs are included in capital assets as Construction in Progress. Periodically the actual construction of these projects may not occur due to changes in plans. Once it has been determined that construction will not proceed, any capitalized costs are charged off to operating expenses. Design and project costs written off totaled $5.0 million in 2018 and $1.7 million in 2017.

SAWS owns a water treatment plant in southwest Bexar County to treat water supplied from Medina Lake and the Medina River. During the height of the 2011 - 2014 drought, Medina Lake water levels were greatly diminished leading to poor water quality. As a result, the treatment plant was idled from April 2013 through August 2015. Due to heavy rainfall during the summer of 2015, lake levels increased to a peak of nearly 80% of capacity. SAWS restarted the treatment plant on September 1, 2015 and treated approximately 500 acre-feet of Medina River water. Water quality concerns persisted and SAWS elected to idle the treatment plant again in October 2015. Additional investments in the treatment process may be required in order to eliminate these water quality concerns in the future. Current available water supplies are expected to be sufficient to meet customers' demand in the foreseeable future without utilizing the Medina supplies. The book value of the treatment plant at December 31, 2018 was $12.3 million. SAWS is continuing to depreciate the treatment plant and management does not currently believe the plant has been permanently impaired.

NOTE F – OTHER LIABILITIES

Accrued Vacation Payable: SAWS records an accrual for vacation payable for all full time employees and pays unused vacation hours available at the end of employment with the final paycheck. Changes in the liability amount for 2018 and 2017 were as follows:

(amounts in thousands)

	Balance at Beginning of Year	Current-Year Accruals	Payments	Balance at End of Year	Estimated Due Within One Year
Year Ended December 31, 2018	$ 9,544	$ 5,761	$ (5,492)	$ 9,813	$ 5,492
Year Ended December 31, 2017	$ 8,853	$ 6,113	$ (5,422)	$ 9,544	$ 5,422

Risk Management:

Health Care Benefits:

SAWS provides health care benefits to eligible employees and retirees through a self-insured plan that includes medical, prescription drug and dental benefits. The payment of claims associated with these benefits is handled by third party administrators. Plan participants contribute a portion of the cost of providing these benefits through payroll deductions or monthly premiums, annual deductibles and other co-payments. SAWS was self-insured for the first $350,000 of medical claims per person during 2018 and $325,000 during 2017.

Other Risks:

SAWS is exposed to various risks of financial loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. SAWS is self-administered and self-insured for the first $2,000,000 of each workers compensation and general liability claim, and is fully self-insured for automobile liability. Claims that exceed the self-insured retention limit for workers' compensation and general liability are covered through SAWS' comprehensive commercial insurance program (CCIP). Additionally, under the CCIP, SAWS maintains deductible programs for public officials and employment practices liability, fiduciary liability, pollution legal liability, drone liability, cyber liability and crime with varying deductibles. Property coverage is on a replacement cost basis with a deductible of $250,000 per occurrence. Settled claims during the last three years have not exceeded the insurance coverage in any year.

The claims liability for health care benefits and other risks, including incurred but not reported claims, is based on the estimated ultimate cost of settling the claims. Changes in the liability amount for the last three fiscal years were as follows:

(amounts in thousands)

	Balance at Beginning of Year	Current-Year Accruals	Payments	Balance at End of Year	Estimated Due Within One Year
Year Ended December 31, 2018	$ 7,187	$ 26,738	$ (25,728)	$ 8,197	$ 8,197
Year Ended December 31, 2017	$ 7,273	$ 22,586	$ (22,672)	$ 7,187	$ 7,187
Year Ended December 31, 2016	$ 4,787	$ 28,063	$ (25,577)	$ 7,273	$ 7,273

NOTE G – DERIVATIVE INSTRUMENT

In 2003, SAWS entered into an interest rate swap agreement in connection with its City of San Antonio, Texas, Water System Subordinate Lien Revenue and Refunding Bonds, Series 2003-A and 2003-B (the "Series 2003 Bonds") issued in a variable interest rate mode. The Series 2003 Bonds were issued to provide funds for SAWS' capital improvements program and to refund certain outstanding commercial paper notes.

Objective of the Interest Rate Swap: The swap was used to hedge interest rates on the Series 2003 Bonds to a synthetic fixed rate that produced a lower interest rate cost than a traditional long term fixed rate bond issued at that time. In August 2008, SAWS used commercial paper notes to redeem $110,615,000 of the $111,615,000 outstanding principal of the Series 2003 Bonds due to unfavorable market conditions relating to the ratings downgrade of the 2003 Bond insurer, MBIA Insurance Corporation. In 2009, SAWS redeemed the remaining $1 million of the Series 2003 Bonds through the issuance of additional commercial paper. The interest rate swap agreement was not terminated upon the redemption of the 2003 Bonds and instead serves as an off-market hedge for that portion of the commercial paper notes outstanding which pertain to the redemption of the 2003 Bonds. SAWS currently intends to maintain a portion of its outstanding commercial paper in amounts matching the notional amounts of the swap. SAWS did not recognize any economic gain or loss as a result of this refunding since the debt service requirements of the commercial paper notes are expected to closely match the debt service requirements of the refunded debt. Commercial paper notes totaling $80,995,000 at December 31, 2018 and $84,705,000 at December 31, 2017 were hedged by the interest rate swap agreement.

Terms: The swap agreement contains scheduled reductions to the outstanding notional amounts that are expected to follow the original scheduled reductions of the Series 2003 Bonds. The Series 2003 Bonds were issued on March 27, 2003, with a principal amount of $122,500,000. The swap agreement matures on May 1, 2033. At the time the swap was entered into, the counterparty was Bear Stearns Financial Products, Inc. ("Bear Stearns FPI"), with the index for the variable rate leg of the SWAP being the Securities Industry and Financial Markets Association ("SIFMA") Municipal Swap Index.

In 2008, JPMorgan Chase & Co. announced its acquisition of The Bear Stearns Companies Inc., the parent of Bear Stearns FPI. JPMorgan Chase guaranteed the trading obligations of Bear Stearns and its subsidiaries. Effective June 16, 2009, the swap agreement was amended between SAWS, JPMorgan Chase & Co, and MBIA to provide for JPMorgan Chase Bank N.A. to become the swap counterparty and allow for the remainder of outstanding Series 2003 Bonds to be redeemed, while maintaining the swap agreement as an obligation to all parties. The amendment provides for the conditional release of MBIA's swap insurance policy upon the occurrence of certain future events.

The combination of commercial paper notes and a floating-to-fixed swap creates a synthetic fixed-rate of 4.18%. The synthetic fixed-rate protects against the potential of rising interest rates.

Fair Value: The swap had a fair value of approximately negative $12,516,000 at December 31, 2018 and negative $15,394,000 at December 31, 2017. This value is based on Level 2 inputs in the fair value hierarchy using the zero-coupon valuation method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These net payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

The swap agreement meets the criteria of an effective hedge under GASB Statement No. 53 and therefore qualifies for hedge accounting treatment. Since the fair value is negative, the fair value is recorded as a non-current liability. Changes in the swap's fair value are recorded as a deferred outflow of resources and included on the Statement of Net Position. At the time the 2003 Bonds were redeemed in 2008, the fair value of the swap was negative $6.2 million. The deferred outflow at the time of redemption was included in the carrying value of the 2003 Bonds and resulted in a loss on redemption of $6.2 million. This loss is included in the deferred charge on bond refunding on the Statement of Net Position and is being amortized over the remaining life of the 2003 Bonds. The unamortized deferred charge on bond refunding related to the swap was $3,184,000 at December 31, 2018 and $3,537,000 at December 31, 2017.

Credit Risk: SAWS was not exposed to credit risk on its outstanding swap at December 31, 2017 and 2018 because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, SAWS would be exposed to credit risk in the amount of the swap's fair value. The swap counterparty, JPMorgan Chase Bank, N.A. was rated Aa2 by Moody's Investors Services, A+ by Standard and Poor's, and AA by Fitch Ratings as of December 31, 2018 and Aa3 by Moody's Investors Services, A+ by Standard and Poor's, and AA- by Fitch Ratings as of December 31, 2017. The amended swap agreement contains a credit support annex which will become effective upon the release of MBIA from the swap insurance policy. Collateralization would be required by either party should the fair value of the swap reach applicable thresholds as stated in the amended swap agreement.

Basis Risk: SAWS is exposed to basis risk to the extent that the interest payments on its hedged commercial paper notes do not match the variable-rate payments received on the associated swap. SAWS attempts to mitigate this risk by (a) matching the outstanding hedged commercial paper notes associated with the redemption of the variable-rate debt to the notional amount and amortization schedule of the swap and (b) selecting an index for the variable-rate leg of the swap that is reasonably expected to closely match the interest rate on the hedged commercial paper notes.

Termination Risk: SAWS may terminate the Swap at any time for any reason. JPMorgan Chase may terminate the swap if SAWS fails to perform under the terms of the agreement. SAWS' ongoing payment obligations under the swap are insured as provided for in the swap amendment and JPMorgan Chase cannot terminate as long as the insurer does not fail to perform. Also, if at the time of the termination the swap has a negative fair value, SAWS would be liable to the counterparty for a payment equal to the swap's fair value.

Market-access Risk: SAWS is subject to market-access risk as the variable-rate debt hedged by the swap is commercial paper notes. At December 31, 2018, $80,995,000 of outstanding commercial paper with current maturities of approximately 30 days was hedged by the interest rate swap. The amount of commercial paper hedge at December 31, 2017 totaled $84,705,000 with maturities of approximately 32 days. As previously noted, SAWS intends to reissue the commercial paper notes in amounts matching the notional amounts of the swap.

Swap Payments and Associated Debt: As of December 31, 2018, debt service requirements of the hedged commercial paper notes and net swap payments, assuming current interest rates remain the same, are as detailed below. As rates vary, variable-rate interest payments and net swap payments will vary. Principal payments assume that commercial paper notes will be repaid in accordance with the amortization schedule of the swap.

Pay-Fixed, Receive-Variable Interest Rate Swap
Estimated Debt Service Requirements of Variable-Rate
Debt Outstanding and Net Swap Payments
(amounts in thousands)

Year	Principal	Interest Paid on Debt	Interest Rate Swap, Net	Total
2019	$ 3,880	$ 1,372	$ 1,936	$ 7,188
2020	4,055	1,302	1,838	7,195
2021	4,240	1,229	1,735	7,204
2022	4,435	1,153	1,627	7,215
2023	4,640	1,073	1,514	7,227
2024- 2028	26,560	4,030	5,688	36,278
2029 - 2033	33,185	1,407	1,985	36,577
Total	$ 80,995	$ 11,566	$ 16,323	$ 108,884

NOTE H – LONG TERM DEBT

REVENUE BONDS

On May 23, 2018, SAWS issued $208,825,000 City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 2018A (No Reserve Fund). The proceeds from the sale of the bonds were used to (i) refund the City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2008 (Series 2008), (ii) refund the City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2008A (Series 2008A), (iii) refund $125.7 million in outstanding commercial paper notes, (iv) finance capital improvement projects, and (v) pay the cost of issuance. The refunding of the Series 2008 and Series 2008A bonds reduced total future debt service payments by approximately $7.9 million and resulted in an economic gain of $2.9 million. The bonds are secured together with other outstanding Junior Lien Obligations solely by a lien on a pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

On June 14, 2018, SAWS issued $10,500,000 City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2018B through the Texas Water Development Board. The bonds were sold under the Drinking Water State Revolving Fund Program. The proceeds from the sale of the bonds were used to (i) finance capital improvement projects which qualify under the Texas Water Development Board Program, and (ii) pay the cost of issuance. The bonds are secured together with other outstanding Junior Lien Obligations solely by a lien on a pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

Senior lien water system revenue bonds outstanding as of December 31, 2018 consist of the Series 2009B, Series 2010B, Series 2011, Series 2011A, Series 2012, and Series 2012A, outstanding in the amount of $718,305,000 and as of December 31, 2017, consist of the Series 2009, Series 2009B, Series 2010B, Series 2011, Series 2011A, Series 2012, and Series 2012A, in the amount of $742,025,000. Senior lien revenue bonds are collateralized by a senior lien and pledge of the gross revenues of SAWS after deducting and paying the current expenses of operation and maintenance of SAWS and maintaining a two-month operating reserve for such expenses. Interest rates on senior lien bonds range from 3.000% to 6.220%, exclusive of any federal interest subsidy on the Series 2009B and 2010B Build America Bonds.

The junior lien water system revenue bonds are composed of two categories of debt: fixed rate debt and variable rate debt. The junior lien fixed rate debt is similar to the senior lien bonds, as they have fixed interest rates for the life of the bonds. The junior lien variable rate bonds have interest rates that are periodically reset throughout the life of the bonds. All the junior lien water system revenue bonds are collateralized by a junior lien and pledge of the gross revenues of SAWS after deducting the current expenses of operation and maintenance of SAWS, maintaining a two-month operating reserve for such expenses, and paying debt service on senior lien debt.

As of December 31, 2018, outstanding junior lien fixed rate bonds consist of Series 2007, Series 2009, Series 2009A, Series 2010, Series 2010A, Series 2011, Series 2011A, Series 2012 (No Reserve Fund), Series 2012, Series 2013A, Series 2013B (No Reserve Fund), Series 2013C, Series 2013D, Series 2013E (No Reserve Fund), Series 2014A (No Reserve Fund), Series 2014C, Series 2014D, Series 2015A, Series 2015B (No Reserve Fund), Series 2016A (No Reserve Fund), Taxable Series 2016B, Series 2016C (No Reserve Fund), Series 2016D, Series 2016E, Series 2017A (No Reserve Fund), Series 2018A (No Reserve Fund), and Series 2018B is outstanding in the amount of $1,714,525,000. As of December 31, 2017, outstanding junior lien fixed rate bonds consist of Series 2007, Series 2008, Series 2008A, Series 2009, Series 2009A, Series 2010, Series 2010A, Series 2011, Series 2011A, Series 2012 (No Reserve Fund), Series 2012, Series 2013A, Series 2013B (No Reserve Fund), Series 2013C, Series 2013D, Series 2013E (No Reserve Fund), Series 2014A (No Reserve Fund), Series 2014C, Series 2014D, Series 2015A, Series 2015B (No Reserve Fund), Series 2016A (No Reserve Fund), Taxable Series 2016B, Series 2016C (No Reserve Fund), Series 2016D, Series 2016E, and Series 2017A (No Reserve Fund), in the amount of $1,597,110,000. Interest rates on the junior lien fixed rate bonds range from 0.000% to 5.000%

The junior lien variable rate bonds, comprised of the Series 2013F (No Reserve Fund) (the Series 2013F Bonds) and the Series 2014B (No Reserve Fund) (the Series 2014B Bonds), are outstanding in the amount of $198,385,000 at December 31, 2018 and December 31, 2017. The Series 2013F Bonds are tax-exempt variable rate notes initially issued in a Securities Industry and Financial Markets Association (SIFMA) Index Mode, with the interest rate reset weekly, through the initial interest period which expired October 31, 2016. On November 1, 2016, SAWS remarketed $98,795,000 in Series 2013F Bonds into a five-year interest rate period that ends October 31, 2021, the new interest period. During the new interest period, the Series 2013F Bonds bear interest at 2.00% with a yield of 1.63%. The Series 2014B Bonds are tax-exempt variable rate notes initially issued in a SIFMA Index Mode, with the interest rate reset weekly, through the initial interest period expiring October 31, 2017. On November 1, 2017, SAWS remarketed $99,590,000 in Series 2014B Bonds into a five-year interest rate period that ends October 31, 2022, the new interest period. During the new interest period, the Series 2014B Bonds bear interest at 2.00% with a yield of 1.80%.

Upon conclusion of the initial interest period, or any subsequent new interest period, SAWS is permitted to change the mode for all or any portion of the junior lien variable interest bonds (the Bonds) to a different mode or to a SIFMA Index Mode of different duration. The Bonds are subject to a mandatory tender without right of retention at the conclusion of the initial interest period or any subsequent new interest period. During the initial interest period and any subsequent new interest period the Bonds are not subject to the benefit of a liquidity facility provided by a third party. Accordingly, a failure to remarket the Bonds at the end of the initial interest period or subsequent new interest period will result in the rescission of the notice of mandatory tender with respect to the Bonds and SAWS has no obligation to purchase the Bonds at such time. The occurrence of a failed remarketing will not result in an event of default under the ordinance. Until SAWS redeems or remarkets the Bonds that had a failed remarketing, the Bonds shall bear interest at the stepped rate of 8.0% for the Series 2013F Bonds and 7.0% for the Series 2014B Bonds.

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury for investment income received at yields that exceed the issuer's tax exempt borrowing rates. The Treasury requires payment for each issue every five years. The estimated liability is updated annually for all tax-exempt issuances or changes in yields until such time payment of the calculated liability is due. A liability is recorded once payment appears to be probable. As of December 31, 2018 and December 31, 2017, SAWS has no arbitrage rebate liability associated with any outstanding bonds.

The following tables summarize revenue bond transactions for the years ended December 31, 2018 and 2017.

(amounts in thousands)	Balance January 1, 2018	Additions	Reductions/ Amortization	Balance December 31, 2018	Due Within One Year
Bonds Payable	$ 2,537,520	$ 219,325	$ 125,630	$ 2,631,215	$ 87,060
Unamortized premium	199,640	29,186	24,655	204,171	
Unamortized discount	(1,421)	-	(605)	(816)	
Total Bonds Payable, Net	$ 2,735,739	$ 248,511	$ 149,680	$ 2,834,570	$ 87,060

(amounts in thousands)	Balance January 1, 2017	Additions	Reductions/ Amortization	Balance December 31, 2017	Due Within One Year
Bonds Payable	$ 2,630,350	$ 190,505	$ 283,335	$ 2,537,520	$ 84,875
Unamortized premium	211,847	12,102	24,309	199,640	
Unamortized discount	(1,915)	-	(494)	(1,421)	
Total Bonds Payable, Net	$ 2,840,282	$ 202,607	$ 307,150	$ 2,735,739	$ 84,875

The following table shows the annual debt service requirements on SAWS' debt obligations for each of the next five years and then in five year increments after that.

Annual Debt Service Requirements
Revenue and Refunding Bonds
(amounts in thousands)

Year Ended December 31,	Fixed Rate				Variable Rate	
	Principal	Interest	Interest Rate Subsidy‡	Net Interest	Principal	Interest*
2019	$ 87,060	$ 105,278	$ 3,497	$ 101,781	$ -	$ 3,968
2020	91,000	102,002	3,428	98,574	-	3,968
2021	95,695	98,147	3,352	94,795	-	3,968
2022	99,350	93,975	3,270	90,705	-	4,462
2023	97,965	89,690	3,184	86,506	-	4,960
2024 - 2028	557,745	377,977	14,330	363,647	-	24,800
2029 - 2033	450,965	265,415	11,189	254,226	43,405	22,853
2034 - 2038	546,525	148,596	4,363	144,233	68,530	15,188
2039 - 2043	303,575	46,562	266	46,296	78,765	5,991
2044 - 2048	102,950	9,882	-	9,882	7,685	96
	$ 2,432,830	$ 1,337,524	$ 46,879	$ 1,290,645	$ 198,385	$ 90,254

‡ Federal interest rate subsidy on Build America Bonds is utilized to pay interest on those bonds but is reported as nonoperating revenue. The federal budget approved by the U.S. Congress for the fiscal year ending September 30, 2019, reduced the BAB subsidy paid during the fiscal year by 6.2%. The BAB subsidy to be received by SAWS is reduced by this amount for all future payments.

* The variable rate bonds are currently in a fixed rate Term Mode through October 31, 2021 and October 31, 2022. Interest listed above is based on a 2.00% fixed rate through the new interst period, and a budgeted rate of 2.50% thereafter.

COMMERCIAL PAPER PROGRAM

SAWS maintains a commercial paper program that is used to provide funds for the interim financing of a portion of its capital improvements. The City Council of the City of San Antonio has authorized the commercial paper program in an amount of $500 million. Notes payable under the program cannot exceed maturities of 270 days.

The City has covenanted in the Ordinance authorizing the commercial paper program (the "Note Ordinance") the issuance of "City of San Antonio, Texas Water System Commercial Paper Notes, Series A" (the "Series A Notes"), the issuance of "City of San Antonio, Texas Water System Commercial Paper Notes, Series B" (the "Series B Notes"), and the maintenance at all times of credit facilities with banks or other financial institutions which would provide available borrowing capacity sufficient to pay the principal of the commercial paper program. The credit facility is maintained under the terms of a revolving credit agreement. The Ordinance also authorizes the ability to designate and issues subseries of notes. The Series A Notes are currently authorized as "City of San Antonio, Texas Water System Commercial Paper Notes, Subseries A-1" (the "Subseries A-1 Notes") and "City of San Antonio, Texas Water System Commercial Paper Notes, Subseries A-2" (the "Subseries A-2 Notes"). The Subseries A-2 Notes are directly placed with JPMorgan Chase Bank, N.A. under a Note Purchase Agreement.

The borrowings under the commercial paper program are equally and ratably secured by and are payable from (i) the proceeds from the sale of bonds or additional borrowing under the commercial paper program and (ii) borrowing under and pursuant to the revolving credit agreement. The capacity of the combined revolving credit and note purchase agreements is $500 million with the Revolving Credit Agreement with JPMorgan Chase Bank, N.A. in the amount of $400 million, supporting the Series A Notes expiring October 4, 2023; and the Revolving Credit Agreement with Wells Fargo Bank, N.A. in the amount of $100 million, supporting the Series B Notes expiring January 15, 2021.

The issuance of commercial paper is further supported by the following agreements and related participants:

- Dealer Agreements with Goldman, Sachs & Co., J.P. Morgan Securities LLC., and Ramirez & Co., Inc.
- Issuing and Paying Agency Agreement with The Bank of New York Mellon Trust Company, N.A.

Commercial paper notes of $215,695,000 are outstanding as of December 31, 2018, with $132,700,000 outstanding under the Subseries A-1 Notes, $2,000,000 outstanding under Subseries A-2 Notes, and $80,995,000 outstanding under Series B Notes. Interest rates on the Subseries A-1 Notes and the Series B Notes outstanding at December 31, 2018 range from 1.75% to 1.95% and maturities range from 30 to 180 days. The interest rate on the Subseries A-2 Notes outstanding at December 31, 2018 is 3.16% with a maturity of 30 days. All outstanding notes had an average rate of 1.82% and averaged 71 days to maturity. Commercial paper notes of $278,060,000 are outstanding as of December 31, 2017. Interest rates on the notes outstanding at December 31, 2017 range from 0.99% to 1.16% and maturities range from 32 to 180 days. The outstanding notes had an average rate of 1.08% and averaged 73 days to maturity.

SAWS intends to reissue maturing commercial paper, in accordance with the refinancing terms of the revolving credit agreement, and ultimately refund such maturities with proceeds from the issuance of long-term revenue bonds. Consistent with this intent, and since SAWS has the available $500 million revolving credit agreement described above, SAWS has classified nearly all outstanding commercial paper notes as long-term debt. In accordance with the amortization schedule of the interest rate swap agreement discussed in Note G, SAWS intends to redeem $3,880,000 of commercial paper in 2019. Therefore, this portion of the commercial paper is classified as a current liability.

The following table summarizes transactions of the commercial paper program for the years ended December 31, 2018 and 2017.

	(amounts in thousands)				
	Outstanding Notes at Beginning of Year	Notes Issued	Notes Retired	Outstanding Notes at End of Year	Payable Within One Year
Year Ended December 31, 2018	$ 278,060	$ 67,000	$ 129,365	$ 215,695	$ 3,880
Year Ended December 31, 2017	$ 241,610	$ 40,000	$ 3,550	$ 278,060	$ 3,710

OTHER DEBT MATTERS

Debt Covenants: SAWS is required to comply with various provisions included in the ordinances which authorized the bond issuances. SAWS management believes it is in compliance with all significant provisions of the bond ordinances.

Under these bond ordinances, SAWS is required to establish and maintain rates and charges for services sufficient to produce Net Revenues sufficient to pay 1.25 times the annual debt service requirements on Senior Lien debt obligations (senior lien debt coverage ratio). SAWS senior lien debt coverage ratio was 6.69 at December 31, 2018 and 6.06 at December 31, 2017.

NOTE I - CONTINGENCIES AND COMMITMENTS

Water Agreements

As of December 31, 2018, SAWS has entered into various water leases to obtain rights to pump water from the Edwards Aquifer. The term of these agreements vary, with some expiring as early as 2019 and others continuing until 2023. Some of the leases include price escalations and the annual cost per acre foot ranges from $100 to $140. Under these various leases, SAWS paid $4.4 million in 2018 and $4.7 million 2017.

The future commitments under these leases are as follows:

(dollars in thousands)	2019	2020	2021	2022	2023
Edwards Aquifer - lease payments	$ 3,537	$ 3,406	$ 3,207	$ 2,635	$ 1,098
Edwards Aquifer - acre feet leased	25,651	24,741	23,261	19,161	8,179

SAWS also has commitments to purchase water supplies under various contracts. All water provided under these contracts is subject to availability.

Under a contract with Guadalupe-Blanco River Authority (GBRA), SAWS will receive 4,000 acre feet of water annually through the end of the contract in 2037. Additionally, SAWS must purchase water not sold by GBRA to other third parties. The additional amount of water available in 2019 is estimated to be 4,500 acre feet and is projected to decline over the remaining term of the contract as the demand increases for other GBRA customers. The cost of the water escalates over time with projected prices ranging from $1,118 per acre foot in 2019 to approximately $1,901 per acre foot by 2037. SAWS has an option to extend this contract until 2077 under new payment terms.

Under a contract with the Massah Development Corporation, SAWS has a minimum take or pay commitment to purchase 100 acre-feet per month or 1,200 acre-feet per year of raw water from the Lower Glen Rose/Cow Creek formations of the Trinity Aquifer in northern Bexar County at projected prices ranging from $640 to $764 per acre foot. This agreement expires in 2025 and SAWS has a unilateral option to extend the contract for 10 years.

Under a contract with Sneckner Partners, Ltd., SAWS has a take or pay commitment to purchase 1,500 acre-feet of water annually from the Trinity Aquifer at a minimum annual cost of $225 per acre-foot through 2020. SAWS has a unilateral option to extend the contract through 2026. As part of this contract, SAWS agreed to make quarterly defined payments for any residential customers that are connected to the system within a defined geographical area that begin taking water service from SAWS. SAWS began making these payments during 2012 as the area has begun to experience development. SAWS has made payments totaling $332,000 for new customer connections under the terms of this contract. While it is impossible to estimate the exact amount of any potential future payments associated with this provision of the agreement, management estimate of this potential contingent liability is approximately $500,000.

In 2012, SAWS entered into an agreement with Water Exploration Company, Ltd., (WECO) to purchase groundwater produced by WECO from the Trinity Aquifer. In connection with this agreement, two prior water purchase agreements between DSP and WECO were terminated. In 2018, Texas Water Supply Company assumed the assets of WECO, including this agreement between SAWS and WECO. The 2012 agreement has a term of 15 years, with two optional 5 year extensions. SAWS is obligated to purchase up to 17,000 acre-feet per year in monthly increments not to exceed 1,417 acre-feet if water is available to be produced. SAWS only pays for delivered water meeting all state and federal drinking water standards. Pumping under this contract may not reduce the Trinity Aquifer below 600 feet Mean Sea Level at test wells on the tracts. The projected price to be paid per acre-foot of raw water ranges from $994 in 2019 to $1,153 by 2027.

In 2010, SAWS was granted a permit by the Gonzales County Underground Water Conservation District ("District") to produce 11,688 acre feet of water from the Carrizo Aquifer in Gonzales County. SAWS has entered into 23 separate agreements with land owners to produce water under that permit. These agreements remain in force indefinitely as long as SAWS continues to make payments in accordance with the terms of the agreements. SAWS makes payments to the landowners based on actual water produced. SAWS expects to produce the maximum water available under its permit in 2019 and projects payments to landowners will be $1,256,000. These payments escalate annually based on the average of the increase in the Consumer Price Index and Producers Price Index.

In 2011, SAWS entered into an agreement with the Schertz Seguin Local Government Corporation (SSLGC) to 1) treat water produced by SAWS under its permit with the District at SSLGC's treatment plant in Gonzales County and transport that water through SSLGC's existing transportation pipeline to a SAWS facility in Schertz, Texas and 2) purchase up to 5,000 acre feet of wholesale water annually from SSLGC. As part of this agreement, SSLGC agreed to expand its treatment facilities to handle the volume of water supplied by SAWS. SSLGC issued contract revenue bonds in 2012 to finance the expansion. SAWS is unconditionally obligated to make monthly payments to SSLGC beginning in December 2014 equal to 1/12th the annual debt service payment owed by SSLGC on the contract revenue bonds regardless of the amount of water actually provided by SAWS to SSLGC for treatment and transportation. In addition to the payment made to SSLGC for the expansion of the treatment plant, SAWS makes payments to SSLGC for treating and transporting the SAWS produced water.

The initial term of the agreement with SSLGC expires in 2050 and is automatically renewed for successive terms of 5 years unless SAWS chooses to cancel the contract upon the expiration of any term. The projected price paid to SSLGC to treat and transport water provided by SAWS is projected to be $524 per acre foot in 2019 and ranging from $532 to $670 per acre foot from 2020 through 2050. This projected price includes the debt service associated with the expansion of SSLGC's treatment plant. Payments for any wholesale water purchased from SSLGC are based on SSLGC's wholesale water rates.

Under a contract with Bexar-Medina-Atascosa Counties W.C.I.D. No. 1 (BMA), SAWS has a take or pay commitment to purchase 19,974 acre feet of untreated water annually from Medina Lake. If BMA is unable to deliver water to SAWS, BMA issues a credit for the undelivered water which can be used to offset payments due to BMA during the next calendar year. The price of the water is based on the rate charged by Guadalupe-Blanco River

Authority (GBRA) for raw water. GBRA's rate for raw water at December 31, 2018 was $147 per acre foot. The agreement has been amended several times with the current agreement ending in 2049.

Under a contract with Canyon Regional Water Authority (CRWA), SAWS is required to make certain contractually required minimum payments each year to fund capital and operating expenses of CRWA. Additionally, SAWS makes payments based on the number of acre feet of water SAWS commits to take in a given year. SAWS currently has access to 6,300 acre feet through 2023 and 6,800 acre feet annually from 2024 through 2042. For 2019, SAWS has committed to taking 5,300 acre feet with a projected cost of $1,348 per acre foot.

Total payments under these water purchase agreements were $33.5 million in 2018 and $38.5 million in 2017. A summary of all estimated future payments under all these agreements is provided in the following table. The estimated fixed water payments consist of the take or pay commitments under the agreements. The estimated variable water payments will be made only if water is made available to SAWS. The estimates assume price escalations but do not assume the extension of any water purchase agreement. As with any estimate, the actual amounts paid could differ materially.

(dollars in thousands)	2019	2020	2021	2022	2023	Thereafter
Purchased water payments - fixed	$ 22,100	$ 22,657	$ 22,785	$ 23,200	$ 23,614	$ 569,466
Acre feet purchased - fixed	43,054	44,054	42,554	42,554	42,554	1,005,490
Purchased water payments - variable	$ 14,308	$ 14,524	$ 14,170	$ 14,362	$ 14,562	$ 87,841
Acre feet purchased - variable	14,062	13,924	13,289	13,156	13,026	56,344

In October 2014, the City Council adopted an ordinance, approving the execution of a Water Transmission and Purchase Agreement (the "Agreement") between the City, acting by and through SAWS, and Vista Ridge LLC, pursuant to which Vista Ridge LLC has committed to make available to SAWS, and SAWS has agreed to pay for, up to 50,000 acre-feet of potable water ("Project Water") per year for an initial period of 30 years plus a limited (20 year) extension period under certain circumstances (hereinafter referred to as the "operational" phase). To produce and deliver the Project Water, Vista Ridge LLC will develop well fields to withdraw water from the Carrizo and Simsboro aquifers in Burleson County, Texas pursuant to currently-held long-term leases with landowners and construct (or cause to be constructed) a 142-mile pipeline from this well field to northern Bexar County (the well fields and the pipeline, together, the "Project"). The pipeline will be connected to the SAWS distribution system at a delivery point in northern Bexar County (the "Connection Point"). The execution of the Agreement represents a significant diversification of the City's water source, as SAWS projects that Project Water, if delivered at the maximum amount, will account for approximately 20% of the System's current annual usage.

At the end of the operational phase, ownership of the Project will be transferred to SAWS at no cost. SAWS has also entered into a separate agreement with Blue Water Vista Ridge, LLC, the lessee of the Project Water, to continue to acquire the 50,000 acre-feet of untreated groundwater upon the termination of the Agreement and transfer of the Project to SAWS, and the cost of such water at the end of the Agreement will be tied to prevailing Edwards Aquifer leases.

The Project achieved financial close in November 2016 and is now in the construction phase. During this phase, Vista Ridge LLC will complete the construction of the Project and SAWS must construct any improvements necessary to accept and integrate Project Water. The anticipated capital cost of SAWS improvements is currently projected to be approximately $210 million. The construction phase is scheduled to be completed in 2020 and will result in the commencement of the aforementioned 30-year operational phase, during which period SAWS is obligated to pay for water (up to 50,000 acre-feet annually) made available to it by Vista Ridge LLC at the Connection Point.

Pursuant to the terms of the Agreement, SAWS will pay costs arising under the Agreement, as a maintenance and operating expense of the System from a flow of funds perspective (see Note B), only for Project Water made available at the Connection Point (which payment will include the costs of operating and maintaining the Project). SAWS will have no obligation to pay for any debt issued by Vista Ridge LLC, and any such debt will be non-recourse to SAWS.

On May 17, 2016, SAWS exercised its contractual right to fix the Capital and Raw Groundwater Unit Price under the Agreement based on the methodology provided for therein. This action served to lock in the price of the Project Water component of SAWS annual payment requirement at $1,606 per acre foot for the entire 30 year term (and any extension of that term) of the Agreement.

In addition to the Capital and Raw Groundwater Unit Price, SAWS will pay operations and maintenance costs deemed to be compensable by an independent budget panel as a direct pass through under the Agreement as well as electricity cost. Through December 2018, SAWS has paid $5,900,000 for electrical costs to the utility providers. Finally, SAWS is responsible for compensating the Project Company for any major repairs and replacement costs, which may arise and are deemed to be compensable by the budget panel. It is estimated that the water will initially cost approximately $2,000 per acre foot, resulting in an estimated initial annual cost of approximately $100 million for 50,000 acre feet of delivered water. Delivery of water from the Project is expected to begin in April 2020. In 2015, the City Council approved a series of increases to the water supply fee through 2020 to support the acquisition of new water supplies, including water supplied from the Project.

Because all Project assets will transfer to SAWS at the end of the contract, once the operational phase begins, SAWS anticipates recording capital assets and a contract liability equal to the acquisition value of the Project Company infrastructure. Management currently estimates the initial recorded value for the capital assets and contract liability to be approximately $900 million.

SAWS has the right to terminate the Agreement at any time by purchasing the Project for the aggregate amount of the outstanding Project Company debt, contract breakage costs and return of and return on equity contributions by Vista Ridge's principals. SAWS also has the obligation to purchase the Project assets in similar fashion in the event of a SAWS default under the Agreement. The termination payment as of December 31, 2018 was estimated to be approximately $735 million. The termination payment will continue to increase throughout the construction phase as additional funds are expended by the Project Company on the construction of the project. By the time the operational phase is reached in 2020 the termination payment is projected to approximate $1 billion.

Other Contingencies and Commitments

SAWS is also committed under various contracts for completion of construction or acquisition of utility plant totaling approximately $577.1 million as of December 31, 2018. Funding of this amount will come from excess revenues, contributions from developers, restricted assets and available commercial paper capacity.

In connection with desalination injection well permits obtained by SAWS from the Texas Commission on Environmental Quality (TCEQ), SAWS has an obligation to plug the injection wells once the wells are no longer in service. These wells became operational in 2016 and have an expected useful life of 50 years based on SAWS experience with other wells throughout the system. At December 31, 2018, SAWS has recorded a liability of $482,000 related to this post-closure obligation based on the current projected cost to plug wells of similar size, depth and diameter.

In March 2007, SAWS was orally notified by Region 6 of the United States Environmental Protection Agency (the "EPA") of alleged failures to comply with the Clean Water Act due to the occurrence of sanitary sewer overflows (SSOs). The EPA subsequently referred the matter to the United States Department of Justice (the "DOJ") for enforcement action. SAWS engaged in settlement negotiations with the EPA and the DOJ to resolve the allegations. In June 2013, the Board approved a Consent Decree between SAWS and the United States of America and the State of Texas to resolve this enforcement action. During the 10 to 12 year term of the Consent Decree, SAWS estimates the cost to perform the operating and maintenance requirements of the Consent Decree will be approximately $250 million. SAWS estimates that capital expenditures associated with the requirements of the Consent Decree could range from $1.2 billion to $1.3 billion. As with any estimate, the actual amounts incurred could differ materially.

Through December 31, 2018, capital expenditures related to the Consent Decree total $418 million, which includes certain work which was previously planned prior to entry into the Consent Decree. Since entry into the Consent Decree, SAWS has performed its obligations under the terms of the Consent Decree and management believes

SAWS is in material compliance with such terms, conditions and requirements. Since 2010, SAWS has seen a significant reduction in SSOs, from 538 in 2010 to 259 in 2018, even though San Antonio had the wettest September on record and the 3rd wettest month ever recorded. SAWS will continue to perform best practices to assure the capacity and operations of the collection system provides uninterrupted service to the San Antonio community and surrounding counties.

SAWS operates the Mitchell Lake Site Wastewater Treatment Facility ("Mitchell Lake") pursuant to a Texas Pollutant Discharge Elimination Permit (the "Permit") issued by the Texas Commission on Environmental Quality under a delegation of authority from the U.S. Environmental Protection Agency (the "EPA"). In October 2015, the EPA orally notified SAWS that SAWS violated the effluent discharge limitations provided in that Permit as a result of discharges occurring during significant rainfall events.

On August 18, 2016, SAWS received an Administrative Order from the EPA that alleges that SAWS violated the Permit by failing to meet effluent water quality limits as required by the Permit. SAWS responded to the Administrative Order by letter dated September 15, 2016, describing that SAWS was exploring the construction of wetlands to treat discharges from Mitchell Lake as a means of achieving Permit compliance.

SAWS has engaged consulting experts and conducted preliminary feasibility evaluations of reconstructing the existing dam and spillway and constructing extensive treatment wetlands below Mitchell Lake. A pilot wetlands project is currently under construction to evaluate the performance of wetlands in treating Mitchell Lake water. SAWS purchased a 283 acre tract of land that is anticipated to be necessary for the implementation of a full downstream wetlands treatment process. SAWS has partnered with the U.S. Army Corps of Engineers on an Aquatic Ecosystem Restoration Feasibility Study for Mitchell Lake. The three year study will include an investigation into the methods of restoring lost and/or degraded ecological functions within the lake while reducing the eutrophic conditions of the lake water.

On February 7, 2019, SAWS received an Administrative Order from the EPA (which supersedes the August 18, 2016 Administrative Order) that establishes a schedule of compliance activities including submission of a Pilot Wetlands Performance Report by December 31, 2020, completion of the wetlands by September 30, 2024, and submission of various progress and annual reports. No monetary penalties were assessed, although the EPA reserves all rights to seek any appropriate remedies. It is premature to estimate the final cost of the project that SAWS will implement to construct downstream wetlands and modified dam structures, or the ultimate success of the pilot project.

NOTE J - PENSION AND RETIREMENT PLANS

SAWS' pension program includes benefits provided by the Texas Municipal Retirement System (TMRS), the San Antonio Water System Retirement Plan (SAWSRP) and the District Special Project Retirement Income Plan (DSPRP).

Texas Municipal Retirement System

SAWS participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the TMRS Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report that can be obtained at www.tmrs.com

TMRS provides retirement benefits to eligible SAWS employees. At retirement, the benefit is calculated as if the sum of the employee's contribution, with interest, and the SAWS financed monetary credits with interest were used to purchase an annuity. Members choose to receive their benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24 or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The plan provisions that have been adopted by SAWS are within the options available in the governing state statutes of TMRS. Plan provisions for SAWS for the 2018 and 2017 plan years were as follows:

Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, any/20
Updated Service Credit	100% Repeating
Annuity increase (to retirees)	70% of CPI Repeating

Total number of SAWS participants in TMRS as of the last two actuarial valuation dates is summarized below:

	December 31, 2017	December 31, 2016
Active employees	1,698	1,648
Retirees and beneficiaries currently receiving benefits	1,223	1,175
Inactive members	653	595
Total	3,574	3,418

Under the state law governing TMRS, SAWS' contribution rate is determined annually by the actuary using the Entry Age Normal (EAN) cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Eligible SAWS employees are required to contribute 3% of their annual gross earnings. The employer required contribution rates for SAWS were 3.70% and 3.67% in calendar years 2018 and 2017, respectively. SAWS' contributions to TMRS totaled $4,059,000 and $3,852,000 for the years ended December 31, 2018 and 2017, respectively. These contributions equaled the required contributions.

SAWS Net Pension Liability for the TMRS plan as of December 31, 2018 and 2017 was measured as of December 31, 2017 and 2016, respectively. The Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation performed as of the measurement date.

The December 31, 2017 and 2016 valuations included the following actuarial assumptions:

Annual inflation	2.50%
Overall payroll growth	3.00%
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, TMRS' consulting actuary, Gabriel Roeder Smith & Company, focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). Fiscal years 2018 and 2017 had the following target allocations and best estimates of real rates of return for each major asset class:

	December 31, 2018		December 31, 2017	
Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	17.5%	4.55%	17.5%	4.55%
International Equity	17.5%	6.35%	17.5%	6.35%
Core Fixed Income	10.0%	1.00%	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.90%	20.0%	4.15%
Real Return	10.0%	3.80%	10.0%	4.15%
Real Estate	10.0%	4.50%	10.0%	4.75%
Absolute Return	10.0%	3.75%	10.0%	4.00%
Private Equity	5.0%	7.50%	5.0%	7.75%
Total	100.0%		100.0%	

The discount rate of 6.75% was used to measure the Total Pension Liability in the December 31, 2017 and 2016 actuarial valuations. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the TMRS pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

The following table summarizes the changes in the TMRS Net Pension Liability for the year ended December 31, 2018 and 2017 based on the measurement date of December 31, 2017 and 2016, respectively.

Changes in Net Pension Liability - TMRS

($ in thousands)

	2018 Increase (Decrease)			2017 Increase (Decrease)		
	Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (a) - (b)	Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at January 1,	$ 198,069	$ 170,589	$ 27,480	$ 188,624	$ 161,452	$ 27,172
Changes for the year:						
Service Cost	5,332	-	5,332	4,979	-	4,979
Interest	13,268	-	13,268	12,623	-	12,623
Differences between expected and actual experience	54	-	54	29	-	29
Changes in assumptions	-	-	-	-	-	-
Contributions - employer	-	3,852	(3,852)	-	3,609	(3,609)
Contributions - employee	-	3,149	(3,149)	-	2,935	(2,935)
Net investment income	-	23,639	(23,639)	-	10,909	(10,909)
Benefit payments	(8,332)	(8,332)	-	(8,186)	(8,186)	-
Administrative expense	-	(123)	123	-	(123)	123
Other charges	-	(6)	6	-	(7)	7
Net Changes	10,322	22,179	(11,857)	9,445	9,137	308
Balances at December 31, *	$ 208,391	$ 192,768	$ 15,623	$ 198,069	$ 170,589	$ 27,480

*Based on measurement date of December 31, 2017 and December 31, 2016 respectively

The following table presents the Net Pension Liability for the TMRS plan as of December 31, 2018 and December 31, 2017 calculated using the discount rate of 6.75%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	TMRS Net Pension Liability/(Asset) *($ in thousands)*		
	1% Decrease 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
December 31, 2018	$ 42,849	$ 15,623	$ (6,955)
December 31, 2017	$ 53,499	$ 27,480	$ 5,901

San Antonio Water System Retirement Plan

The San Antonio Water System Retirement Plan (SAWSRP) is a single-employer pension plan, which serves as a supplement to SAWS' other retirement benefits. The plan has both a defined benefit and a defined contribution component. SAWS has delegated to Principal Financial Group the authority to manage plan assets and administer the payment of benefits under the plan.

The financial information for SAWSRP is reported in the SAWS Fiduciary Funds financial statements. SAWSRP does not issue stand-alone financial statements. A summary of the plan's financial statements for the years ended December 31, 2018 and 2017 is presented in the following tables.

San Antonio Water System Retirement Plan
Net Position Restricted for Pension Benefits
(amounts in thousands)

	December 31, 2018			December 31, 2017		
	Defined Benefit	Defined Contribution	Total	Defined Benefit	Defined Contribution	Total
Assets						
Investments	$ 201,747	$ 4,557	$ 206,304	$ 208,132	$ 3,260	$ 211,392
Total Assets	201,747	4,557	206,304	208,132	3,260	211,392
Liabilities	-	-	-	-	-	-
Net position restricted for pension benefits	$ 201,747	$ 4,557	$ 206,304	$ 208,132	$ 3,260	$ 211,392

San Antonio Water System Retirement Plan
Changes in Net Position Restricted for Pension Benefits
(amounts in thousands)
For the years ended

	December 31, 2018			December 31, 2017		
	Defined Benefit	Defined Contribution	Total	Defined Benefit	Defined Contribution	Total
Additions						
Employer Contributions	$ 7,923	$ 1,152	$ 9,075	$ 7,982	$ 850	$ 8,832
Employee Contributions	2,434	928	3,362	2,484	663	3,147
Investment Income (Loss)	(7,767)	(422)	(8,189)	30,741	428	31,169
Total additions	2,590	1,658	4,248	41,207	1,941	43,148
Deductions						
Pension payments/distributions	8,615	349	8,964	7,974	223	8,197
Administrative Expenses	360	12	372	380	14	394
	8,975	361	9,336	8,354	237	8,591
Increase/(Decrease) in net position	(6,385)	1,297	(5,088)	32,853	1,704	34,557
Net position restricted for pension benefits - beginning	208,132	3,260	211,392	175,279	1,556	176,835
Net position restricted for pension benefits - ending	$ 201,747	$ 4,557	$ 206,304	$ 208,132	$ 3,260	$ 211,392

Defined Benefit Component: Eligible employees hired prior to June 1, 2014 participate in the defined benefit component of the plan. Eligible employees vest in this plan after the completion of five years of service.

Covered employees are eligible to retire upon attaining the normal retirement age of 65. An employee may elect early retirement, with reduced benefits, upon attainment of (i) 20 years of vesting service regardless of age or (ii) five years of vesting service and at least age 60. An employee is automatically 100% vested upon attainment of age 65 or upon becoming totally and permanently disabled.

The normal retirement benefit is based upon two factors, average compensation and years of vesting service. Average Compensation is defined as the monthly average of total compensation received for the three consecutive years ending December 31, out of the last ten compensation years prior to normal retirement date which gives the highest average. The normal retirement benefit under SAWSRP is equal to the following:

1. 1.20% of the Average Compensation, times years of credited service not in excess of 25 years, plus
2. 0.75% of the Average Compensation, times years of credited service in excess of 25 years but not in excess of 35 years, plus
3. 0.375% of the Average Compensation, times years of credited service in excess of 35 years.

Upon retirement, an employee must select from one of seven alternative payment plans. Each payment plan provides for monthly payments as long as the retired employee lives. The options available address how plan benefits are to be distributed to the designated beneficiary of the retired employee. The program also provides disability benefits.

Participants in the defined benefit component of the SAWSRP as of the last two actuarial valuation dates is summarized below:

	January 1,	
	2018	2017
Active employees	1,184	1,285
Retirees and beneficiaries currently receiving benefits	1,007	946
Inactive members	526	522
Total	2,717	2,753

The funding policy provides for actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when they are due. Contribution requirements are established and may be amended by SAWS Board of Trustees. The actuarially determined contributions for 2018 and 2017 were determined using the Entry Age Normal cost method. The actuarially determined contribution is the estimated amount necessary to finance the cost of benefits earned by participating employees during the year, with an additional amount to finance any unfunded accrued liability. Prior to 2015, active members made no contributions to the plan and all obligations with respect to the defined benefit feature of the plan were paid solely by SAWS. On January 1, 2015, active members began sharing in the cost of providing benefits under the plan by contributing 3% of their compensation.

The Net Pension Liability for the defined benefit component of the SAWSRP as of December 31, 2018 and 2017 was measured as of January 1, 2018 and 2017, respectively. The Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date performed as of the measurement date.

The January 1, 2018 and 2017 valuations included the following actuarial assumptions:

Annual Inflation	2.00%
Rate of Return on Investments	6.50%

Real wage growth is based on a service-related table based on SAWS' experience from 2011 to 2013.

Mortality rates for the January 1, 2018 valuation were based on the RP-2006 total dataset mortality table projected to future years with historical and assumed mortality improvement (MI) rates using the Principal Mortality Improvement Scale (PFG2013-10). RP-2006 is a baseline mortality rates table underlying the Society of Actuaries (SOA) RP-2014 experience study as of central year of the experience data for 2004-2008 years. The Principal Mortality Improvement scale is based on the SOA MI model RPEC_2014_v2017 and Principal-selected assumption set published November 2017.

Mortality rates for the January 1, 2017 valuation were based on RP-2006 total dataset mortality table projected to future years with historical and assumed mortality improvement (MI) rates using the Principal Mortality Improvement (PMI) Scale. RP-2006 is a baseline mortality rates table underlying the Society of Actuaries (SOA) RP-2014 experience study as of central year of the experience data for 2004-2008 years. The PMI scale is based on the SOA MI model PREC_2014_v2016 and Principal selected assumption set published November 2016.

For the 2018 and 2017 valuations, the expected long-term return on plan assets assumption was developed as a weighted average rate based on target asset allocation of the plan and the Long-Term Capital Market Assumptions (CMA) 2016. The capital market assumptions were developed with a primary focus on forward-looking valuation models and market indicators. The key fundamental economic inputs for these models are future inflation, economic growth, and interest rate environment. Due to the long-term nature of pension obligations, the investment horizon for the CMA 2016 is 20-30 years. In addition to forward-looking models, historical analysis of market data and trends was reflected, as well as the outlook of recognized economists, organizations and consensus CMA from other credible studies.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table. The Long-term Expected Real Rate of Return amounts do not include inflation.

	January 1, 2018		January 1, 2017	
Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Target Allocation	Long-term Expected Real Rate of Return
US Equity - Large Cap	60.8%	6.50%	65.0%	6.50%
Long Credit Bond	7.3%	4.75%	5.5%	4.75%
Aggregate Credit Bond	9.6%	4.05%	7.3%	4.05%
Long Gov't Bond	2.4%	2.65%	1.8%	2.65%
Ultra Long Gov't Bond	19.8%	1.85%	13.7%	1.85%
Cash	0.1%	1.55%	0.1%	1.55%
Core Bond			6.6%	3.60%
Total	100.0%		100.0%	

The discount rate used to measure the Total Pension Liability at December 31, 2018 and December 31, 2017 was 6.50%. The projection of cash flows used to determine the discount rate assumed that contributions will be made based on actuarial determined amounts. Based on that assumption, the SAWSRP defined benefit component's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Remainder of this page is intentionally left blank

The following table summarizes the changes in the SAWSRP Net Pension Liability for the year ended December 31, 2018 and 2017 based on the measurement date of January 1, 2018 and January 1, 2017, respectively.

Changes in Net Pension Liability - SAWSRP
($ in thousands)

	2018 Increase (Decrease)			2017 Increase (Decrease)		
	Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (a) - (b)	Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at January 1,	$ 218,571	$ 175,279	$ 43,292	$ 200,206	$ 165,886	$ 34,320
Changes for the year:						
Service Cost	5,859	-	5,859	5,724	-	5,724
Interest	14,354	-	14,354	13,680	-	13,680
Differences between expected and actual experience	(1,394)	-	(1,394)	712	-	712
Changes in assumptions	1,152	-	1,152	5,532	-	5,532
Contributions - employer	-	7,982	(7,982)	-	7,367	(7,367)
Contributions - employee	-	2,484	(2,484)	-	2,533	(2,533)
Net investment income	-	30,741	(30,741)	-	6,971	(6,971)
Benefit payments	(7,974)	(7,974)	-	(7,283)	(7,283)	-
Administrative expense	-	(380)	380	-	(195)	195
Net Changes	11,997	32,853	(20,856)	18,365	9,393	8,972
Balances at December 31,*	$ 230,568	$ 208,132	$ 22,436	$ 218,571	$ 175,279	$ 43,292

*Based on measurement date of January 1, 2018 and January 1, 2017, respectively

The following table presents the Net Pension Liability associated with the defined benefit component of the SAWSRP calculated at December 31, 2018 and December 31, 2017 using the discount rate of 6.50%, as well as what the Net Pension Liability/(Asset) would be if it were calculated using a discount rate of one percentage point lower (5.50%) or one percentage point higher (7.50%) than the current rate.

SAWSRP Net Pension Liability/(Asset) *($ in thousands)*

	1% Decrease 5.50%	Current Discount Rate 6.50%	1% Increase 7.50%
December 31, 2018	$ 52,953	$ 22,436	$ (2,939)
December 31, 2017	$ 72,690	$ 43,292	$ 18,862

Defined Contribution Component: Eligible employees hired on or after June 1, 2014 participate in the defined contribution component of the SAWSRP. SAWS contributes 4% of participant's compensation into an individual retirement account. Participants are required to contribute 3% of their compensation into their individual retirement account. Contributions under the defined contribution feature of the plan are made to participants' individual retirement accounts on a bi-weekly basis based on the participants' compensation during the period. An eligible employee totally vests in SAWS contributions to the individual retirement account after one year of service and immediately vests in the employee's contributions to the plan. The employee directs the investments in their individual retirement account. SAWS has no liability for losses under the defined contribution component of the SAWSRP but does have the usual fiduciary responsibilities of a plan sponsor.

During the year ended December 31, 2018, SAWS made contributions to participants' individual retirement accounts totaling $1,152,000, net of forfeitures of $33,000 and employees contributed $928,000. During the year ended December 31, 2017, SAWS made contributions to participants' individual retirement accounts totaling $850,000, net of forfeitures of $35,000 and employees contributed $663,000.

District Special Project Retirement Income Plan

District Special Project Retirement Income Plan (DSPRP) is a single-employer defined benefit pension plan that covers all eligible employees. The plan was originally established by Bexar Metropolitan Water District (BexarMet) to provide pension benefits to its employees. In 2008, the BexarMet Board elected to freeze pension benefits and entry into the plan effective September 30, 2008. In 2012, BexarMet was dissolved and all its assets and liabilities were transferred to the San Antonio Water System District Special Project (DSP). The plan was renamed District Special Project Retirement Income Plan. In 2016, DSP was merged into SAWS and DSPRP is now governed by SAWS, which is authorized to establish and amend all plan provisions. SAWS has delegated to Standard Insurance Company the authority to manage plan assets and administer the payment of benefits under the plan.

The financial information for DSPRP is reported in the SAWS Fiduciary Funds financial statements. DSPRP does not issue stand-alone financial statements. A summary of the plan's financial statements for the years ended December 31, 2018 and 2017 is presented in the following tables.

Remainder of this page is intentionally left blank

District Special Project Retirement Income Plan
Net Position Restricted for Pension Benefits
(amounts in thousands)

	December 31, 2018	December 31, 2017
Assets		
Investments	$ 5,539	$ 5,706
Total Assets	5,539	5,706
Liabilities	-	-
Net position restricted for pension benefits	$ 5,539	$ 5,706

District Special Project Retirement Income Plan
Changes in Net Position Restricted for Pension Benefits
(amounts in thousands)

	December 31, 2018	December 31, 2017
Additions		
Employer Contributions	$ 400	$ 315
Investment Income (Loss)	(75)	764
Total additions	325	1,079
Deductions		
Pension payments/distributions	485	776
Administrative Expenses	7	7
	492	783
Increase/(Decrease) in net position	(167)	296
Net position restricted for pension benefits - beginning	5,706	5,410
Net position restricted for pension benefits - ending	$ 5,539	$ 5,706

Prior to freezing entry into the plan, employees were eligible to enter on May 1st or November 1st following the completion of 12 months of employment and attaining age 21. Participating employees accrued benefits if they worked at least 1,000 hours per plan year. Eligible employees vested in this plan after the completion of five years of service. Employees are 100% vested in any benefits derived from employee contributions regardless of years of service. A terminating participant who has completed five years of service is entitled to receive a vested benefit starting on his/her normal retirement date.

The normal retirement benefit upon retirement is a percentage of average monthly earnings. Prior to March 1, 1996, the monthly benefit was 60% of average monthly earnings reduced proportionately for less than 15 years of service. Effective March 1, 1996, the monthly benefit was 40% of average monthly earnings reduced proportionately for less than 20 years of service. Prior to March 1, 1996, average monthly earnings were based on the monthly earnings during the five consecutive and complete calendar years that produced the highest average. After March 1, 1996 average monthly earnings are determined by the ten consecutive and complete calendar years after December 31, 1990 which produce the highest average. Upon retirement, retirees may choose from 3 different types of annuities or receive a single lump sum distribution.

Participants in DSPRP as of the last two actuarial valuation dates is summarized below:

	January 1, 2018	January 1, 2017
Active employees	101	108
Retirees and beneficiaries currently receiving benefits	10	12
Inactive members	33	29
Total	144	149

The plan's funding policy provides for actuarially determined periodic contributions so that sufficient assets will be available to pay benefits as they come due. Contribution requirements are established and may be amended by the Board. The unit credit method was used to calculate the actuarial determined contribution for 2018 and 2017. Under this method, the actual or expected accrued benefit of each participant is allocated to the year in which it accrues. The normal cost is the present value of benefits expected to accrue in the current year.

The Net Pension Liability for DSPRP as of December 31, 2018 and 2017 was measured as of January 1, 2018 and 2017, respectively. The Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date performed as of the measurement date.

The January 1, 2018 and 2017 valuations included the following actuarial assumptions:

	January 1, 2018	January 1, 2017
Annual Inflation	2.50%	2.75%
Rate of Return on Investments	6.50%	6.50%

For 2018, mortality rates are based on the SOA RP-2014 table projected on a fully generational basis using mortality improvement scale MP-2017. For 2017, mortality rates are based on the SOA RP-2014 table projected on a fully generational basis using mortality improvement scale MP-2017. Due to the limited size of this plan and the frozen nature of benefits under the plan, an experience study has not been done.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	January 1, 2018		January 1, 2017	
Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	54.0%	6.00%	56.0%	6.00%
International Equity	5.0%	6.00%	5.0%	6.00%
Fixed Income	41.0%	1.00%	39.0%	1.00%

The discount rate used to measure the total pension liability at December 31, 2018 and December 31, 2017 was 6.5%. The projection of cash flows used to determine the discount rate assumed that contributions will be made equal to the actuarially determined contributions. Based on those assumptions, the defined benefit component's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on the defined benefit component's investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table summarizes the changes in the DSPRP Net Pension Liability for the year ended December 31, 2018 and 2017 based on the measurement date of January 1, 2018 and 2017, respectively.

Changes in Net Pension Liability - DSPRP
($ in thousands)

	2018 Increase (Decrease)			2017 Increase (Decrease)		
	Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (a) - (b)	Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at January 1,	$ 6,694	$ 5,410	$ 1,284	$ 6,686	$ 5,156	$ 1,530
Changes for the year:						
Service Cost	108	-	108	71	-	71
Interest	424	-	424	418	-	418
Differences between expected and actual experience	101		101	(381)		(381)
Changes in assumptions	15		15	224		224
Contributions - employer		315	(315)		280	(280)
Net investment income	-	764	(764)	-	306	(306)
Benefit payments	(776)	(776)	-	(324)	(324)	-
Administrative expense	-	(7)	7	-	(8)	8
Net Changes	(128)	296	(424)	8	254	(246)
Balances at December 31,*	$ 6,566	$ 5,706	$ 860	$ 6,694	$ 5,410	$ 1,284

*Based on measurement date of January 1, 2018 and January 1, 2017 respectively

The following table presents the DSPRP Net Pension Liability calculated at December 31, 2018 and December 31, 2017 using the discount rate of 6.5%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is one percentage point lower (5.5%) or one percentage point higher (7.5%) than the current rate.

DSPRP Net Pension Liability *($ in thousands)*

	1% Decrease 5.50%	Current Discount Rate 6.50%	1% Increase 7.50%
December 31, 2018	$ 1,122	$ 860	$ 632
December 31, 2017	$ 1,568	$ 1,284	$ 1,134

Other Pension Disclosures

For the years ended December 31, 2018 and December 31, 2017, SAWS recognized pension expense under the TMRS, SAWSRP and DSPRP plans as follows:

Pension Expense
($ in thousands)
Year-ended December 31,

	2018	2017
TMRS	$ 3,757	$ 6,005
SAWSRP - defined benefit	6,098	9,201
SAWSRP - defined contribution	1,152	850
DSPRP	195	203
	$ 11,202	$ 16,259

Amounts payable to the pension plans by SAWS for contributions totaled $193,000 at December 2018 and $200,000 at December 31, 2017.

The following table summarizes the Deferred Outflows of Resources, Net Pension Liability and Deferred Inflows of Resources for each of the plans as reported in the Statement of Net Position for December 31, 2018 and 2017.

($ in thousands)	December 31, 2018			December 31, 2017		
Plan	Deferred Outflows of Resources	Net Pension Liability	Deferred Inflows of Resources	Deferred Outflows of Resources	Net Pension Liability	Deferred Inflows of Resources
TMRS	$ 4,287	$ 15,623	$ 5,770	$ 11,568	$ 27,480	$ 1,495
SAWSRP	13,036	22,436	11,552	21,008	43,292	494
DSPRP	780	860	485	852	1,284	339
Total - All Plans	$ 18,103	$ 38,919	$ 17,807	$ 33,428	$ 72,056	$ 2,328

At December 31, 2018, Deferred Outflows of Resources and Deferred Inflows of Resources associated with SAWS pension plans related to the following sources:

	TMRS		SAWSRP		DSPRP		All Plans	
($ in thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made after the measurement date	$ 4,059	$ -	$ 7,923	$ -	$ 400	$ -	$ 12,382	$ -
Differences between expected and actual experience	59	895	623	1,173	193	296	875	2,364
Effects of changes in assumption	169	-	4,490	166	187	-	4,846	166
Net Difference between projected and actual earnings on pension plan investments	-	4,875	-	10,213	-	189	-	15,277
	$ 4,287	$ 5,770	$ 13,036	$ 11,552	$ 780	$ 485	$ 18,103	$ 17,807

At December 31, 2017, Deferred Outflows of Resources and Deferred Inflows of Resources associated with SAWS pension plans related to the following sources:

	TMRS		SAWSRP		DSPRP		All Plans	
($ in thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made after the measurement date	$ 3,852	$ -	$ 7,982	$ -	$ 315	$ -	$ 12,149	$ -
Differences between expected and actual experience	23	1,495	890	248	121	339	1,034	2,082
Effects of changes in assumption	257	-	5,407	246	199	-	5,863	246
Net Difference between projected and actual earnings on pension plan investments	7,436	-	6,729	-	217		14,382	-
	$ 11,568	$ 1,495	$ 21,008	$ 494	$ 852	$ 339	$ 33,428	$ 2,328

Contributions made after the measurement date of $12,382,000 will be recognized as a reduction of the Net Pension Liability for the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended	*($ in thousands)*			
December 31,	SAWSRP	TMRS	DSPRP	Combined
2019	$ (511)	$ (308)	$ (7)	$ (826)
2020	274	(406)	7	(125)
2021	(2,352)	(2,410)	(61)	(4,823)
2022	(3,850)	(2,418)	(72)	(6,340)
2023	-	-	13	13
Thereafter	-	-	15	15

The following table summarizes the components of the Net Pension Liability at December 31, 2018 and 2017 for the pension plans included in SAWS Fiduciary Fund Statements in accordance with *GASB 67, Financial Reporting for Pension Plans – An Amendment of GASB Statement 25.*

	December 31, 2018 (a)		December 31, 2017	
($ in thousands)	SAWSRP	DSPRP	SAWSRP	DSPRP
Total pension liability	$ 244,609	$ 6,615	$ 230,568	$ 6,566
Plan fiduciary net position	201,747	5,539	208,132	5,706
Net pension liability	$ 42,862	$ 1,076	$ 22,436	$ 860
Plan fiduciary net position as a percentage of the total pension liability	82.5%	83.7%	90.3%	86.9%

(a) Actuarial valuation performed at January 1, 2018 was rolled forward to December 31, 2018

Deferred Compensation Plans

SAWS is the plan sponsor for two deferred compensation plans: the San Antonio Water System Deferred Compensation Plan and the District Special Project Employee's 457 Plan. Both plans were created in accordance with Internal Revenue Code Section 457 and allow employees to defer a portion of their salary until future years. The compensation deferred under these plans is not available to employees until termination, retirement, death, or qualifying unforeseeable emergency. Employee participation is voluntary and SAWS makes no contributions to these plans. The District Special Project Employee's 457 Plan was closed to new contributions effective October 1, 2013. SAWS has no liability for losses under these plans but does have the usual fiduciary responsibilities of a plan sponsor.

NOTE K – OTHER POST EMPLOYMENT BENEFITS (OPEB)

In addition to providing pension benefits described in Note J, SAWS provides certain health care and life insurance benefits for eligible retirees, their spouses, and their dependents through San Antonio Water System Retiree Health Trust (SAWS OPEB Plan), a single-employer defined benefit plan administered by SAWS. The authority to establish and amend the SAWS OPEB Plan provisions is vested in the Board.

The financial information for SAWS OPEB Plan is reported in the fiduciary funds statements. SAWS OPEB Plan does not issue stand-alone financial statements. A summary of the plan's financial statements for the years ended December 31, 2018 and 2017 is presented in the following tables.

San Antonio Water System Retiree Health Plan
Net Position Restricted for Post Employment Benefits
(amounts in thousands)

	December 31, 2018	December 31, 2017
Assets		
Cash and cash equivalents	$ 1,323	$ 1,733
Investments	61,366	56,778
Total assets	62,689	58,511
Liabilities	-	-
Net position restricted for other post employment benefits	$ 62,689	$ 58,511

Changes in Net Position Restricted for Post Employment Benefits
For the year ended December 31,
(amounts in thousands)

	2018	2017
Additions		
Employer contributions	$ 15,308	$ 13,709
Investment income/(loss)	(3,163)	7,127
Total additions	12,145	20,836
Deductions		
Benefit payments	7,808	6,209
Administrative expenses	159	144
Total deductions	7,967	6,353
Increase in net position	4,178	14,483
Net position restricted for other post employment benefits - beginning	58,511	44,028
Net position restricted for other post employment benefits - ending	$ 62,689	$ 58,511

By state law, any employee that retires under a SAWS retirement plan is eligible, at the time of retirement, to obtain health insurance benefits similar to those offered to active SAWS employees. Retirees may also purchase coverage for their spouse and qualifying dependents at group rates partially subsidized by SAWS. Any plan participant eligible for Medicare is required to enroll in a Medicare Advantage Plan. No supplemental health benefits are provided to those participants enrolled in Medicare Advantage Plans. Employees hired after December 31, 2013 will not be eligible for any subsidized medical benefits upon retirement from SAWS.

Participants in the SAWS OPEB Plan as of January 1, 2018 and 2017 consisted of the following:

	January 1, 2018	January 1, 2017
Active employees	1,131	1,191
Retired employees	852	833
Total	1,983	2,024

The contribution requirements of plan participants are established and may be amended by the Board. Contributions made by retirees for health insurance benefits vary based on retirement date, years of service and the health care options selected. Plan participants made contributions toward plan benefits totaling $1,353,000 in 2018 and $1,103,000 in 2017.

SAWS contributions to the plan are also established by the Board. Prior to 2012, SAWS only funded the shortfall between annual benefit payments and retiree contributions ("current benefit payments"). In March 2012, SAWS established a trust for the purpose of prefunding future benefit payments for eligible retirees and their dependents. In addition to making contributions to the trust, SAWS has continued to fund current benefit payments outside of the trust. SAWS intends to fund current benefit payments as well as make annual contributions to the trust in accordance with a plan that, at a minimum, fully funds the actuarially determined annual required contributions for these benefits thereby improving the funded status of the SAWS OPEB Plan over a period of time.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between SAWS and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The following table summarizes the actuarial methods and assumptions used in the most recent actuarial valuations for the SAWS OPEB Plan.

Actuarial Methods and Assumptions

Actuarial Valuation Date	January 1, 2018	January 1, 2017
Actuarial Value of Assets	Market Value	Market Value
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Remaining Amortization Period	16 Years - Closed	17 Years - Closed
Actuarial Assumptions:		
Investment Rate of Return	6.5%	6.5%
Inflation Rate	2.5%	2.5%
Healthcare Cost Trend:		
Initial	5.50%	5.50%
Ultimate	3.84%	4.14%

For the 2018 and 2017 valuations, the mortality rates were based on RP-2014 Healthy Employee Mortality Tables for males and females for pre-retirement employees and RP-2014 Healthy Annuitant Mortality Table for postemployment retirees. Historical and assumed mortality improvement (MI) was based on the Principal Mortality Improvement (PMI) Scale used by SAWSRP. This scale was updated for the 2018 valuation.

SAWS implemented GASB Statement No. 75 in 2018. The following table summarizes the changes in Net OPEB Liability at December 31, 2018 in accordance with this Statement.

Changes in Net OPEB Liability - SAWS OPEB Plan
($ in thousands)

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at January 1,	$ 144,960	$ 44,028	$ 100,932
Changes for the year:			
Service Cost	2,428		2,428
Interest	9,221		9,221
Differences between expected and actual experience	(3,358)		(3,358)
Changes in assumptions	(351)		(351)
Contributions - employer		13,709	(13,709)
Net investment income		7,127	(7,127)
Benefit payments	(6,209)	(6,209)	-
Administrative expense		(144)	144
Other charges	-		-
Net Changes	1,731	14,483	(12,752)
Balances at December 31,*	$ 146,691	$ 58,511	$ 88,180

*Based on measurement date of January 1, 2018

The following table presents the change in the SAWS OPEB Plan Net OPEB Liability calculated at December 31, 2018 assuming healthcare cost trends decrease or increase by one percentage point from the assumptions used in Total OPEB liability.

($ in thousands)

	1% Decrease	Current Assumptions	1% Increase
December 31, 2018	$ 74,140	$ 88,180	$ 105,192

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table. The Long-term Expected Real Rate of Return amounts do not include inflation.

	January 1, 2018		January 1, 2017	
Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income - Core Bond	38.0%	0.72%	38.0%	0.75%
Domestic Equity - Large Cap	36.0%	6.45%	36.0%	6.48%
Foreign Equity - Large Core	12.3%	6.35%	12.3%	6.38%
Domestic Equity - Small Cap	9.0%	7.82%	9.0%	7.85%
Foreign Equity - Emerging Markets	2.7%	8.96%	2.7%	8.99%
Cash	2.0%	0.00%	2.0%	0.00%
Total	100.0%		100.0%	

The discount rate used to measure the Total OPEB Liability at December 31, 2018 was 6.5%. The projection of cash flows used to determine the discount rate assumed that contributions will be made equal to the actuarially determined contributions. Based on those assumptions, the defined benefit component's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on the defined benefit component's investments was applied to all periods of projected benefit payments to determine the Total OPEB Liability.

The following table presents the SAWS OPEB Plan Net OPEB Liability calculated at December 31, 2018 using the discount rate of 6.5%, as well as what the Net OPEB Liability would be if it were calculated using a discount rate that is one percentage point lower (5.5%) or one percentage point higher (7.5%) than the current rate.

($ in thousands)

	1% Decrease 5.5%	Current Discount Rate 6.5%	1% Increase 7.5%
December 31, 2018	$ 106,770	$ 88,180	$ 72,899

SAWS recognized $6,997,000 in OPEB expense for the fiscal year ended December 31, 2018 based on a measurement date of December 31, 2017.

The following table summarized Deferred Outflows of Resources and Deferred Inflows of Resources associated with the SAWS OPEB Plan at December 31, 2018 from the following sources.

($ in thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made after the measurement date	$ 15,308	$ -
Differences between expected and actual experience	-	2,552
Effects of changes in assumption	-	267
Net Difference between projected and actual earnings on OPEB plan investments	-	3,221
	$ 15,308	$ 6,040

Contributions made after the measurement date of $15,308,000 will be recognized as a reduction of the Net OPEB Liability for the year ending December 31, 2019. Other amounts reported as deferred inflows of resources will be recognized in OPEB expense as follows:

Year Ended December 31,	*($ in thousands)*
2019	$ (1,695)
2020	(1,695)
2021	(1,695)
2022	(955)
2023	-
Thereafter	-

The components of the Net OPEB Liability for the SAWS OPEB Plan at December 31, 2018 and 2017 was as follows:

($ in thousands)	December 31, 2018	December 31, 2017
Total OPEB liability	$ 146,850	$ 146,691
Plan fiduciary net position	62,689	58,511
Net OPEB liability	$ 84,161	$ 88,180
Plan fiduciary net position as a percentage of the total OPEB liability	42.7%	39.9%

Other OPEB Disclosures

Because SAWS implemented GASB Statement No. 75 effective January 1, 2018, the following disclosures are presented for the SAWS OPEB plan for the year ended December 31, 2017 in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

SAWS' OPEB cost for the year ended December 31, 2017 was calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB Statement 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of time. The following table shows the components of SAWS' annual OPEB cost, the amount actually contributed to the plan and changes in the net OPEB obligation for the year ended December 31, 2017:

Annual Required Contribution (ARC)	$ 12,412
Interest on net OPEB obligation	4,780
Adjustment to ARC	(7,273)
Annual OPEB costs	9,919
Employer contributions made (a)	(14,525)
Increase/(Decrease) in net OPEB obligation	(4,606)
Net OPEB obligation at beginning of year	73,539
Net OPEB obligation at end of year	$ 68,933

(a) Amounts reported as employer contributions for life insurance benefits represent actual death benefit payments made during the period. Employer contributions reported in the SAWS OPEB Plan's summary financial statements on page 74 reflect the premiums paid for life insurance benefits.

SAWS' annual OPEB cost and the percentage cost contributed to the plan for December 31, 2017 was as follows:

Year Ended December 31,	Annual OPEB Cost *(amounts in thousands)*	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation *(amounts in thousands)*
2017	$ 9,919	146.4%	$ 68,933

The funded status of SAWS OPEB Plan as of the actuarial valuation performed as of January 1, 2017 is as follows:

Actuarial Valuation Date	Actuarial Value of Assets *(in thousands)* (a)	Actuarial Accrued Liability (AAL) *(in thousands)* (b)	Unfunded AAL (UAAL) *(in thousands)* (b-a)	Funded Ratio (a/b)	Covered Payroll *(in thousands)* (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
January 1, 2017	$ 44,028	$ 144,960	$ 100,932	30%	$ 79,417	127%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE L – RESTATED NET POSITION

Effective January 1, 2018 SAWS implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB).* In accordance with these pronouncements, SAWS recorded a charge to unrestricted net position as of January 1, 2018 of $18,290,000 to reflect the Net OPEB Liability for SAWS defined benefit OPEB plan. Sufficient data was not available for the OPEB plan to restate the financial statements for the year ended December 31, 2017, therefore, as permitted by GASB Statement No. 75, only the financial statement information for the year ended December 31, 2018 reflects the requirements of these new accounting rules for OPEB plans.

NOTE M – SUBSEQUENT EVENTS

On January 29, 2019, SAWS issued $166,480,000 City of San Antonio, Texas Water System Variable Rate Junior Lien Revenue Bonds, Series 2019A (No Reserve Fund). The proceeds from the sale of the bonds were used to (i) provide funding for capital improvement projects, and (ii) pay the cost of issuance. The bonds are multi-modal variable rate bonds, initially issued in term mode through April 30, 2014 at an interest rate of 2.625% with a yield of 2.45%. The bonds are secured together with other outstanding Junior Lien Obligations solely by a lien on a pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

REQUIRED SUPPLEMENTAL INFORMATION

Texas Municipal Retirement System - San Antonio Water System
Schedule of Changes in Net Pension Liability and Related Ratios (Unaudited)

($ in thousands)

	2017	2016	2015	2014
Total pension liability				
Service Cost	$ 5,332	$ 4,979	$ 4,810	$ 4,379
Interest	13,268	12,623	12,480	11,960
Differences between expected and actual experience	54	29	(1,311)	(1,717)
Changes of assumptions	-	-	433	-
Benefit payments	(8,332)	(8,186)	(7,337)	(7,461)
Net change in pension liability	10,322	9,445	9,075	7,161
Total pension liability at beginning of year	198,069	188,624	179,549	172,388
Total pension liability at end of year (a)	$ 208,391	$ 198,069	$ 188,624	$ 179,549
Plan fiduciary net position				
Contributions - Employer	$ 3,852	$ 3,609	$ 3,953	$ 3,721
Contributions - Employee	3,149	2,935	2,892	2,722
Net investment income	23,639	10,909	239	8,818
Benefit payments	(8,332)	(8,186)	(7,337)	(7,461)
Administrative expenses	(123)	(123)	(146)	(92)
Other	(6)	(7)	(7)	(8)
Net change in plan fiduciary net position	22,179	9,137	(406)	7,700
Plan fiduciary net position at beginning of year	170,589	161,452	161,858	154,158
Plan fiduciary net position at end of year (b)	$ 192,768	$ 170,589	$ 161,452	$ 161,858
Net pension liability (a) - (b)	$ 15,623	$ 27,480	$ 27,172	$ 17,691
Plan fiduciary net position as a percentage of the total pension liability	92.5%	86.1%	85.6%	90.1%
Covered payroll	$ 104,960	$ 97,818	$ 96,389	$ 90,721
Net pension liability as a percentage of total Covered payroll	14.9%	28.1%	28.2%	19.5%

Notes to Schedule:

Changes of assumptions: In 2015, the long term rate of return was reduced from 7% to 6.75%. In 2015, mortality rates were updated to reflect updated historical data.

Other GASB 68 requires 10 years of data to be provided in the Schedule of Contributions. As SAWS adopted GASB 68 in 2014, only 4 years of data is available. A full 10 years of data will be presented by 2023.

Texas Municipal Retirement System - San Antonio Water System
Schedule of Contributions (Unaudited)

($ in thousands)

	2018	2017	2016	2015	2014
Actuarially determined contribution	$ 4,059	$ 3,852	$ 3,609	$ 3,672	$ 3,721
Contributions in relation to the actuarially determined contribution	4,059	3,852	3,609	3,953	3,721
Contribution deficiency/(excess)	$ -	$ -	$ -	$ (281)	$ -
Covered payroll	$ 109,703	$ 104,960	$ 97,818	$ 96,389	$ 90,721
Contributions as a percentage of covered payroll	3.70%	3.67%	3.69%	4.10%	4.10%

Notes to Schedule:

Valuation date: Actuarially determined contributions are calculated as of December 31st and become effective 12 months later on January 1st.

Methods and assumptions used to determine contributions:

Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	For 2018, the remaining amortization period is 27 years. In 2015, the remaining amortization period was adjusted to 30 years from 23 years in 2014
Asset valuation method	10 year smoothed market; 15% soft corridor
Inflation	In 2015, the inflation rate was changed to 2.5% from 3.0% in 2014.
Salary increases	The assumption was 3.5% to 10.5% in 2015, 2016 and 2017 and 3.5% to 12.0% in 2014.
Investment rate of return	In 2015 the investment rate of return was lowered from 7.0% to 6.75%.
Retirement age	Experience-based table of rates that are specific to SAWS plan of benefits. Last updated for the 2015 valuation puruant to an experience study of the period 2010 - 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other GASB 68 requires 10 years of data to be provided in the Schedule of Contributions. As SAWS adopted GASB 68 in 2014, only 5 years of data is available. A full 10 years of data will be presented by 2023.

San Antonio Water System Retirement Plan - Defined Benefit Component
Schedule of Changes in Net Pension Liability and Related Ratios (Unaudited)
($ in thousands)

	2018	2017	2016	2015	2014
Total pension liability					
Service Cost	$ 5,630	$ 5,859	$ 5,724	$ 5,004	$ 5,204
Interest	15,101	14,354	13,680	12,596	11,709
Changes of benefit terms			-	4,339	-
Differences between expected and actual experience	1,925	(1,394)	712	555	(622)
Changes of assumptions		1,152	5,532	(405)	2,771
Benefit payments	(8,615)	(7,974)	(7,283)	(6,318)	(5,796)
Net change in pension liability	14,041	11,997	18,365	15,771	13,266
Total pension liability at beginning of year	230,568	218,571	200,206	184,435	171,169
Total pension liability at end of year (a)	$ 244,609	$ 230,568	$ 218,571	$ 200,206	$ 184,435
Plan fiduciary net position					
Contributions - Employer	$ 7,923	$ 7,982	$ 7,367	$ 7,890	$ 10,339
Contributions - Employee	2,434	2,484	2,533	2,357	-
Net investment income / (loss)	(7,767)	30,741	6,971	1,215	15,695
Benefit payments	(8,615)	(7,974)	(7,283)	(6,318)	(5,796)
Administrative expenses	(360)	(380)	(195)	(17)	-
Net change in plan fiduciary net position	(6,385)	32,853	9,393	5,127	20,238
Plan fiduciary net position at beginning of year	208,132	175,279	165,886	160,759	140,521
Plan fiduciary net position at end of year (b)	$ 201,747	$ 208,132	$ 175,279	$ 165,886	$ 160,759
Net pension liability (a) - (b)	$ 42,862	$ 22,436	$ 43,292	$ 34,320	$ 23,676
Plan fiduciary net position as a percentage of the total pension liability	82.5%	90.3%	80.2%	82.9%	87.2%
Covered payroll	$ 78,348	$ 79,417	$ 83,493	$ 85,299	$ 83,812
Net pension liability as a percentage of total covered payroll	54.7%	28.3%	51.9%	40.2%	28.2%

Notes to Schedule:

Current year calculation — Total pension liability at December 31, 2018 is based on a rollforward of the January 1, 2018 actuarial valuation

Benefit Changes: — In 2015, the normal form of distribution changed and a mandatory employee contribution of 3% was instituted. Effective June 1, 2014, the defined benefit plan was frozen to new entrants.

Changes of assumptions: — In 2017, the mortality assumption was updated for the latest improvement scale. In 2016, the long term rate of return was reduced to 6.5%. In 2015, mortality rates were updated to reflect historical data. In 2014, the long term rate of return was reduced to 6.75%.

Other: — GASB 68 requires 10 years of data to be provided. As SAWS adopted GASB 68 in 2014, only 5 years of data is available. A full 10 years of data will be available by 2023.

San Antonio Water System Retirement Plan - Defined Benefit Component
Schedule of Contributions (Unaudited)
($ in thousands)

	2018	2017	2016	2015	2014
Actuarially determined contribution	$ 7,923	$ 7,982	$ 7,367	$ 7,890	$ 10,339
Contributions in relation to the actuarially determined contribution	7,923	7,982	7,367	7,890	10,339
Contribution deficiency/(excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 78,348	$ 79,417	$ 83,493	$ 85,299	$ 83,812
Contributions as a percentage of covered payroll	10.1%	10.1%	8.8%	9.2%	12.3%

Notes to Schedule:

Valuation date: Actuarially determined contributions are determined as of January 1st of the year in which the contributions are made.

Methods and assumptions used to determine contributions:

Actuarial cost method	Entry Age Normal
Remaining amortization period	Unfunded Liability at December 31, 2013 of $40,551,000 is being amortized over a 15 fixed year period. The annual impact of experience gains/losses, plan amendments and changes in plan assumptions are amortized over 10 years.
Asset valuation method	4 year smoothed market
Inflation	In 2017, the rate was changed to 2%, previously it was 2.25%
Salary increases	Scale based on 2011-2013 SAWS experience
Retirement age	In 2015, expected retirement ages were adjusted to reflect actual experience from 2011-2013. Previously, the retirement age was based on experience from 2011-2012.
Investment rate of return	In 2017, the rate was changed from 6.75% to 6.5%, net of pension expense, including inflation. In 2014, the rate was change from 7.0% to 6.75%
Mortality Table	In 2017, the mortality table was changed to use adjusted RP-2014 mortality with scale MP-2016 based on data published by the SOA in 2016. In 2016, the mortality table was changed to use adjusted RP-2014 mortality with scale MP-2016 based on data published by the SOA in 2015. Previously the IRS Prescribed Generational Mortality table was used.

Other: GASB 68 requires 10 years of data to be provided. As SAWS adopted GASB 68 in 2014, only 5 years of data is available. A full 10 years of data will be available by 2023.

San Antonio Water System Retirement Plan - Defined Benefit Component
Schedule of Investment Returns (Unaudited)

	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	-3.71%	17.37%	4.21%	0.76%	11.34%

District Special Project Retirement Income Plan

Schedule of Changes in Net Pension Liability and Related Ratios (Unaudited)

($ in thousands)

	2018	2017	2016	2015	2014
Total Pension Liability					
Service cost	$ 94	$ 108	$ 71	$ 124	$ 123
Interest	418	424	418	446	424
Benefit payments	(485)	(776)	(324)	(261)	(230)
Changes in assumptions	-	15	224		
Difference between expected and actual experience	22	101	(381)	18	153
Net change in Total Pension Liability	49	(128)	8	327	470
Total Pension Liability - beginning	6,566	6,694	6,686	6,359	5,889
Total Pension Liability - ending (a)	$ 6,615	$ 6,566	$ 6,694	$ 6,686	$ 6,359
Fiduciary Net Position					
Employer contributions	$ 400	$ 315	$ 280	$ 308	$ 414
Net investment income / (loss)	(75)	764	306	18	394
Benefit payments	(485)	(776)	(324)	(261)	(230)
Administrative expenses	(7)	(7)	(8)	(6)	(11)
Net change in Fiduciary Net Position	(167)	296	254	59	567
Fiduciary Net Position - beginning	5,706	5,410	5,156	5,097	4,530
Fiduciary Net Position - ending (b)	$ 5,539	$ 5,706	$ 5,410	$ 5,156	$ 5,097
Net Pension Liability (a) - (b)	$ 1,076	$ 860	$ 1,284	$ 1,530	$ 1,262
Fiduciary Net Position as a percentage of the Total Pension Liability	83.7%	86.9%	80.8%	77.1%	80.2%
Covered payroll (frozen plan)	n/a	n/a	n/a	n/a	n/a
Net Pension Liability as a percentage of covered payroll	n/a	n/a	n/a	n/a	n/a

Notes to schedule:

The plan was frozen in 2008. Therefore, current & future wages have no impact on Net Pension Liability.

Total pension liability at December 31, 2018 is based on a rollforward of the January 1, 2018 actuarial valuation.

Changes in assumptions: The interest rate of return was modified from 7% to 6.5% in 2017.

Other: GASB 68 requires 10 years of data to be provided in the Schedule of Contributions. As SAWS adopted GASB 68 in 2014, only 5 years of data is available. A full 10 years of data will be presented by 2023.

District Special Project Retirement Income Plan
Schedule of Contributions (Unaudited)
($ in thousands)

	2018	2017	2016	2015	2014
Actuarially determined contribution	$ 247	$ 315	$ 279	$ 274	$ 307
Contributions in relation to the actuarially determined contribution	400	315	280	308	414
Contribution deficiency/(excess)	$ (153)	$ -	$ (1)	$ (34)	$ (107)
Covered payroll (frozen plan)	n/a	n/a	n/a	n/a	n/a
Contributions as a percentage of covered payroll	n/a	n/a	n/a	n/a	n/a

Notes to Schedule:

Valuation date:

Actuarially determined contributions are determined as of January 1 of the year in which the contributions are made.

Methods and assumptions used to determine contributions:

Actuarial cost method	Unit Credit
Amortization method	Rolling level amortization over a declining period
Remaining amortization period	9 years (2018), 10 years(2017), 11 years(2016), 12 years(2015), 13 years(2014)
Asset valuation method	Fair value with smoothing
Inflation	In 2015, the inflation rate was changed to 2.75%. Previously, 2% was used.
Salary increase	Earned benefits frozen in 2008
Investment rate of return	In 2017, the rate was changed to 6.5%. Previously, 7.0%, net of pension plan investment expense, including inflation was used.
Retirement age	Normal retirement age - the earlier of (a) age 65 or (b) the "rule of 90" where the participant's age and years of service added together equal 90 or greater
Mortality	In 2018, the mortality projection scale was updated to MP-2017. In 2017, the table was changed to the RP-2014 table using a mortality improvement scale MP-2016. Previously,1994 GAR projected to 2002 was used.

Other: GASB 68 requires 10 years of data to be provided in the Schedule of Contributions. As SAWS adopted GASB 68 in 2014, only 5 years of data is available. A full 10 years of data will be presented by 2023.

District Special Project Retirement Income Plan
Schedule of Investment Returns (Unaudited)

	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	-1.32%	14.76%	5.98%	0.29%	8.55%

San Antonio Water System Other Post Employment Benefit Plan
Schedule of Changes in Net OPEB Liability and Related Ratios (Unaudited)

($ in thousands)

	2018	2017
Total OPEB liability		
Service Cost	$ 2,685	$ 2,428
Interest	9,520	9,221
Differences between expected and actual experience	(852)	(3,358)
Changes of assumptions	(3,386)	(351)
Benefit payments	(7,808)	(6,209)
Net change in OPEB liability	159	1,731
Total OPEB liability at beginning of year	146,691	144,960
Total OPEB liability at end of year (a)	$ 146,850	$ 146,691
Plan fiduciary net position		
Contributions - Employer	$ 15,308	$ 13,709
Net investment income / (loss)	(3,163)	7,127
Benefit payments	(7,808)	(6,209)
Administrative expenses	(159)	(144)
Net change in plan fiduciary net position	4,178	14,483
Plan fiduciary net position at beginning of year	58,511	44,028
Plan fiduciary net position at end of year (b)	$ 62,689	$ 58,511
Net OPEB liability (a) - (b)	$ 84,161	$ 88,180
Plan fiduciary net position as a percentage of the total OPEB liability	42.7%	39.9%
Covered employee payroll	$ 78,348	$ 79,417
Net OPEB liability as a percentage of total covered payroll	107.4%	111.0%

Notes to Schedule:

Total OPEB liability at December 31, 2018 is based on a rollforward of the January 1, 2018 actuarial valuation.

Changes in assumptions: In 2018, health care cost trends ultimate rate was changed to 3.84% in 2075. The mortality table was updated for 2018.

Other: GASB 74 requires 10 years of data to be provided in the Schedule of Contributions. As SAWS adopted GASB 74 in 2017, only 2 years of data is available. A full 10 years of data will be presented by 2026.

San Antonio Water System Other Post Employment Benefit Plan
Schedule of Contributions (Unaudited)

($ in thousands)

	2018	2017
Actuarially determined contribution	$ 11,392	$ 12,412
Contributions in relation to the actuarially determined contribution	15,308	13,709
Contribution deficiency/(excess)	$ (3,916)	$ (1,297)
Covered employee payroll	$ 78,348	$ 79,417
Contributions as a percentage of covered payroll	19.5%	17.3%

Notes to Schedule:

Valuation date: Actuarially determined contributions are determined as of January 1 of the year in which the contributions are made.

Methods and assumptions used to determine contributions:

Actuarial cost method	Entry Age Normal
Salary increases	Scale based on 2011-2013 SAWS experience
Mortality Assumptions:	Adjusted RP-2014 mortality with scale MP-2016 based on data published by the SOA in 2016.
Pre-retirement	RP-2014 Healthy Employee Mortality Tables, updated annually.
Postemployment	RP-2014 Healthy Employee Annuitant Tables, updated annually.
Inflation	2.50%
Wage Inflation	3.25%
Healthcare cost trend rates:	
Current Year	5.50%
Ultimate trend rate	2018 - 3.84% 2017 - 4.14%
Ultimate year	2018 - 2075 2017 - 2074
Investment	6.50%
Remaining amortization period	16 years

GASB 74 requires 10 years of data to be provided in the Schedule of Contributions. Since SAWS implemented GASB 74 in 2017, only 2 years of data is available. A full 10 years of data will be presented by 2026.

San Antonio Water System Other Post Employment Benefit Plan
Schedule of Investment Returns (Unaudited)

	2018	2017
Annual money-weighted rate of return, net of investment expense	-5.11%	14.69%

Other Post Employment Benefit Plan
Schedule of Funding Progress (Unaudited)
($ in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
January 1, 2017	$ 44,028	$ 144,960	$ 100,932	30%	$ 79,417	127%
January 1, 2016	$ 33,858	$ 125,244	$ 91,386	27%	$ 83,493	109%
January 1, 2014	$ 19,259	$ 139,574	$ 120,315	14%	$ 88,895	135%

Other Post Employment Benefit Plan
Schedule of Employer Contributions (Unaudited)
($ in thousands)

Year Ended December 31,	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
2017	$ 12,412	117%	$ 68,933
2016	$ 11,416	138%	$ 73,539
2015	$ 12,978	106%	$ 80,350

APPENDIX D

General Purpose Financial Statements for the
Schertz/Seguin Local Government Corporation for the Fiscal Year Ended September 30, 2018

(this page intentionally left blank)

SCHERTZ/SEGUIN
LOCAL GOVERNMENT CORPORATION

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2018 and 2017

Schertz Seguin
LOCAL GOVERNMENT CORPORATION

SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION

CORPORATE OFFICIALS

SEPTEMBER 30, 2018

PRESIDENT .... ROBIN DWYER

VICE-PRESIDENT .... TIMOTHY “JAKE” JACOBS

SECRETARY .... DAVID REILEY

ASSISTANT SECRETARY .... CHARLES KELM

DIRECTOR .... KEN GREENWALD

GENERAL MANAGER .... AMBER BRIGGS BEARD

SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION
ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2018

INTRODUCTORY SECTION

FINANCIAL SECTION

Armstrong, Vaughan & Associates, P. C. Certified Public Accountants
Deborah F. Fraser Phil S. Vaughan Nancy L. Vaughan Kimberly J. Roach

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Directors
Schertz/Seguin Local Government Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of the Schertz/Seguin Local Government Corporation as of and for the years ended September 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Schertz/Seguin Local Government Corporation's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Schertz/Seguin Local Government Corporation, as of September 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

941 West Byrd Blvd., Suite 101 • Universal City, Texas 78148
Phone: 210-658-6229 • Fax: 210-659-7611 • Email: info@avacpa.com • www.avacpa.com

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Armstrong, Vaughan & Associates, P.C.

Armstrong, Vaughan & Associates, P.C.

February 26, 2019

Our discussion and analysis of the Schertz/Seguin Local Government Corporation's financial performance provide an overview of the Corporation's financial activities for the fiscal year ended September 30, 2018. Please read it in conjunction with the Corporation's financial statements.

HIGHLIGHTS

Financial Highlights

- The Corporation's net position was $21.0 million at September 30, 2018.

- Total operating revenues were $18.4 million, while total operating expenses were $9.7 million.

Corporation Highlights

- The Corporation currently owns approximately 4,361 acres of land and leases water rights to another 15,147 acres in Gonzales County where the wells and treatment plant are located. SSLGC is permitted to produce 19,362 acre-feet of water per year from twelve wells.

- The Corporation currently owns approximately 1,494 acres of land and leases water rights to another 12,511 acres in Guadalupe County. SSLGC is permitted to produce for a total of 4,032.52 acre feet of water per year from the Carrizo aquifer and 1,290.4 acre feet from the Wilcox aquifer.

USING THIS ANNUAL REPORT

This annual report consists of two parts: Management's Discussion and Analysis and Financial Statements. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required financial statements

The Financial Statements of the Corporation report information about the Corporation using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Position includes all of the Corporation's assets, deferred outflows of resources, deferred inflows of resources, and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Corporation and assessing the liquidity and financial flexibility of the Corporation. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the Corporation's operations over the past year and can be used to determine whether the Corporation has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Corporation's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations as "from where did the cash come? "for what was cash used?' and "what was the change in cash balance during the reporting period?'

FINANCIAL ANALYSIS OF THE CORPORATION AS A WHOLE

One of the most important questions asked about the Corporation's finances is "Is the Corporation, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Corporation's activities in a way that will help answer this question. These two statements report the net position of the Corporation and changes in them. You can think of the Corporation's net position—the difference between assets, deferred outflows of resources, deferred inflows of resources, and liabilities—as one way to measure financial health or financial position. Over time, increases or decreases in the Corporation's net position is one indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, population growth, and new or changed legislation.

The Corporation's total net position is $21.0 million. Our analysis below focuses on the Corporation's net position (Table 1) and changes in net position (Table 2) during the year.

Table 1
Schertz-Seguin Local Government Corporation's
Net Position

	2018	2017	2016
Current Assets	$ 17,184,732	$ 15,279,192	$ 13,527,427
Restricted Assets	76,029,551	73,947,779	7,359,879
Net Property, Plant & Equipment	93,336,414	95,008,923	95,187,724
Other Assets	7,597	28,653	108,809
TOTAL ASSETS	186,558,294	184,264,547	116,183,839
Deferred Charge on Refunding	2,277,401	2,412,138	2,546,875
TOTAL DEFERRED OUTFLOWS	2,277,401	2,412,138	2,546,875
Current Liabilities	6,656,284	5,522,205	4,858,647
Revenue Bonds Payable	161,215,523	164,983,651	100,976,449
TOTAL LIABILITIES	167,871,807	170,505,856	105,835,096
Net Investment in Capital Assets	(2,296,656)	(1,956,872)	(2,288,897)
Restricted	7,559,142	6,255,257	5,364,082
Unrestricted	15,701,402	11,872,444	9,820,433
TOTAL NET POSITION	$ 20,963,888	$ 16,170,829	$ 12,895,618

Net Income before contributions was $4.8 million.

Changes in the Corporation's net position can be determined by reviewing the following condensed Statement of Revenue, Expenses, and Changes in Net Position for the year.

Table 2
Changes in Schertz-Seguin Local Government Corporation's Net Position

	2018	2017	2016
Total Operating Revenues	$ 18,447,823	$ 17,668,511	$ 16,010,417
Interest Income	1,190,130	772,494	85,829
TOTAL REVENUES	19,637,953	18,441,005	16,096,246
Total Operating Expenses	9,684,983	9,119,651	9,304,597
Interest Expense & Fiscal Agent Fees	5,201,020	5,131,266	4,313,689
Other Nonoperating Expenses	(41,109)	914,877	-
TOTAL EXPENSES	14,844,894	15,165,794	13,618,286
Net Income (Loss)	4,793,059	3,275,211	2,477,960
Net Position at Beginning of Year	16,170,829	12,895,618	10,417,658
TOTAL NET POSITION	$ 20,963,888	$ 16,170,829	$ 12,895,618

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of Fiscal year 2018, the Corporation had $93.3 million, net of depreciation, invested in capital assets, including water treatment plants, water transmission and distribution mains, water storage facilities, pump stations as well as land. This is a decrease of $1.7 million due to current depreciation in excess of current year additions. Several projects are still ongoing resulting in a balance of Projects in Progress of $6.3 million. Accumulated Depreciation increased by $2.4 million.

Table 3
Schertz-Seguin Local Government Corporation's Assets

	2018	2017	2016
Land	$ 15,349,657	$ 15,471,540	$ 15,471,540
Water Distribution System	92,511,668	91,067,482	91,067,482
Buildings and Improvements	943,377	943,377	935,492
Equipment and Vehicles	608,891	608,891	549,266
Accumulated Depreciation	(22,414,736)	(19,969,980)	(17,555,328)
	86,998,857	88,121,310	90,468,452
Projects in Progress	6,337,557	6,887,613	4,719,272
Net Property, Plant & Equipment	$ 93,336,414	$ 95,008,923	$ 95,187,724

Long Term Debt

At year-end, the Corporation had a total of $163.0 million bonds outstanding as compared to $165.4 million the previous year. No new bonds were issued during the current year.

Table 4
Schertz-Seguin Local Government Corporation's
Long-Term Debt

	2018	2017	2016
Bonds Payable	$ 163,030,000	$ 165,440,000	$ 101,245,000
Total Bonds Payable	$ 163,030,000	$ 165,440,000	$ 101,245,000

Bond Ratings

The Corporation’s bonds presently carry “AAA” ratings with underlying ratings as follows: Fitch “AA-” and Standard & Poors “A-“.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

- The Corporation has secured SWIFT funding in the amount of $66,500,000 for its current expansion project that includes the Guadalupe project and a parallel pipeline from the booster pump station in Seguin to the terminus in Schertz. The Corporation owns property in Guadalupe County that includes well sites, a treatment plant site and one existing Carrizo well. Permits for production of groundwater from the Carrizo-Wilcox aquifer have been issued by the local groundwater conservation district. The Corporation is currently acquiring the additional easements for the parallel pipeline. The design phase is scheduled to be completed in 2020. Construction of this project is projected to begin in 2020 with completion in 2022.

- Phase one of the cathodic protection project is complete providing adequate coverage for the 42 inch and 30 inch pipeline segments from the water treatment plant to the City of Seguin. The second stage for the 36 inch pipeline from Seguin to Schertz is under construction.

- Removal of obsolete chemical tanks at water treatment plant one has been completed along with the installation of additional doors to provide improved access to the original building. Evaluation is under way to determine the best utilization of that space.

- The Corporation plans to construct a Water Treatment Plant Office beginning with a request for bids in April 2019.

CONTACTING THE CORPORATION’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Corporation’s finances and to demonstrate the Corporation’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Schertz-Seguin Local Government Corporation, General Manager, P. O. Box 833, Seguin, Texas 78156-0833.

BASIC FINANCIAL STATEMENTS

SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION
COMPARATIVE STATEMENTS OF NET POSITION
SEPTEMBER 30, 2018 AND 2017

	2018	2017
ASSETS		
Current Assets:		
Cash and Cash Equivalents	**$ 15,434,928**	$ 13,198,159
Accounts Receivable	**1,638,090**	1,859,907
Other Receivables	**48,699**	158,111
Inventory	**63,015**	63,015
Total Current Assets	**17,184,732**	15,279,192
Restricted Assets:		
Cash and Cash Equivalents	**76,029,551**	73,947,779
Total Restricted Assets	**76,029,551**	73,947,779
Property, Plant & Equipment:		
Land	**15,349,657**	15,471,540
Water Distribution System	**92,511,668**	91,067,482
Buildings & Improvements	**943,377**	943,377
Equipment & Vehicles	**608,891**	608,891
Projects in Progress	**6,337,557**	6,887,613
Accumulated Depreciation	**(22,414,736)**	(19,969,980)
Net Property, Plant & Equipment	**93,336,414**	95,008,923
Other Assets:		
Lease Acquisition Costs (Net of Amortization of $846,397 and $825,341)	**7,597**	28,653
Total Other Assets	**7,597**	28,653
Total Assets	**186,558,294**	184,264,547
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charge on Refunding	**2,277,401**	2,412,138
Total Deferred Outflows of Resources	**$ 2,277,401**	$ 2,412,138

The accompanying notes are an integral part of these statements.

SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION
COMPARATIVE STATEMENTS OF NET POSITION (CONTINUED)
SEPTEMBER 30, 2018 AND 2017

LIABILITIES	2018	2017
Current Liabilities:		
Accounts Payable - Trade	$ 2,048,151	$ 1,969,279
Accounts Payable - Construction Projects	-	91,235
Accrued Interest Payable	856,981	861,197
Unearned Revenue	66,152	190,494
Current Portion of Revenue Bonds	3,685,000	2,410,000
Total Current Liabilities	6,656,284	5,522,205
Revenue Bonds Payable (Less Current Maturities and Net of Unamortized Discounts and Premiums)	161,215,523	164,983,651
Total Liabilities	167,871,807	170,505,856
NET POSITION		
Net Investment in Capital Assets	(2,296,656)	(1,956,872)
Restricted:		
Debt Service	1,240,116	882,168
Repairs and Replacement	500,000	500,000
Impact Fees	5,819,026	4,873,089
Unrestricted	15,701,402	11,872,444
Total Net Position	$ 20,963,888	$ 16,170,829

The accompanying notes are an integral part of these statements.

SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
Operating Revenue		
Water Usage Fees	**$ 17,168,285**	$ 16,415,653
Rents, Royalties & Leases	**133,668**	76,975
Impact Fees	**883,005**	849,289
Management Services Provided	**120,456**	121,823
Miscellaneous Fees	**142,409**	204,771
Total Operating Revenues	**18,447,823**	17,668,511
Operating Expenses		
Operations & Maintenance:		
Personnel Costs	**1,127,255**	981,171
Professional Services	**379,430**	267,438
Technical Services	**371,865**	368,381
Utilities	**1,805,388**	1,668,305
Repairs and Maintenance	**408,379**	295,016
General Supplies	**513,840**	505,013
Insurance	**63,912**	46,000
Other Operating Costs	**69,213**	56,949
Total Operations & Maintenance	**4,739,282**	4,188,273
Other Operating Expenses:		
Amortization of Lease Acquisition Costs	**21,056**	80,156
Annual Lease Payments - Water Rights	**2,479,889**	2,414,771
Depreciation	**2,444,756**	2,436,451
Total Other Operating Expenses	**4,945,701**	4,931,378
Total Operating Expenses	**9,684,983**	9,119,651
Operating Income (Loss)	**8,762,840**	8,548,860
Nonoperating Revenues (Expenses):		
Interest Income	**1,190,130**	772,494
Gain on Sale of Assets	**41,109**	1,414
Interest Expense and Fiscal Fees	**(5,201,020)**	(5,131,266)
Bond Issuance Costs	**-**	(916,291)
Total Nonoperating Revenues (Expenses)	**(3,969,781)**	(5,273,649)
Change in Net Position	**4,793,059**	3,275,211
Net Position - Beginning of Year	**16,170,829**	12,895,618
Net Position - End of Year	**$ 20,963,888**	$ 16,170,829

The accompanying notes are an integral part of these statements.

SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION
COMPARATIVE STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
Cash Flows From Operating Activities		
Cash Received From Customers	**$ 18,654,710**	$ 17,230,873
Cash Paid to Suppliers	**(7,140,299)**	(6,405,704)
Net Cash Provided (Used) by Operating Activities	**11,514,411**	10,825,169
Cash Flows From Capital and Related Financing Activities		
Payments Toward Projects in Progress	**(952,182)**	(2,137,607)
Purchase of Building & Improvements	**(33,183)**	(7,885)
Purchase of Equipment and Vehicles	**-**	(81,424)
Proceeds from Sale of Assets	**162,992**	1,414
Proceeds from Contract Revenue Bonds	**-**	65,583,709
Bond Interest and Fiscal Fees Paid	**(5,153,627)**	(4,925,047)
Bond Principal Payment	**(2,410,000)**	(2,305,000)
Net Cash Provided (Used) by Capital and Related Financing Activities	**(8,386,000)**	56,128,160
Cash Flows From Investing Activities		
Interest Received	**1,190,130**	772,494
Net Cash Provided (Used) by Investing Activities	**1,190,130**	772,494
Net Increase (Decrease) In Cash and Cash Equivalents	**4,318,541**	67,725,823
Cash and Cash Equivalents at Beginning of Period	**87,145,938**	19,420,115
Cash and Cash Equivalents at End of Period	**$ 91,464,479**	$ 87,145,938
Cash and Cash Equivalents as Reported on Balance Sheet:		
Cash and Cash Equivalents	**$ 15,434,928**	$ 13,198,159
Restricted Cash and Cash Equivalents	**76,029,551**	73,947,779
	$ 91,464,479	$ 87,145,938

The accompanying notes are an integral part of these statements.

SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION
COMPARATIVE STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating Income (Loss)	**$ 8,762,840**	$ 8,548,860
Adjustments to Reconcile Operating Income (Loss) to Net Cash		
Provided by Operating Activities:		
Amortization of Lease Acquisition Costs	**21,056**	80,156
Depreciation	**2,444,756**	2,436,451
(Increase) Decrease in Accounts Receivable	**221,817**	(495,572)
(Increase) Decrease in Other Receivables	**109,412**	(131,960)
(Increase) Decrease in Inventory	**-**	13,690
Increase (Decrease) in Accounts Payable	**78,872**	183,650
Increase (Decrease) in Unearned Revenue	**(124,342)**	189,894
Net Cash Provided (Used) by Operating Activities	**$ 11,514,411**	$ 10,825,169

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING ACTIVITIES:

Historical Cost of Equipment Disposed	**$ -**	$ 21,799
Accumulated Depreciation	**-**	(21,799)
Net Book Value	**$ -**	$ -

The accompanying notes are an integral part of these statements.

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Financial Reporting Entity

The Schertz/Seguin Local Government Corporation was incorporated December 23, 1998 pursuant to the provisions of the Texas Transportation Corporation Act and the Texas Local Government Code. The Corporation was organized to aid, assist, and act on behalf of the Cities of Schertz and Seguin, collectively, in acquiring, constructing, improving or extending, and maintaining and operating a water utility system for public use.

The Corporation meets the criteria of a joint venture between the cities of Schertz and Seguin with an ongoing financial responsibility. The Cities have pledged revenues from existing water utility systems to finance the operations and long-term debt of the Corporation, either through purchasing water from the Corporation or subsidizing through direct payments (reflected as "Contributions from Participating Governments"). The Corporation continues to actively pursue the development of alternate water sources.

The financial statements of the Corporation have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

2. Enterprise Fund

The Corporation is an enterprise fund. Enterprise funds are proprietary funds used to account for business-type activities provided to the general public. The activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

3. Basis of Accounting

The statements are presented on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The accrual basis of accounting is used whereby revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

4. Cash and Cash Equivalents

Cash and cash equivalents include cash deposits and investments with a maturity date within three (3) months of the date acquired by the Corporation. Cash and cash equivalents also include investments in local government pools because the pools seek to maintain a $1 per share value and average dollar weighted maturity of not more than 90 days (see also Note A-5).

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Investments

Investments consist of certificates of deposit; investments in TexPool and MBIA Asset Management Group (public funds investment pools); and obligations of the U.S. government and its agencies. Investments are recorded at fair value, except for short-term (one year or less to maturity at time of purchase) participating interest-earning investment contracts which are reported at amortized cost. In addition, non-participating contracts (such as nonnegotiable certificates of deposit) are reported at amortized cost.

Following Statement No. 72, "Fair Value Measurement and Application," the Corporation categorizes its fair value measurements within the hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

Public funds investment pools in Texas are established under the authority of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. In addition to the other provisions of the Act designed to promote liquidity and safety of principal, the Act requires pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

6. Accounts Receivable

Accounts receivable consists of amounts due from member entities and customers. Management considers all outstanding amounts to be collectible and has not recorded an allowance for doubtful accounts.

7. Inventory

Inventory of replacement parts for the water distribution system are valued at cost on a first-in, first-out basis.

8. Restricted Assets

Certain proceeds of bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Funds are segregated to report those proceeds of revenue bond issuances that are restricted for construction. Funds are also segregated to provide for debt service as provided under bond indenture agreements.

Part of the agreement for bond proceeds from the Texas Water Development Board required reserve funds to be kept in a restricted bank account to serve as collateral. These funds are shown as Investments Held in Escrow and included as Cash and Cash Equivalents under the Restricted Assets on the Statement of Net Position.

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

9. Property, Plant & Equipment

All purchased property, plant and equipment is valued at cost if purchased, and donated property is valued at the estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation of exhaustible plant and equipment is charged as an expense against operations when the asset is placed in service and accumulated depreciation is reported on the balance sheet. Depreciation is provided in amounts sufficient to relate the cost of fixed assets to operations over their estimated service lives using the straight-line method. Estimated useful lives are as follows:

Fixed Asset	Useful Life (Years)
Utility Water System	10 - 50
Building and Improvements	40
Equipment and Vehicles	5 - 20

For the years ended September 30, 2018 and 2017, depreciation in the amount of $2,444,756 and $2,436,451, respectively, was recognized.

10. Lease Acquisition and Lease Costs

Costs incurred to purchase or lease property for its water rights are capitalized. Those costs include amounts paid to landowners to enter into the leases, and legal costs. The costs are being amortized over the 10 year minimum lease term.

11. Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources,* represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Corporation only has one item that qualifies for reporting in this category: deferred charge on refunding reported in the statement of position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

12. Unearned Revenue

Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied. The Corporation does not recognize revenues for Impact Fees until a work order has been approved. Therefore, fees received in advance of approved work orders are reflected as unearned revenue.

13. Long-Term Obligations

Long-term obligations are reported as liabilities in the Corporation's balance sheet. Bond premiums and discounts are amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

14. Equity Classifications

Equity is classified as net position and displayed in three components:

a. *Net Investment in Capital Assets* – Consists of capital assets (net of accumulated depreciation) and lease acquisition costs (net of accumulated amortization) and reduced by the outstanding balances of bonds (net of premiums and discounts) and short-term notes that are attributable to the acquisition, construction or improvement of those assets. As of September 30, 2018, total outstanding debt exceeded investment in capital assets due to annual depreciation and amortization charges exceeding principal repayments on bonded debt in early years of debt issuance schedules.

b. *Restricted net position* – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. Bond covenants require a Repairs and Replacement fund be maintained and funds restricted for that purpose. Additionally, the Impact Fee Resolution requires that fees be separated and restricted (along with investment earnings) to finance water facilities generated by new development.

c. *Unrestricted net position* – All other net position that does not meet the definition of “restricted” or “net investment in capital assets”.

15. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise. For the Corporation, those revenues are charges for water provided to customers, and charges for use of property. Operating expenses are the necessary costs incurred to provide the service that is the primary activity. Revenues and expenses not meeting these definitions are reported as nonoperating.

16. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B -- DEPOSITS AND INVESTMENTS

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized in the following paragraphs.

Deposits – All deposits with financial institutions must be fully collateralized. The collateral must be held by the pledging financial institution’s trust department or equivalent. As of September 30, 2018, the carrying amount of the Corporation’s deposits was $20,590 and the bank balance was $46,709. The bank balance was fully collateralized.

NOTE B -- DEPOSITS AND INVESTMENTS (Continued)

Investments – The Corporation is required by Government Code Chapter 2256, the Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the Corporation adhered to the requirements of the Act. Additionally, investment practices of the Corporation were in accordance with local policies.

The Act determines the types of investments which are allowable for the Corporation. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

As of the end of the year (respectively), the Corporation had the following investments:

Investment Type	2018 Carrying Value	2017 Carrying Value
Local Government Investment Pools	$ 15,340,654	$ 19,745,833
Federal Bonds	9,500,000	-
FIMM Govt. Portfolio - Held in Escrow	66,603,235	65,810,203
Certificates of Deposit	-	1,496,000
	$ 91,443,889	$ 87,052,036

All of the Corporation's investments are valued using prices quoted in active markets (Level 1 inputs) except for Certificates of Deposit which are recorded at amortized cost.

Credit Risk. The Corporation's investment policy limits investments to obligations of the United States or its agencies and instrumentalities (maximum 95% of funds); direct obligations of the State of Texas; obligations of states, agencies, contracts, cities, and other political subdivisions rated as to investment quality of not less than AAA by a nationally recognized investment firm.

The Corporation may also invest up to 100% of its funds in government investment pools provided the pool maintains a AAA rating, the pool maintains a stable asset value, and the average dollar weighted maturity does not exceed 90 days. As of September 30, 2018, the Corporation had investments in TexPool and MBIA Texas Class Portfolio Holdings. The escrowed funds are invested in Fidelity Investments Money Market Government Portfolio – Class II, which also maintains a stable asset value ($1 per share) and has an average dollar weighted maturity of less than 90 days. TexPool, MBIA Texas Class Portfolio Holdings, and FIMM Govt. Portfolio – Class II are rated AAAm by Standard and Poors.

NOTE B -- DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk – Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2018, the Corporation was not subject to custodial credit risk.

NOTE C-- PROPERTY, PLANT & EQUIPMENT, AND LEASE ACQUISITION COSTS

The Corporation has acquired land and land leases for the purpose of establishing well sites and water treatment facilities. The Corporation has acquired over 4,000 acres to date for this purpose.

Changes in Land, Equipment & Vehicles, Projects in Progress, and Lease Acquisition costs are as follows:

	Balance 10/1/2017	Additions	(Retirements)	Balance 9/30/2018
Land and Rights of Way	$ 15,471,540	$ -	$ (121,883)	$ 15,349,657
Water Distribution System	91,067,482	1,444,186	-	92,511,668
Buildings & Improvements	943,377	-	-	943,377
Equipment and Vehicles	608,891	-	-	608,891
Projects in Progress	6,887,613	860,947	(1,411,003)	6,337,557
Accumulated Depreciation	(19,969,980)	(2,444,756)	-	(22,414,736)
	95,008,923	(139,623)	(1,532,886)	93,336,414
Water Lease Acquisition Costs	853,994	-	-	853,994
Less Accumulated Amortization	(825,341)	(21,056)	-	(846,397)
Total Property, Plant & Equipment and Lease Acquisition Costs (Net)	$ 95,037,576	$ (160,679)	$ (1,532,886)	$ 93,344,011

Land and Rights of Way as well as Projects in Progress are not depreciated.

NOTE D -- BONDS PAYABLE

Following is a summary of the Corporation's long-term debt transactions for the year ended September 30, 2018:

	Balance 10/1/2017	Additions	(Payments)/ Amortization	Balance 9/30/2018
Revenue Bonds, Series 2001 Original Issue $41,040,000 3.70% to 5.375%	$ 10,000,000	$ -	$ -	$ 10,000,000
Less Unamortized Discount	(41,206)	-	-	(41,206)
Revenue Bonds, Series 2010 Original Issue $22,140,000 3.00% to 4.75%	20,275,000	-	(505,000)	19,770,000
Less Unamortized Discount	(180,667)	-	12,988	(167,679)
Contract Revenue Bonds, Series 2012 Original Issue $25,425,000 2.00% to 4.00%	23,660,000	-	(620,000)	23,040,000
Plus Unamortized Premium	187,613	-	(7,817)	179,796
Revenue Refunding Bonds, Series 2014 Original Issue $6,275,000 2.00% to 3.5%	4,680,000	-	(530,000)	4,150,000
Plus Unamortized Premium	166,804	-	(20,851)	145,953
Revenue Refunding Bonds, Series 2015 Original Issue $41,720,000 2.00% to 5.00%	40,325,000	-	(730,000)	39,595,000
Plus Unamortized Premium	1,821,107	-	(67,448)	1,753,659
Contract Revenue Bonds, Series 2016, TWDB SWIRFT Original Issue $43,670,000 0.66% to 3.11%	43,670,000	-	(25,000)	43,645,000
Board Participation Program Series 2016 Original Issue $22,830,000 3.19% to 3.88%	22,830,000	-	-	22,830,000
	$ 167,393,651	$ -	$ (2,493,128)	164,900,523
Less Current Maturities				(3,685,000)
Net Long-Term Bonds Payable				$ 161,215,523

NOTE D -- BONDS PAYABLE (Continued)

The Corporation has issued bonds to provide funds to build, improve, extend, enlarge, and repair the Corporation's utility system, fund a reserve, and pay the costs of bond issuance. The bond resolution pledges intergovernmental contract revenues from the cities of Schertz and Seguin to bondholders. Under the intergovernmental water supply contract, the participating governments are unconditionally obligated to pay their respective shares of annual contract revenue bond debt service as operating expenses from their respective utility systems. The reserve fund requirement, which is average annual debt service, has been met with the purchase of a surety bond. As additional security for the bonds, the Corporation has established a reserve fund. The cash balance held in the reserve fund as of September 30, 2018 was $1,316,646.

The total unamortized deferred loss on debt refunding is $2,277,401 as of September 30, 2018 and is shown on the Statement of Net Position as a deferred outflow of resources.

The Corporation issued revenue bonds through the Board Participation Program with Texas Water Development Board in the amount of $22,830,000 on November 1, 2016. The Corporation also issued revenue bonds through the Texas Water Development Board SWIRFT Project Financing in the amount of $43,670,000 on November 1, 2016. The bonds were issued to fund development of a well field and water treatment plant known as the "Guadalupe Project" as well as develop a parallel pipeline. As of September 30, 2018, the Corporation has drawn $350,000 of the total available. The remaining funds after issuance costs are held in escrow by the Texas Water Development Board in the Corporation's name (see Note B).

Annual Requirements to amortize all long-term debt outstanding as of September 30, 2018, including interest payments, are as follows:

Year Ending September 30	Principal	Interest	Total
2019	$ 3,685,000	$ 5,071,164	$ 8,756,164
2020	3,780,000	5,145,783	8,925,783
2021	3,865,000	5,042,869	8,907,869
2022	3,985,000	5,013,058	8,998,058
2023	4,105,000	4,976,295	9,081,295
2024 - 2028	23,030,000	24,451,704	47,481,704
2029 - 2033	28,055,000	23,870,231	51,925,231
2034 - 2038	37,635,000	15,925,020	53,560,020
2039 - 2043	35,155,000	6,355,651	41,510,651
2044 - 2048	14,410,000	2,232,578	16,642,578
2049 - 2051	5,325,000	385,566	5,710,566
	$ 163,030,000	$ 98,469,919	$ 261,499,919
Average Annual Requirements			$ 7,924,240

NOTE D -- BONDS PAYABLE (Continued)

The Corporation also entered into a Cost Allocation Agreement, along with the Cities of Schertz and Seguin, whereby the City of Schertz has agreed to fund 100% of the debt service for the bonds issued to fund the Guadalupe Project in exchange for delivery of sufficient water to Schertz. The agreement contains provisions for an annual review (with modifications as necessary), the possibility of other third-party users, and separate rates established for water produced by the project.

NOTE E -- COMMITMENTS

Leases – Water Rights

The Corporation has entered into lease agreements with various land owners for rights of development, production, transportation, and use of ground water on the properties. In addition to incentive and acquisition costs (see Note A-10), the leases call for annual royalty payments based upon, at a minimum, the surface acres of the property times a royalty rate base amount ($105 - $125) adjusted for increases in the consumer price index. The minimum term of the leases is ten years, but if the Corporation continues the royalty payments, the leases remain in effect. Changes in maximum allowable production by the Gonzales County Underground Conservation District may decrease the future commitment for some leases.

Future minimum payments under the initial lease terms of the leases are as follows:

Year Ending September 30	
2019	$ 270,679
2020	23,519
	$ 294,198

As of September 30, 2018, the Corporation has leased a total of 18,414 acre feet. Total estimated annual costs of $2,318,550 are expected for the year ended September 30, 2019, assuming the leases remain in effect beyond the initial minimum term.

Contract Commitments

The Corporation had the following outstanding contract commitments as of September 30, 2018:

	Original Commitment	Incurred to Date	Outstanding Commitment
Consulting	$ 528,400	$ 238,644	$ 289,756
Engineering	1,477,000	664,325	812,675
Improvements & Repairs	2,843,174	56,849	2,786,325
Totals	$ 4,848,574	$ 959,818	$ 3,888,756

NOTE E -- COMMITMENTS (Continued)

Gonzales County Underground Water Conservation District Mitigation Fund

The Corporation has entered into an agreement with Gonzales County Underground Water Conservation District (GCUWCD) effective March 16, 2010 to fund a Mitigation Fund (the "Fund") for the purpose of investigating and evaluating mitigation claims and implementing mitigation measures for qualifying wells in Western Gonzales County. Contributions to the Fund are in lieu of the Corporation's obligation to perform its own mitigation under GCUWCD's rules.

The Corporation's initial fund principal is $30 per acre foot of water authorized to be produced and transported. The initial contribution was $530,860 and was recognized in prior financial statements as operating expenses of the system. In addition, the Corporation will pay a negotiated export fee surcharge of $0.0175 per 1,000 gallons of water exported each calendar year, except the export fee surcharge shall not be imposed during the initial 3-year period of the agreement while the Fund balance remains at or above $250,000 as of each July 1st. As of July 1, 2017, the Fund balance fell below $250,000 and the Corporation was responsible for making an additional payment in the amount of $52,098.

Monitoring Well System Construction, Operations, and Maintenance Agreement

The Corporation has entered into an agreement with Gonzales County Underground Water Conservation District (GCUWCD) effective December 30, 2016 to fund the Corporation's percentage of a project (the "Project") for the construction of new monitoring wells in Gonzales County. Contributions to the Project are based on the number of monitoring wells that each contributing party is responsible for as determined in the agreement.

The Corporation's required contribution represents 21.05% of the total cost of the project and is equal to $192,608. The total contribution will be paid in three installments related to the completion of each phase of the Project. The second contribution related to Phase II was $60,823 and was recognized during the year ended September 30, 2018.

San Antonio Water System Contract

The Corporation has entered into a Mutual Regional Water Supply Contract with San Antonio Water System (SAWS) whereby SAWS intends to deliver untreated groundwater to the Corporation, and the Corporation will deliver treated water to SAWS. The Corporation and SAWS have determined that significant efficiencies can be achieved through the agreement.

Pursuant to the agreement, SAWS has unconditionally agreed, on a take-or-pay basis, to pay the Corporation an amount equal to the debt service payments on the Contract Revenue Bonds, Series 2012. The water supply contract specifies that the agreement does not create any legal or equitable interest in the land or equipment to be purchased by the Corporation with the proceeds of the bonds. Under the take-or-pay agreement, SAWS will make monthly payments toward the debt service regardless of whether SAWS takes any water from the Corporation. For the year ended September 30, 2018, total payments received from SAWS for water treatment, water purchases and debt service were $6,458,524.

NOTE F – CONTINGENCIES

Contractual Contingencies

The Corporation has entered into contracts with the cities of Selma and Universal City (referred to as "Customers") to provide supplemental water to those cities' existing systems. The contracts call for connection fees in the amount of $2,270,171 from each customer. The Corporation has agreed to provide a conditional right to each customer of 400 acres of land with water rights in the Carrizo aquifer well field in Gonzales County, owned by the Corporation. At the election of the Corporation, or in the event the Corporation dissolves, the title to 400 acres will be transferred to the customer. The Corporation's contingent commitment does not restrict the Corporation's right to buy and sell real estate as long as the Corporation's holdings in Gonzales County do not fall below the amount necessary to fulfill this obligation.

Litigation

The Corporation filed a lawsuit against the Post Oak Clean Green, Inc. (POCG) to prevent them from getting a permit and building a landfill in the aquifer recharge zone. As of the date of this report, the litigation is still ongoing as the Corporation is appealing the permit approved by Texas Commission on Environmental Quality. Management is of the opinion that any proceedings known to exist as of September 30, 2018 are not likely to have a material adverse effect on the Corporation's financial position.

NOTE G -- RISK MANAGEMENT

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; and other claims of various natures. The Corporation contracts with the Texas Municipal League (TML), through the City of Seguin, to provide insurance coverage for property and casualty. The provider is a multi-employer group that provides a combination of risk sharing among pool participants and stop loss coverage. Contributions are set annually by TML. Liability for the Corporation is generally limited to the contributed amounts.

NOTE H -- MANAGEMENT SERVICES AGREEMENT

The Corporation operates under a Management Services Agreement with the City of Seguin whereby the City provides all financial administrative duties (including bookkeeping and record retention, purchasing, and monitoring contracts approved by the Board or General Manager) on a cost reimbursement basis. In addition, all personnel of the Corporation are employees of the City of Seguin and participate in and are subject to City policies and benefits, with the exception of the General Manager, who is an employee of the City of Schertz.

The Corporation also provides financial and administrative duties (including bookkeeping and record retention, purchasing, and monitoring contracts approved by the Board or General Manager) on a cost reimbursement basis under a Management Services Agreement with the Cibolo Valley Local Government Corporation. Funds received from the Cibolo Valley Local Government Corporation for Management Services have been shown as operating revenue on the Statement of Revenues, Expenses, and Changes in Net Position.

NOTE I -- SUBSEQUENT EVENTS

The Corporation issued Contract Revenue and Refunding Bonds, Series 2018, in the amount of $19,045,000 on December 7, 2018. The bonds are payable over 23 years at initial rates of 3.0 – 5.0%. The refunding bonds were issued to refund a portion of the 2010 revenue bonds for a savings of $1,424,506 (net present value benefit of $913,545).

Schertz Seguin

LOCAL GOVERNMENT CORPORATION

APPENDIX E

Selected Provisions of the Resolution

(this page intentionally left blank)

APPENDIX E

SELECTED PROVISIONS OF THE BOND RESOLUTION

SECTION 9: Definitions. For all purposes of this Resolution (as defined below), except as otherwise expressly provided or unless the context otherwise requires: (i) the terms defined in this Section have the meanings assigned to them in this Section, and certain terms used in Sections 36 and 53 of this Resolution have the meanings assigned to them in such Sections, and all such terms include the plural as well as the singular; (ii) all references in this Resolution to designated "Sections" and other subdivisions are to the designated Sections and other subdivisions of this Resolution as originally adopted; and (iii) the words "herein", "hereof", and "hereunder" and other words of similar import refer to this Resolution as a whole and not to any particular Section or other subdivision.

A. The term *Additional Bonds* shall mean the obligations issued in accordance with the terms and conditions prescribed in Section 19 hereof.

B. The term *Additional Obligations* shall mean collectively, any Prior Lien Obligations, Junior Lien Obligations, or Inferior Lien Obligations hereafter issued by the Corporation.

C. The term *Annual Payments* shall mean the payments, in addition to the Bond Payments, that SAWS is obligated to make to the Corporation (i) an amount (subject to annual reconciliation) calculated based upon a rate structure included in the SAWS Contract for Surplus Water (as defined in the SAWS Contract, being (essentially) treated water delivered to SAWS by the Corporation from its existing excess capacity) and (ii) an amount calculated based upon a rate structure included in the SAWS Contract for SAWS Water (as defined in the SAWS Contract, being (essentially) treated water delivered to SAWS by the Corporation from untreated water delivered to the Corporation by SAWS from its to-be-developed well-field).

D. The term *Authorized Officials* shall mean the President of the Board, Secretary of the Board, and/or the General Manager.

E. The term *Average Annual Debt Service Requirements* shall mean that average amount which, at the time of computation, will be required to pay the Debt Service Requirements on all outstanding Bonds Similarly Secured when due (either at Stated Maturity or mandatory redemption) and derived by dividing the total of such Debt Service Requirement by the number of Fiscal Years then remaining before Stated Maturity of such Bonds Similarly Secured. For purposes of this definition, a fractional period of a Fiscal Year shall be treated as an entire Fiscal Year. Capitalized interest payments provided from bond proceeds shall be excluded in making the aforementioned computation.

F. The term *Bond Fund* shall mean the special Fund or account created and established by the provisions of Section 13 of this Resolution.

G. The term *Bond Payment* shall mean the payment obligation set forth in Section 2.01A, 2.01B, and 2.02B of the SAWS Contract which obligates SAWS to pay to the Corporation, on a take-or-pay basis, on a monthly basis, an amount equal to 1/12 of the original debt service requirements on the Bonds and the other customary amounts due and owing and relating to the issuance of the Bonds as set forth in the Resolution.

H. The term *Bonds* shall mean the $______________ "SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION CONTRACT REVENUE REFUNDING BONDS, SERIES 2019 (SAN ANTONIO WATER SYSTEM EXPANSION WATER TREATMENT PROJECT 2)", dated November 15, 2019, authorized by this Resolution.

I. The term *Bonds Similarly Secured* shall mean the (i) Bonds, (ii) the Parity Bonds, and (iii) any Additional Bonds hereafter issued by the Corporation or bonds issued to refund any of the foregoing if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured by a first and prior lien on and pledge of the Pledged Revenues.

J. The term *Closing Date* shall mean the date of physical delivery of the Initial Bond for the payment in full by the Purchasers.

K. The term *Corporation* shall mean Schertz/Seguin Local Government Corporation and any other nonprofit corporation, public agency, or other entity succeeding to the powers, rights, privileges and functions of the Corporation and, when appropriate, the Board of Directors of the Corporation.

L. The term *Credit Agreement* shall mean a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase debt, purchase or sale agreements, interest rate swap agreements, or commitments or other contracts or agreements authorized, recognized, and approved by the Corporation as a Credit Agreement in connection with the authorization, issuance, security, or payment of any Bond or the acquisition of a Credit Facility.

M. The term *Credit Facility* shall mean (i) a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations under and pursuant to State law, or (ii) a letter or line of credit issued by any financial institution authorized under applicable State law to deliver such types of financial instrument.

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

O. The term *Debt Service Requirements* shall mean as of any particular date of computation, with respect to any obligations and with respect to any period, the aggregate of the amounts to be paid or set aside by the Corporation as of such date or in such period for the payment of the principal of, premium, if any, and interest (to the extent not capitalized) on such obligations; assuming, in the case of obligations without a fixed numerical rate, that such obligations bear interest calculated by assuming (i) that the interest rate for every 12-month period on such bonds is equal to the rate of interest reported in the most recently published edition of *The Bond Buyer* (or its successor) at the time of calculation as the "Revenue Bond Index" or, if such Revenue Bond Index is no longer being maintained by *The Bond Buyer* (or its successor) at the time of calculation, such interest rate shall be assumed to be 80% of the rate of interest then being paid on United States Treasury obligations of like maturity and (ii) that, in the case of bonds not subject to fixed scheduled mandatory sinking fund redemptions, that the principal of such bonds is amortized such that annual debt service is substantially level over the remaining stated life of such bonds, and further assuming in the case of obligations required to be redeemed or prepaid as to principal prior to Stated Maturity according to a fixed schedule, the principal amounts thereof will be redeemed prior to Stated Maturity in accordance with the mandatory redemption provisions applicable thereto (in each case notwithstanding any contingent obligation to redeem bonds more rapidly). For the term of any Credit Agreement in the form of an interest rate hedge agreement entered into in connection with any such obligations, Debt Service Requirements shall be computed by netting the amounts payable to the Corporation under such hedge agreement from the amounts payable by the Corporation under such hedge agreement and such obligations.

P. The term *Depository* shall mean an official depository bank of the Corporation.

Q. The term *Fiscal Year* shall mean the twelve month accounting period used by the Corporation in connection with the operation of the System, currently ending on September 30th of each year, which may be any twelve consecutive month period established by the Corporation, but in no event may the Fiscal Year be changed more than one time in any three calendar year period.

R. The term *Government Securities*, as used herein, shall mean (i) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by, the United States of America; (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; or (iv) any additional securities and obligations hereafter authorized by the laws of the State as eligible for use to accomplish the discharge of obligations such as the Bonds.

S. The term *Gross Revenues* shall mean all income and increment, including, but not limited to, any revenues, income, or connection fees which may be derived from the ownership and/or operation of the System as it is purchased, constructed or otherwise acquired, including payments pursuant to the SAWS Contract (but specifically excluding the Bond Payment portion of the Annual Payments, which is made a part of and constitutes Pledged Revenues), but shall not mean the income and increment derived from a contract or contracts with persons, corporations, municipal corporations, political subdivisions, or other entities which under the terms of the authorizing resolution(s) or order(s) that may be pledged for the requirements of the Corporation's Special Project Bonds issued particularly to finance certain facilities (even though the facilities to be financed with the Special Project Bonds are physically connected to the System) needed in performing any such contract or contracts; provided, however, that the Board of Directors of the Corporation may utilize any revenues, including those generated by the SAWS Contract other than from the Bond Payment portion of the Annual Payments, in excess of the debt service requirements on the Bonds Similarly Secured for any lawful purpose in accordance with this Resolution and the SAWS Contract.

T. The term *Holder or Holders* shall mean the registered owner, whose name appears in the Security Register, for any Bond.

U. The term *Inferior Lien Obligations* shall mean (i) any bonds, notes, warrants, or other obligations hereafter issued by the Corporation payable wholly or in part from a pledge of and lien on Net Revenues of the System, all as further provided in Section 21 of this Resolution, which is subordinate and inferior to the lien on and pledge thereof securing the payment of any Prior Lien Obligations or Junior Lien Obligations hereafter issued by the Corporation, and (ii) obligations hereafter issued to refund any of the foregoing that are payable from and equally and ratably secured by a subordinate and inferior lien on and pledge of the Net Revenues as determined by the Board of Directors in accordance with any applicable law.

V. The term *Interest Payment Date* shall mean the date semiannual interest is payable on the Bonds, being February 1 and August 1 of each year, commencing February 1, 2020, while any of the Bonds remain Outstanding.

W. The term *Junior Lien Obligations* shall mean (i) any bonds, notes, warrants, or any similar obligations hereafter issued by the Corporation that are payable wholly or in part from and equally and ratably secured by a junior and inferior lien on and pledge of the Net Revenues of the System, all as further provided in Section 21 of this Resolution and (ii) obligations hereafter issued to refund any of the foregoing that are payable from and equally and ratably secured by a junior and inferior lien on and pledge of the Net Revenues as determined by the Board of Directors in accordance with any applicable law.

X. The term *Maintenance and Operating Expenses* shall mean the expenses necessary to provide for the administration, efficient operation and adequate maintenance of the Corporation's System, including the cost of purchasing water, paying necessary wages, salaries, and benefits, the acquisition of property and materials necessary to maintain the System in good condition and to operate it efficiently, together with such other costs and expenses as may now or hereafter be defined by law as proper maintenance and operating expenses of the System.

Y. The term *Net Revenues* shall mean Gross Revenues of the System, with respect to any period, after deducting the System's Maintenance and Operating Expenses during such period.

Z. The term *Outstanding* shall mean when used in this Resolution with respect to Bonds means, as of the date of determination, all Bonds issued and delivered under this Resolution, except:

(1) those Bonds canceled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation;

(2) those Bonds for which payment has been duly provided by the Corporation in accordance with the provisions of Section 38 of this Resolution by the irrevocable deposit with the Paying Agent/Registrar, or an authorized escrow agent, of money or Government Securities, or both, in the amount necessary to fully pay the principal of, premium, if any, and interest thereon to maturity or redemption, as the case may be, provided that, if such Bonds are to be redeemed, notice of redemption thereof shall have been duly given pursuant to this Resolution or irrevocably provided to be given to the satisfaction of the Paying Agent/Registrar, or waived; and

(3) those Bonds that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof as provided in Section 34 of this Resolution.

AA. The term *Parity Bonds* shall mean the Schertz/Seguin Local Government Code Contract Revenue Bonds, Series 2012 (San Antonio Water Expansion Water Treatment Project 2), dated June 1, 2012, in the original principal amount of $25,425,000 and that remain outstanding after issuance of the Bonds and the refunding of the Refunded Obligations.

BB. The term *Pledged Revenues* shall mean (i) the Bond Payment portion of the Annual Payments, plus (ii) any additional revenues, income, receipts, or other resources, including, without limitation, any grants, donations, or income received or to be received from the United States Government, or any other public or private source, whether pursuant to an agreement or otherwise, which hereafter are pledged by the Corporation to the payment of the Bonds Similarly Secured.

CC. The term Prior Lien Obligations shall mean (i) those obligations heretofore issued by the Corporation and are payable from and secured by a first and prior lien on a pledge of the Net Revenues, (ii) any bonds, notes, warrants, and other evidences of indebtedness which the Corporation reserves the right to issue or enter into, as the case may be, in the future under the terms and conditions provided in Section 20 of this Resolution and which are equally and ratably secured solely by a first and prior lien on and pledge of the Net Revenues of the System, and (iii) obligations hereafter issued to refund any of the foregoing if issued in a manner so as to be payable from and secured by a first and prior lien on and pledge of the Net Revenues as determined by the Board in accordance with applicable law.

DD. The term *Purchasers* shall mean the initial purchaser or purchasers of the Bonds named in Section 35 of this Resolution.

EE. The term *Renewal and Replacement Fund* shall mean the special fund created and established by the provisions of Section 15 of this Resolution.

FF. The term *Reserve Fund* shall mean the special fund created and established by the provisions of Section 14 of this Resolution.

GG. The term *Resolution* shall mean this resolution adopted by the Board on October 17, 2019.

HH. The term *SAWS Contract* shall mean the Mutual Regional Water Supply Contract, dated as of January 1, 2011, together with amendments and supplements thereto (which by the term of such instrument is designated as a supplement to such SAWS Contract), a conformed copy of such SAWS Contract being attached hereto as Exhibit G for the purposes of identification.

II. The term *Special Project Bonds* shall mean bonds which the Corporation expressly reserves the right to issue in Section 22 of this Resolution.

JJ. The term *Stated Maturity* shall mean the annual principal payments of the Bonds payable on February 1 of each year, as set forth in Section 2 of this Resolution.

KK. The term *System* shall mean the works, improvements, facilities, plants, equipments, appliances, property, easements, leaseholds, licenses, privileges, right of use or enjoyment, contract rights or other interests in property comprising the utility system of the Corporation, including the Project, now owned or to be hereafter purchased, constructed or otherwise acquired whether by deed, contract or otherwise, together with any additions or extensions thereto or improvements and replacements thereof, or the utility system of any other entity to which the Corporation has contractual rights of use, except the facilities which the Corporation may purchase or acquire with the proceeds of the sale of Special Project Bonds, so long as such Special Project Bonds are outstanding, notwithstanding that such facilities may be physically connected with the System.

SECTION 10: Pledge of the Pledged Revenues.

A. The Corporation hereby covenants and agrees that the Pledged Revenues are hereby irrevocably pledged to the payment and security of the Bonds Similarly Secured including the establishment and maintenance of the special funds or accounts created and established for the payment and security thereof, all as hereinafter provided, subject to the provisions of Section 38 hereof, and it is hereby resolved that the Bonds Similarly Secured, and the interest thereon, shall constitute a lien on and pledge of the Pledged Revenues and be valid and binding without any physical delivery thereof or further act by the Corporation, and the lien created hereby on the Pledged Revenues for the payment and security of the Bonds Similarly Secured shall be prior in right and claim as to any other indebtedness, liability, or obligation of the Corporation or the System. Subject to the provisions of Section 38 hereof, and subject to the prior lien on and pledge of the Net Revenues securing the payment of any Additional Obligations hereafter issued by the Corporation, the Corporation may use excess Net Revenues to pay debt service on the Bonds Similarly Secured (but no portion of Gross Revenues or Net Revenues are included in Pledged Revenues).

B. Chapter 1208, Texas Government Code, as amended, applies to the issuance of the Bonds Similarly Secured and the pledge of Pledged Revenues granted by the Corporation under subsection A. of this Section, and such pledge is therefore valid, effective, and perfected. If Texas law is amended at any time while the Bonds Similarly Secured are outstanding and unpaid such that the pledge of the Pledged Revenues granted by the Corporation is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, then in order to preserve to the registered owners of the Bonds Similarly Secured the perfection of the security interest in this pledge, the Corporation agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code and enable a filing to perfect the security interest in this pledge to occur.

SECTION 11: Rates and Charges. For the benefit of the Holders of the Bonds Similarly Secured and in addition to all provisions and covenants in the laws of the State and in this Resolution, the Corporation hereby expressly stipulates and agrees, while any of the Bonds Similarly Secured are Outstanding, to establish and maintain rates and charges for facilities and services afforded by the System that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Gross Revenues in each Fiscal Year sufficient:

A. To pay all Maintenance and Operating Expenses, or any expenses required by statute to be a first claim on and charge against the Gross Revenues of the System;

B. To produce Net Revenues, together with any other lawfully available funds, sufficient to pay the principal of and interest on any Prior Lien Obligations hereafter issued by the Corporation and the amounts required to be deposited in any reserve, contingency, or redemption fund or account created for the payment and security of any Prior Lien Obligations, and any other obligations or evidences of indebtedness issued or incurred that are payable from and secured solely by a prior and first lien on and pledge of the Net Revenues of the System;

C. To produce Net Revenues, together with any other lawfully available funds, sufficient to pay the principal of and interest on any Junior Lien Obligations hereafter issued by the Corporation and the amounts required to be deposited in any reserve, contingency, or redemption fund or account created for the payment and security of any Junior Lien Obligations, and any other obligations or evidences of indebtedness issued or incurred that are payable from and secured solely by a junior and inferior lien on and pledge of the Net Revenues of the System;

D. To produce Net Revenues, together with any other lawfully available funds, sufficient to pay the principal of and interest on any Inferior Lien Obligations hereafter issued by the Corporation and the amounts required to be deposited in any reserve, contingency, or redemption fund or account created for the payment and security of any Inferior Lien Obligations, and any other obligations or evidences of indebtedness issued or incurred that are payable from and secured solely by a subordinate and inferior lien on and pledge of the Net Revenues of the System; and

E. To produce Net Revenues, together with any other lawfully available funds, including the Pledged Revenues, to pay the principal of and interest on the Bonds Similarly Secured as the same become due and payable and to deposit the amounts required to be deposited in any special fund or account, including the Bond Fund, any Reserve Fund, and any Renewal and Replacement Fund, created and established for the payment and security of the Bonds Similarly Secured.

SECTION 12: System Fund. The Corporation hereby covenants and agrees that the Gross Revenues of the System shall be deposited, as collected and received, into a separate Fund or account hereby created, established, and maintained with the Depository known as the "Schertz/Seguin Local Government Corporation Revenue Fund" (the *System Fund*) and that the Gross Revenues of the System shall be kept separate and apart from all other funds of the Corporation. All Gross Revenues deposited into the System Fund shall be pledged and appropriated to the extent required for the following uses and in the order of priority shown:

- FIRST: to the payment of all necessary and reasonable Maintenance and Operating Expenses as defined herein or required by statute, to be a first charge on and claim against the Gross Revenues of the System.

- SECOND: to the payment of the amounts required to be deposited into the bond, reserve, contingency, or redemption funds created and established for the payment of any Prior Lien Obligations hereafter issued by the Corporation as the same become due and payable.

- THIRD: to the payment of the amounts required to be deposited into the bond, reserve, contingency, or redemption funds created and established for the payment of any Junior Lien Obligations hereafter issued by the Corporation as the same become due and payable.

- FOURTH: to the payment of the amounts required to be deposited into the bond, reserve, contingency, or redemption funds created and established for the payment of any Inferior Lien Obligations hereafter issued by the Corporation as the same become due and payable.

- FIFTH: to the payment of the amounts that must be deposited in any special funds or accounts, including the Bond Fund, any Reserve Fund, if any, and any Renewal and Replacement Fund, created and established for the payment and security of the Bonds Similarly Secured.

Any Net Revenues remaining in the System Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other Corporation purpose now or hereafter permitted by law.

SECTION 13: <u>Bond Fund; Surplus Bond Proceeds</u>. For purposes of providing funds to pay the principal of and interest on the Bonds Similarly Secured as the same become due and payable, the Corporation agrees to maintain, at the Depository, a separate and special Fund or account previously created and known as the "Schertz/Seguin Local Government Corporation Contract Revenue Refunding Bonds, Series 2019 (San Antonio Water System Expansion Water Treatment Project 2) Interest and Sinking Fund" (the *Bond Fund*). The Corporation covenants that the Bond Payment portion of the Annual Payment and any other Pledged Revenues shall be deposited immediately upon receipt by the Corporation into the Bond Fund. The Authorized Officials covenant that there shall be deposited into the Bond Fund prior to each principal and interest payment date from the available Pledged Revenues (being, primarily, the Bond Payment portion of the Annual Payments) an amount equal to one hundred per cent (100%) of the amount required to fully pay the interest on and the principal of the Bonds Similarly Secured then stated to mature and payable, such deposits to pay maturing principal and accrued interest on the Bonds

Similarly Secured to be made in substantially equal monthly installments on or before the tenth day of each month, beginning, with respect to accrued interest on the Bonds, on or before the tenth day of the month next following the delivery of the Bonds to the Purchasers. If the Pledged Revenues in any month are insufficient to make the required payments into the Bond Fund, then the amount of any deficiency in such payment shall be added to the amount otherwise required to be paid into the Bond Fund in the next month.

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

Accrued interest in the amount of $________________ received from the Purchasers shall be taken into consideration and reduce the amount of the monthly deposits hereinabove required to be deposited into the Bond Fund from the Bond Payment portion of the Annual Payments. Additionally, any proceeds of the Bonds, and investment income thereon, not expended for authorized purposes shall be deposited into the Bond Fund and shall be taken into consideration and reduce the amount of monthly deposits required to be deposited into the Bond Fund from the Pledged Revenues.

SECTION 14: Reserve Fund. The Corporation will not establish a debt service reserve fund (the *Reserve Fund*) relating to the issuance of the Bonds, but expressly reserves the right to create and fund a Reserve Fund prospectively with the issuance of any Additional Bonds in an amount to be determined at the time of issuance of such Additional Bonds and which may be funded, in one or more installments over time from lawfully available Corporation funds or other methods at such time permitted under applicable law (including by the acquisition of a Credit Facility or Credit Agreement from a Credit Provider).

SECTION 15: Renewal and Replacement Fund. The Corporation will not establish a major maintenance repair fund (the *Renewal and Replacement Fund*) in conjunction with the issuance of the Bonds, but expressly reserves the right to create and fund from lawfully available funds a Renewal and Replacement Fund at any time while the Bonds are outstanding, including upon the issuance of any Additional Bonds prospectively.

SECTION 16: Deficiencies - Excess Net Revenues. If on any occasion there shall not be sufficient Pledged Revenues to make the required deposits into the Bond Fund, the Reserve Fund, and the Renewal and Replacement Fund, then such deficiency shall be cured as soon as possible from the next available unallocated Pledged Revenues, or from any other sources available for such purpose, and such payments shall be in addition to the amounts required to be paid into these Funds or accounts during such month or months. Subject to making the required deposits to the Bond Fund, the Reserve Fund, if any, and the Renewal and Replacement Fund, if any, when and as required by this Resolution, or any resolution authorizing the issuance of Additional Bonds or Additional Obligations, the excess Net Revenues of the System may be used by the Corporation for any lawful purpose including, but not limited to, the payment of the Debt Service Requirements on or redemption of any Bonds Similarly Secured.

SECTION 17: Payment of Bonds. While any of the Bonds Similarly Secured are outstanding, any Authorized Official shall cause to be transferred to the Paying Agent/Registrar therefor, from funds on deposit in the Bond Fund, and, if necessary, in the Reserve Fund, if any, and the Renewal and Replacement Fund, if any, amounts sufficient to fully pay and discharge promptly each installment of interest on and principal of the Bonds Similarly Secured as such installment accrues or matures; such transfer of funds must be made in such manner as will cause immediately available funds to be deposited with the Paying Agent/Registrar for the Bonds Similarly Secured at the close of the business day next preceding the date a debt service payment is due on the Bonds Similarly Secured.

SECTION 18: Investments. Funds held in any Fund or account created, established, or maintained pursuant to this Resolution shall, at the option of the Corporation, be placed in time deposits, certificates of deposit, guaranteed investment contracts, or similar contractual agreements as permitted by the provisions of the Public Funds Investment Act, as amended, Chapter 2256, Texas Government Code, or any other law, and secured (to the extent not insured by the Federal Deposit Insurance Corporation) by obligations of the type hereinafter described, including investments held in book-entry form, in securities including, but not limited to, direct obligations of the United States of America, obligations guaranteed or insured by the United States of America, which, in the opinion of the Attorney General of the United States, are backed by its full faith and credit or represent its general obligations, or invested in indirect obligations of the United States of America, including, but not limited to, evidences of indebtedness issued, insured, or guaranteed by such governmental agencies as the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Government National Mortgage Association, Farmers Home Administration, Federal Home Loan Mortgage Association, or Federal Housing Association; provided that all such deposits and investments shall be made in such a manner that the money required to be expended from any Fund or account will be available at the proper time or times. Such investments (except State and Local Government Series investments held in book entry form, which shall at all times be valued at cost) shall be valued in terms of current market value within 45 days of the close of each Fiscal Year and, with respect to investments held for the account of the Reserve Fund and the Renewal and Replacement Fund, within 30 days of the date of passage of each resolution authorizing the issuance of any Additional Bonds. All interest and income derived from deposits and investments in the Bond Fund immediately shall be credited to, and any losses debited to, the Bond Fund. All interest and interest income derived from deposits in and investments of the Reserve Fund, if any, and the Renewal and Replacement Fund, if any, shall, subject to the limitations, if any, included in the documentation authorizing their respective creation, be credited to and deposited in the System Fund. All such investments shall be sold promptly when necessary to prevent any default in connection with the Bonds Similarly Secured.

SECTION 19: Issuance of Additional Bonds. In addition to the right to issue bonds of inferior lien as authorized by the laws of this State, the Corporation reserves the right hereafter to issue Additional Bonds. The Additional Bonds, when issued, shall be payable from and secured by a lien on and pledge of the Pledged Revenues in the same manner and to the same extent as are any then-outstanding Bonds Similarly Secured and any Bonds Similarly Secured shall in all respects be of equal dignity. The Additional Bonds may be issued in one or more installments provided, however, that no Additional Bonds, shall be issued unless and until the following conditions have been met:

A. The Corporation is not then in default as to any covenant, condition or obligation prescribed in a resolution authorizing the issuance of the Bonds, any Parity Bonds, or the SAWS Contract (including any amendment or supplement thereto).

B. The Cities and SAWS (as defined in the SAWS Contract), have approved resolutions authorizing the issuance of the Additional Bonds as to form and content and acknowledged that the payment of principal of and interest on such Additional Bonds is payable, in whole or in part, from the Bond Payment portion of the Annual Payments to be made by SAWS to the Corporation under and pursuant to the SAWS Contract, as the same is then amended or supplemented to provide for such Additional Bonds.

C. The Additional Bonds are to mature on February 1 in each of the years in which they are scheduled to mature.

D. The Resolution authorizing the issuance of the Additional Bonds provides for deposits to be made to the Bond Fund in amounts sufficient to pay the principal of and interest on such Additional Bonds as the same become due.

E. The Bonds Similarly Secured may be refunded (pursuant to any law then available) upon such terms and conditions as the governing body of the Corporation may deem in the best interest of the Corporation.

SECTION 20: <u>Issuance of Prior Lien Obligations</u>. The Corporation also reserves the right to issue Prior Lien Obligations that are payable from and secured by a first and prior lien and pledge of the Net Revenues of the System. The Corporation covenants and agrees, however, it will not issue any Prior Lien Obligations unless:

A. Except for a refunding to cure a default, the Corporation is not then in default as to any covenant, condition or obligation prescribed by the resolutions authorizing the issuance of the Bonds Similarly Secured.

B. Each of the funds created solely for the payment of principal of and interest on the Bonds Similarly Secured contains the amounts of money then required to be on deposit therein.

In addition, the Prior Lien Obligations may be refunded pursuant to any law then available upon such terms and conditions as the Board may deem to be in the best interest of the Corporation and its inhabitants.

SECTION 21: <u>Obligations of Inferior Lien and Pledge</u>. The Corporation hereby reserves the right to issue, at any time, obligations including, but not limited to, Junior Lien Obligations and Inferior Lien Obligations payable from and secured, in whole or in part, by a lien on and pledge of the Net Revenues of the System, subordinate and inferior in rank and dignity to the lien on and pledge of such Net Revenues securing the payment of any Prior Lien Obligations hereafter issued by the Corporation as may be authorized by the laws of the State.

SECTION 22: <u>Special Project Bonds</u>. The Corporation further reserves the right to issue bonds in one or more installments for the purchase, construction, improvement, extension, replacement, enlargement or repair of utility facilities necessary under a contract or contracts with persons, corporations, municipal corporations, political subdivisions, or other entities, such bonds to be payable from and secured by the proceeds of such contract or contracts. The Corporation further reserves the right to refund such bonds and secure the payment of the debt service requirements on the refunding bonds in the same manner or as otherwise permitted by the laws of the State.

SECTION 23: Maintenance of System - Insurance. The Corporation covenants, agrees, and affirms its covenants that while the Bonds Similarly Secured remain outstanding it will maintain and operate the System with all possible efficiency and maintain casualty and other insurance on the properties of the System and its operations of a kind and in such amounts customarily carried by municipal corporations in the State engaged in a similar type of business (which may include an adequate program of self-insurance); and that it will faithfully and punctually perform all duties with reference to the System required by the laws of the State. All money received from losses under such insurance policies, other than public liability policies, shall be retained for the benefit of the holders of the Bonds Similarly Secured until and unless the proceeds are paid out in making good the loss or damage in respect of which such proceeds are received, either by replacing the property destroyed or repairing the property damaged, and adequate provision for making good such loss or damage must be made within ninety (90) days after the date of loss. The payment of premiums for all insurance policies required under the provisions hereof shall be considered Maintenance and Operating Expenses. Nothing in this Resolution shall be construed as requiring the Corporation to expend any funds which are derived from sources other than the operation of the System but nothing herein shall be construed as preventing the Corporation from doing so.

SECTION 24: Records and Accounts - Annual Audit. The Corporation covenants, agrees, and affirms its covenants that so long as any of the Bonds Similarly Secured remain outstanding, it will keep and maintain separate and complete records and accounts pertaining to the operations of the System in which complete and correct entries shall be made of all transactions relating thereto as provided by applicable law. The Holders of the Bonds or any duly authorized agent or agents of such Holders shall have the right to inspect the System and all properties comprising the same. The Corporation further agrees that following the close of each Fiscal Year, it will cause an audit of such books and accounts to be made by an independent firm of certified public accountants. A copy of each annual audit shall be made publically available in the manner described in Section 53 hereof. Expenses incurred in making the annual audit of the operations of the System are to be regarded as Maintenance and Operating Expenses.

SECTION 27: Special Covenants. The Corporation further covenants and agrees that:

A. Encumbrance and Sale. (i) The Pledged Revenues have not in any manner been pledged to the payment of any debt or obligation of the Corporation except with respect to the Bonds; and while any of the Bonds Similarly Secured are Outstanding, the Corporation will not, except as provided in this Resolution, additionally encumber the Pledged Revenues.

(ii) While the Bonds Similarly Secured are Outstanding, and except as specifically permitted in Section 19, 20, 21, and 22, of this Resolution, the Corporation shall not mortgage, pledge, encumber, sell, lease, or otherwise dispose of or impair its title to the System or any significant or substantial part thereof.

B. Title. The Corporation or SAWS lawfully owns or will own and is or will be lawfully possessed of the lands or easements upon which its System is and will be located, and has or will purchase good and indefeasible estate in such lands in fee simple, or has or will lawfully obtain any necessary easements to operate the System, and it warrants that it has or will obtain and will defend, the title to all the aforesaid lands and easements for the benefit of the owners of the Bonds Similarly Secured against the claims and demands of all persons whomsoever, that it is lawfully qualified to pledge the Bond Payment portion of the Annual Payments to the payment of the Bonds Similarly Secured, in the manner prescribed herein, and that it has lawfully exercised such rights.

(i) Liens. The Corporation will from time to time and before the same become delinquent pay and discharge all taxes, assessments, and governmental charges, if any, which shall be lawfully imposed upon it, or its System, and it will pay all lawful claims for rents, royalties, labor, materials, and supplies which if unpaid might by law become a lien or charge upon its System, provided, however, that no such tax, assessment, or charge, and that no such claims which might be or other lien or charge, shall be required to be paid while the validity of the same shall be contested in good faith by the Corporation.

(ii) Performance. The Corporation will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in the resolutions authorizing the issuance of Bonds Similarly Secured, and in each and every Bond Similarly Secured and pay from the Bond Payment portion of the Annual Payments the principal of and interest on every Bond Similarly Secured on the dates and in the places and manner prescribed in such resolutions and Bonds; and that it will, at the times and in the manner prescribed, deposit or cause to be deposited from the Bond Payment portion of the Annual Payments the amounts required to be deposited into the Bond Fund; and the Holder of the Bonds may require the Corporation, its officials, agents, and employees to carry out, respect, or enforce the covenants and obligations of this Resolution or any resolution authorizing the issuance of Additional Bonds including, but without limitation, the use and filing of mandamus proceedings, in any court or competent jurisdiction, against the Corporation, its officials, agents, and employees.

(iii) Legal Authority. The Corporation is duly authorized under the laws of the State to issue the Bonds; that all action on its part for the authorization and issuance of the Bonds has been duly and effectively taken, and the Bonds in the hands of the Holders thereof are and will be valid and enforceable special obligations of the Corporation in accordance with their terms.

(iv) Budget. The Corporation will prepare, adopt, and place into effect an annual budget (the *Annual Budget*) for operation and maintenance of the System for each Fiscal Year, including in each Annual Budget such items as are customarily and reasonably contained in a utility system budget under generally accepted accounting procedures.

(v) Permits. The Corporation will comply with all of the terms and conditions of any and all franchises, permits, and authorizations applicable to or necessary with respect to the System and which have been obtained from any governmental agency; and the Corporation has or will obtain and keep in full force and effect all franchises, permits, authorizations, and other requirements applicable to or necessary with respect to the acquisition, construction, equipment, operation, and maintenance of the System.

SECTION 28: Limited Obligations of the Corporation. The Bonds are limited, special obligations of the Corporation payable from and equally and ratably secured, together with the Bonds Similarly Secured, solely by a lien on and pledge of the Bond Payment portion of the Annual Payments, and the Holders thereof shall never have the right to demand payment of the principal or interest on the Bonds from any funds raised or to be raised through taxation by the Corporation.

SECTION 29: Security of Funds. All money on deposit in the Funds or accounts for which this Resolution makes provision (except any portion thereof as may be at any time properly invested as provided herein) shall be secured in the manner and to the fullest extent required by the laws of the State for the security of public funds, and money on deposit in such Funds or accounts shall be used only for the purposes permitted by this Resolution.

SECTION 30: Remedies in Event of Default. In addition to all the rights and remedies provided by the laws of the State, the Corporation covenants and agrees particularly that in the event the Corporation (a) defaults in the payments to be made to the Bond Fund, Reserve Fund, or Renewal and Replacement Fund, or (b) defaults in the observance or performance of any other of the covenants, conditions, or obligations set forth in this Resolution, the Holders of any of the Bonds shall be entitled to seek a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the governing body of the Corporation and other officers of the Corporation to observe and perform any covenant, condition, or obligation prescribed in this Resolution.

No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient. The specific remedy herein provided shall be cumulative of all other existing remedies and the specification of such remedy shall not be deemed to be exclusive.

* * * *

APPENDIX F

The Mutual Regional Water Supply Contract

(this page intentionally left blank)

First Amendment to Mutual Regional Water Supply Contract

This First Amendment to Mutual Regional Water Supply Contract ("First Amendment") is entered into by and among the **Schertz/Seguin Local Government Corporation** (the "Corporation"), a non-profit corporation of the State of Texas (the "State"), created and existing under the laws of the State, including the Texas Transportation Corporation Act, as amended, Texas transportation Code Section 431.001 et. Seq., the **City of Schertz, Texas**, a home-rule city ("Schertz"); the **City of Seguin, Texas,** a home-rule city ("Seguin"); and the **City of San Antonio, Texas**, a home-rule city, acting by and through its **San Antonio Water System** ("SAWS").

Recitals

Whereas, the Corporation, Schertz, Seguin, and SAWS (collectively the Parties") entered into that certain Mutual Regional Water Supply Contract (the "Water Supply Contract") effective on January 1, 2011, for delivery and treatment of water; and

Whereas, the Parties desire to amend the Water Supply Contract to change certain requirements for administration, water delivery and water purchase;

Now therefore, in consideration of the mutual covenants and agreements herein contained, the sufficiency of which are hereby acknowledged, and upon and subject to the terms and conditions hereinafter set forth, the Parties mutually undertake, promise and agree as follows:

1. Section 1.01.D. Notice is deleted and replaced in its entirety by the following:

   Section 1.01.D. Surplus Water Commitment. Subject to Section 1.11.B and further subject to a delivery schedule mutually determined by the Parties on an annual basis, SAWS shall be obligated to accept into the SAWS Water System and pay the Corporation for Surplus Water in the following amounts in calendar years 2018 through 2020 (the "Minimum Surplus Water Amounts"):

   a. 500 acre-feet in calendar year 2018;
   b. 500 acre-feet in calendar year 2019; and
   c. 500 acre-feet in calendar year 2020.

   After December 31, 2020, SAWS shall not be obligated to accept any amount of Surplus Water into the SAWS Water System and shall not be obligated to pay the Corporation for any Surplus Water not accepted by SAWS. SAWS shall pay the Corporation on a monthly basis at the rate set forth in Section 2.03.B for (a) Minimum Surplus Water Amounts which have been actually delivered by the Corporation in compliance with this Contract, (b) any additional amount of Surplus Water for which timely notice of acceptance has been given by SAWS and which has been actually delivered by the Corporation, and (c) such incidental additional amounts of water not to exceed twenty-five acre-feet per calendar year delivery of which is attributable to accounting and operational procedures. The Corporation shall use data obtained from the SAWS Supervisory Control and Data Acquisition System ('SCADA") at 11:59 p.m. on the final day of each month as the official monthly measurement of the water volume delivered to SAWS. The Corporation may make available to any person the amount of Surplus Water in excess of the volume of Surplus Water that SAWS agreed to accept.

2. Section 1.01.E. Surplus Water Commitment is deleted and replaced in its entirety by the following:

   Section 1.01.E. Surplus Water Notice. The Corporation hereby notifies SAWS that the Minimum Surplus Water Amounts will be available from the Corporation in calendar years 2018 through 2020. The Corporation may notify SAWS in writing at any time if an additional amount of Surplus Water ("Additional Surplus Water Amount") in excess of the Minimum Surplus Water Amount for the following calendar year becomes available for SAWS. Within thirty (30) calendar days of receipt of the written notice, SAWS shall notify the Corporation in writing of the Additional Surplus Water Amount SAWS agrees to accept.

3. The second sentence of Section 2.02.D. SAWS Water is amended to read as follows:

   SAWS shall notify the Corporation in writing on or before April 1 of each year during the term of this Contract of the amount of groundwater SAWS and its sources will be authorized by the GCUWCD to pump in the following calendar year (the "Annual Authorized Pumping Amount").

4. Section 2.03.G. Annual Projected Volume is deleted and replaced in its entirety by the following:

   Section 2.03.G. Annual Preliminary and Final Notice of Rates.

   1. Each year on or before May 1 beginning in 2017, the Corporation shall provide preliminary written notice to SAWS of the anticipated rate to be paid by SAWS for (a) treatment and transportation of SAWS water, and (b) Surplus Water; subject only to unforeseen adjustments necessitated by the Corporation's final budget development before July 1.
   2. Each year on or before July 1 beginning in 2017, the Corporation shall provide written notice to SAWS of the rate to be paid by SAWS for (a) treatment and transportation of SAWS water, and (b) Surplus Water; all in accordance with this Section 2.03, for the following calendar year.
   3. Both the preliminary written notice and the final written notice shall include supporting information and documentation sufficient to enable SAWS to evaluate the basis for any adjustments to the current rates.
   4. Within fourteen (14) calendar days of receipt by SAWS of each notice, SAWS will notify the Corporation in writing of any objections to the adjustments. Within fourteen (14) calendar days of receipt by the Corporation of the written objections, the parties shall meet and attempt to resolve any objections by

SAWS. This subsection G relates only to the determination of Operation and Maintenance Charges and does not relate in any way to the debt service on the Contract Revenue Bonds.

5. The terms of this First Amendment shall be construed as part of the terms of the Water Supply Contract in all respects. In the event the terms, covenants or conditions of this First Amendment conflict with the terms, covenants or conditions of the Water Supply Contract, the terms of this First Amendment shall control. All other terms and conditions of the Water Supply Contract remain in full force and effect. Capitalized terms used but not otherwise defined herein shall have the respective meanings ascribed to such terms in the Water Supply Contract.

6. This First Amendment may be executed in counterparts, each of which shall be an original and all of which together shall constitute but one and the same instrument.

7. The effective date of this First Amendment is January 1, 2017.

IN WITNESS WHEREOF, the Parties acting under authority of their respective governing bodies have caused this First Amendment to be duly executed as of the Effective Date.

SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION

By: ______________________

President, Board of Directors

Attest:

____

Secretary, Board of Directors

SAN ANTONIO WATER SYSTEM

By: ______________________

Robert R. Puente

President/Chief Executive officer

CAROLINE G. GONZALES
My Notary ID # 130329928
Expires August 13, 2019

Attest:

____

CITY OF SCHERTZ, TEXAS

By: ______________________

City Manager

Attest:

____

City Secretary

CITY OF SEGUIN, TEXAS

By: ______________________

City Manager

Attest:

____

City Secretary

SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION

By: Robin V. Dwyer

President, Board of Directors

Attest: Daniel A. Riley

Secretary, Board of Directors

SAN ANTONIO WATER SYSTEM

By: ______________________

Robert R. Puente

President/Chief Executive officer

Attest:

____

CITY OF SCHERTZ, TEXAS

By: ______________________

City Manager

Attest: Brenda Dennis

City Secretary

CITY OF SEGUIN, TEXAS

By: ______________________

City Manager

Attest:

____

City Secretary

MUTUAL REGIONAL WATER SUPPLY CONTRACT

THIS MUTUAL REGIONAL WATER SUPPLY CONTRACT (this "Contract") is entered into by and among the **Schertz/Seguin Local Government Corporation** (the **"Corporation"**), a non-profit corporation of the State of Texas (the "State"), created and existing under the laws of the State, including the Texas Transportation Corporation Act, as amended, Texas Transportation Code Section 431.001 et. seq., the **City of Schertz, Texas**, a home-rule city ("Schertz"); the **City of Seguin**, Texas, a home-rule city ("Seguin"); and the **City of San Antonio, Texas**, a home-rule city, acting by and through its **San Antonio Water System** ("SAWS").

RECITALS

WHEREAS, Seguin and Schertz (collectively, the "Cities") have approved the creation of the Corporation as their constituted authority and instrumentality to accomplish the specific public purpose of acquiring, constructing, improving, enlarging, extending, repairing, maintaining, and operating a water utility system, pursuant to the provisions of Chapter 552 of the Texas Local Government Code, as amended, and other applicable law; and for the purposes set forth in the Corporation's Articles of Incorporation, including the issuance of bonds to finance the costs of the water utility system; and

WHEREAS, each of the Cities and the Corporation have entered into a contract entitled "Regional Water Supply Contract" dated November 15, 1999 (the "Corporation/City Contract") which unconditionally obligates each of the Cities to pay one-half of the debt service on the Corporation's bonds and other obligations and entitles each of the Cities to one-half of the water provided by the Corporation; and

WHEREAS, in order to deliver the water to which the Cities are entitled under contracts with the Corporation and to other potential purchasers on a regional basis, the Corporation has constructed facilities, lines, booster pumps, treatment facilities, and other appurtenances, acquired interests in property; and acquired regulatory approvals for the production and transport of groundwater (the "Corporation's Water System"); and

WHEREAS, SAWS provides water service to its customers in Bexar County and surrounding areas through a water production, treatment, storage, and distribution system (the "SAWS Water System") in close proximity to the Corporation's Water System; and

WHEREAS, the Corporation has determined that the Corporation's Water System currently has capacity to temporarily supply water in excess of the current needs of the Corporation's existing customers, including the Cities, and the City of Selma, the City of Universal City, the City of Converse (for a limited five-year term) and Springs Hills Water Supply Corporation (jointly referred to as the "Initial Customers") and that the Corporation's existing facilities can be increased to produce, treat, and deliver water that is temporarily in excess of the then-demand by the Cities, the Initial Customers, and other persons who may contract with the Corporation for the purchase of a specified volume of water; and

WHEREAS, SAWS desires to obtain an additional water supply to supplement its existing water supply sources and is willing to accept delivery of treated water from the Corporation that is available to the Corporation from the Corporation's own sources and is determined by the Corporation from time to time to be in excess of the demands of the Cities and the Corporation's Initial Customers; and

WHEREAS, operating the Corporation's Water System at full volume creates opportunities for the Corporation to reduce the rates paid by all of its customers due to the economies of scale; and

WHEREAS, SAWS plans to install a well field in western Gonzales County in the vicinity of the Corporation's Water System to produce groundwater from the Carrizo Aquifer formation, subject to obtaining and maintaining permits from the Gonzales County Underground Water Conservation District ("GCUWCD"), and the proposed wells and related infrastructure, if permitted, will be available to deliver untreated groundwater to the Corporation's Water System for treatment; and

~~WHEREAS, SAWS anticipates the opportunity to acquire additional groundwater from~~ sources in the region; and

WHEREAS, the Corporation and SAWS have determined that significant efficiencies and cost savings can be achieved for the Corporation and SAWS by SAWS delivering untreated groundwater to the Corporation's Water System and the Corporation delivering treated water to the SAWS Water System; and

WHEREAS, the Corporation has determined that the Corporation's Water System has available capacity in its existing transportation pipeline from Gonzales County to transport the volume of water at the rate of delivery required for the Corporation to satisfy its contractual obligations to the Cities and the Initial Customers of the Corporation, and to deliver an additional 12,688 acre-feet of water annually of SAWS Water (defined in Section 1.03 of this Contract) to SAWS as described in this Contract, but additional upgrades to the Corporation's Water System are required to receive, treat, and pump the water to be delivered by SAWS to the Corporation as described in this Contract; and

WHEREAS, integration of treated water from the Corporation's Water System into the SAWS Water System and the emergency delivery of treated water from the SAWS Water System to the Corporation's Water System will require SAWS to acquire interests in real property and regulatory approvals, and to construct transmission pipelines, booster pumps, storage facilities, and other appurtenances to the SAWS Water System, but SAWS could avoid, or delay for a substantial period of time, the need to construct a water pipeline connecting its proposed well-field to SAWS' existing treatment facility and the expansion of the treatment facility at a significant cost savings; and

WHEREAS, the Corporation and SAWS have determined that obtaining water from each other with the written consent of the Cities is in their mutual best interest and that the terms and conditions of this Contract are fair and reasonable and that there is no disparate bargaining power between the parties to this Contract; and

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the sufficiency of which are hereby acknowledged, and upon and subject to the terms and conditions hereinafter set forth, the Corporation, the Cities, and SAWS mutually undertake, promise, and agree as follows:

ARTICLE I

MUTUAL DELIVERY OF WATER

Section 1.01. Surplus Water. Subject to receiving and maintaining any necessary regulatory approvals from the GCUWCD, the Corporation agrees to sell, and SAWS agrees to buy, surplus treated water from the Corporation in accordance with the terms of this Contract.

A. Definition. "Surplus Water" is the treated water available to the Corporation and ~~which the Corporation has pipeline capacity to transport to the Corporation's Point of~~ Delivery (as described in this Contract) from any source other than water delivered by SAWS in excess of the amount required to meet the then- actual usage of the Cities (as that demand may increase or decrease from time to time on an annual basis) and the Initial Customers. The annual projected amount of Surplus Water shall be determined by the Corporation. SAWS acknowledges that (i) the amount of Surplus Water available for purchase by SAWS under this Contract is limited by the transport capacity of the Corporation's existing pipeline between the Corporation's Water Treatment Plant and Schertz; (ii) the Corporation may have excess treated water available at the Water Treatment Plant and the existing booster pump station located south of Seguin, and/or excess untreated water at the Corporation's wells and Water Treatment Plant; and (iii) the Corporation may make this excess water available for purchase by persons other than SAWS and is not obligated by this Contract to make the excess water available at these locations available for purchase by SAWS.

B. Supply Start Date. The availability of Surplus Water to SAWS under this Contract will begin upon request by SAWS following (i) completion by the Corporation of delivery facilities as described in Section 1.09 of this Contract at the Corporation's Point of Delivery, and (ii) completion by SAWS of the SAWS' facilities on SAWS' side of the meter at the Corporation's Point of Delivery as those facilities are generally described in Section 1.04.B.4 of this Contract.

C. Share of Surplus Water Available for SAWS. SAWS shall have the right to purchase up to seventy-five percent (75%) of the Surplus Water. If, at the time of each annual determination by the Corporation of the amount of Surplus Water, SAWS is the only entity agreeing to buy Surplus Water from the Corporation, then SAWS shall have the right to purchase up to the full estimated volume of the Surplus Water the Corporation can make available at the Corporation's Point of Delivery. However, if other parties have contracted with the Corporation to purchase a portion of the Surplus Water, SAWS shall have the right to purchase at least seventy-five percent (75%) of the Surplus Water plus any amount of the remaining twenty-five percent (25%) of the Surplus Water not committed to the Corporation's other customers, all at the Corporation's Point of Delivery. In no event shall the Corporation commit more than twenty-five percent (25%) of the Surplus Water to any person other than SAWS.

D. Notice. No later than June 1 of each year, beginning in 2013, the Corporation shall notify SAWS in writing of the amount of Surplus Water available for SAWS during the upcoming calendar year and the expected timing of delivery of such Surplus Water. Within thirty (30) days of receipt of the written notice, SAWS shall notify the Corporation in writing of the amount of Surplus Water SAWS agrees to accept for the upcoming calendar year.

E. Surplus Water Commitment. SAWS shall not be obligated to accept any amount of the Surplus Water into the SAWS Water System. However, SAWS shall be obligated to pay the Corporation at the rate set forth in Section 2.03.B on a monthly basis for an ~~amount equal to one-twelfth of the annual commitment of Surplus Water that SAWS~~ has agreed to accept during the calendar year. If the Corporation is unable to actually deliver the volume of Surplus Water that SAWS has agreed to accept and for which SAWS has paid, the Corporation agrees to credit the amount of overpayment to any future payments due under this Contract, except for payments due under Section 2.01 and Section 2.02.B, during the next calendar year. The Corporation may make available to any person the amount of Surplus Water in excess of the volume of Surplus Water that SAWS agreed to accept.

F. Monthly Estimates. SAWS and the Corporation acknowledge that the volume of Surplus Water stated in the annual notice described in subsection 1.01C above will be conservative. During the calendar year, the Corporation may determine, in its sole discretion, that additional amounts of Surplus Water may be available for purchase by SAWS and others. The Corporation will give notice to SAWS regarding the updated availability of Surplus Water, and the provisions of subsection 1.01C and E shall apply to the additional volume of Surplus Water.

G. Surplus Water Facilities. The Corporation shall use due diligence to expeditiously design and construct the delivery facilities at the Corporation's Point of Delivery following execution of this Contract, but in no event later than January 1, 2014. SAWS shall use due diligence to expeditiously design and construct SAWS facilities on the SAWS side of the Corporation's Point of Delivery following execution of this Contract in order to receive Surplus Water, if any, from the Corporation, but in no event later than January 1, 2014.

H. Regulatory Approvals. The Corporation's obligations under this Section 1.01 of this Contract are contingent upon the Corporation obtaining and maintaining any authorizations or approvals required from the GCUWCD for the Corporation to sell

Surplus Water to SAWS. The Corporation will be responsible for obtaining this authorization, if required.

I. SAWS Improvements. The Corporation shall be under no obligation to deliver any portion of the Surplus Water to SAWS unless and until SAWS substantially completes the improvements described in Section 1.04.B.4 and SAWS has taken all the actions required on its part so that the Corporation may substantially complete the Emergency Interconnect described in Section 1.15.

J. Times and Rate of Delivery. The time and rate of delivery of the Surplus Water requested by SAWS under this Contract shall be determined by the Corporation's designated representative in its sole discretion. The Corporation's duty to satisfy then-actual demands of Schertz and Seguin and the Initial Customers as determined on an annual basis will take priority over deliveries of Surplus Water to SAWS.

Section 1.02. Option. The Corporation grants SAWS the option to commit, in the future, to purchase water treatment services from the Corporation and sell treated water to the Corporation subject to the conditions and requirements set forth in this Contract. The term of this option shall begin on the Effective Date (as defined in Section 3.01) of this Contract and shall end forty-eight (48) months after the Effective Date of this Contract. During the term of this option, the Corporation shall reserve capacity within that portion of the Corporation's Water System consisting of the pipeline from the Corporation's existing water treatment plant to the existing ground storage tank in Schertz to discharge its potential obligations to SAWS under this Contract. SAWS may in its sole discretion exercise this option by notifying the Corporation, in writing, of its intent to do so, and delivering to the Corporation the notice and check described in Section 1.06.A of this Contract.

Section 1.03. Capacity Reservation Fee. The Corporation and SAWS acknowledge and agree that the Corporation is unable to commit the transport capacity in the Corporation's existing pipeline to other persons while SAWS is deciding whether or not to pursue the Expansion (as defined in Section 1.04.A) and during construction of the Expansion, if applicable. Therefore, during the option term described in Section 1.02, SAWS shall pay to the Corporation an annual Capacity Reservation Fee in the amount of Five Hundred Thirty Eight Thousand Dollars ($538,000), payable in equal semi-annual installments on March 1 and October 1 of each year, commencing March 1, 2011. The obligation of SAWS to pay the Capacity Reservation Fee shall continue until the option described in Section 1.02 ends if SAWS does not exercise the option or, if SAWS timely exercises the option, then until SAWS Water (as used in this Contract, a reference to "SAWS Water" means the volume of water that SAWS delivers to the Corporation for treatment) is treated by the Corporation and delivered to SAWS at the Corporation's Point of Delivery, whichever shall first occur. If delivery of SAWS Water occurs prior to a payment date or between the two payment dates, no further Capacity Reservation Fee shall be due or owed by SAWS. No portion of the Capacity Reservation Fee payment will be refunded by the Corporation to SAWS.

Section 1.04. System Improvements.

A. Corporation Water System. Subject to the conditions set forth in this Contract and receiving and maintaining any necessary regulatory approvals from the Texas Commission on Environmental Quality ("TCEQ") and the GCUWCD, the Corporation agrees to design and construct infrastructure improvements to the Corporation's Water System to receive from SAWS untreated groundwater in a volume, rate, and quality set forth in this Contract and to deliver treated water to SAWS at the volume, rate, and quality set forth in this Contract. The required infrastructure improvements shall be referred to in the Contract as "the Expansion." The Corporation will use its best efforts to substantially complete the Expansion within fifteen (15) months after receipt of the funds for the Expansion. In addition to the currently funded and designed additions to the Corporation's existing treatment plant and delivery and storage capacity as of the Effective Date, the improvements known as of the Effective Date to be required for the Expansion are summarized on the attached Exhibit A, along with the estimated cost as of the Effective Date. However, the actual improvements will not be known until the preliminary engineering report described in this Contract is completed, and the actual cost of the improvements will not be known until bids from contractors are received. The improvements for the Expansion will include the facilities and equipment required for the Metering Station and Metering Equipment as described in this Contract for the SAWS Point of Delivery and the Corporation's Point of Delivery. Provided, however, the Corporation may install additional or different improvements in order to satisfy its obligation to SAWS under this Contract and the Corporation's other customers. As changes to the planned improvements for the Expansion are proposed, the Corporation will notify SAWS and will cooperate with SAWS during the planning and design phases so that the needs of both parties are known and considered.

After the Expansion is financed in accordance with Section 1.06.E of this Contract, the Corporation may install additional improvements in order to satisfy its obligation to SAWS under this Contract and the Corporation's other customers, but in no event, however, shall these additional or different improvements result in costs to SAWS in addition to those costs shared with the Corporation's other customers through the Corporation's rates.

B. SAWS Water System. As a condition to SAWS receiving water other than Surplus Water from the Corporation under this Contract, SAWS, at its sole cost, must satisfy all of the following requirements:

1. Permits. Obtain and continue to hold permits issued by the GCUWCD and/or other groundwater districts to produce water from the Carrizo Aquifer formation and to transport the produced water outside the boundaries of the GCUWCD and/or other local districts. The opportunity of SAWS to obtain water other than Surplus Water from the Corporation under this Contract is limited to the authorizations under permits held by SAWS and any additional water available to SAWS by contract with third parties.

2. Improvements. Complete the wells and well collection lines and other improvements to the SAWS Water System required to deliver to the SAWS Point of Delivery untreated groundwater produced from the Carrizo Aquifer formation. The improvements shall include a Supervisory Control and Data Acquisition ("SCADA") system compatible with the Corporation's system as upgraded, and the Corporation will have access to the information regarding the SAWS well field shown on the SCADA system and access to such controls as may be required for the convenient and proper operation of the treatment processes.

3. Mitigation Agreement. Accept and sign a mitigation agreement with the GCUWCD as required by the GCUWCD establishing a mitigation fund for wells in western Gonzales County containing substantially the terms of the mitigation agreement imposed by the GCUWCD upon the Corporation on March 16, 2010, make the initial deposit into the mitigation fund, and continue to make deposits into the fund pursuant to the mitigation agreement.

4. Pipeline, Pump Station, and Storage Tank. Install a pipeline and pump station/storage tank to receive water from the Corporation on the SAWS side of the meter at the Corporation's Point of Delivery, but SAWS shall not use, consume, sell, or transfer any water between the Metering Station and the Air Gap, as described in Section 1.16 of this Contract.

C. City of Schertz Water System. Schertz agrees to:

1. Cooperation. Cooperate with the Corporation and SAWS regarding the installation of the Emergency Interconnect described in Section 1.15 below and to allow the use of its water distribution system to transport water received through the Emergency Interconnect.

2. Facility Sites and Easements. Within one hundred eighty (180) days of the Effective Date of this Contract, convey to SAWS for a sum determined by an appraisal agreed upon by Schertz and SAWS the facility sites and easements required by SAWS under this Contract and identified on Exhibit B, and work proactively and cooperatively with SAWS and the Corporation to assist in the identification and acquisition of any other property or easements deemed necessary by the Corporation to achieve the purposes of this Contract.

3. Metering. Allow the Corporation and SAWS to install the metering station and metering equipment required by this Contract on property owned by Schertz; provided, however, the location of the metering station and metering equipment shall be subject to approval by Schertz.

4. Pump Station. Allow SAWS to install high service pumps and a ground storage tank with a capacity, size and design determined by SAWS at the location identified in Exhibit C.

5. Water Transmission Main. Allow SAWS to construct the water transmission main required by this Contract at the location identified in Exhibit B.

6. Approvals. Any approvals required to be obtained by SAWS from Schertz under this Section 1.04 shall be obtained by SAWS in advance of final design of any of the improvements described in this Section 1.04.

Section 1.05. Delivery. In addition to the Surplus Water to be delivered by the Corporation to SAWS, and subject to the terms and conditions of this Contract:

A. Supply by Corporation. Upon (i) completion of the Expansion, (ii) satisfaction by SAWS of the conditions described in Section 1.04.B. above, (iii) receipt of untreated groundwater from SAWS, and (iv) payment by SAWS to the Corporation for services in accordance with this Contract, the Corporation will make treated water available to SAWS at the Corporation's Point of Delivery, in an amount equal to the amount of untreated water delivered by SAWS to the Corporation at the SAWS Point of Delivery, less a reasonable volume of treatment and transportation loss not to exceed twelve percent (12%) per annum (the "Annual Water Loss"), at an Annual Maximum (hereinafter defined) not to exceed the amounts set forth in Subsection C below and at a quality set forth in this Contract. The limit of twelve percent (12%) loss will not include or apply to water lost during major leaks in storage or transportation facilities due to force majeure as defined in Section 6.02 of this Contract.

B. Supply by SAWS.

1. Untreated Water. SAWS will deliver to the Corporation untreated water produced from the Carrizo Aquifer formation at (or through) the SAWS Point of Delivery; provided, however, such delivery is conditioned upon SAWS (i) obtaining and maintaining the necessary permits from TCEQ and the GCUWCD and (ii) constructing the proposed wells and related facilities and pipelines necessary to deliver the untreated water.

2. Emergency Water. SAWS will deliver treated water from the SAWS Water System to the Corporation's Water System or to Schertz on an emergency basis as described in Section 1.15.

C. Annual Maximum Rate and Maximum Instantaneous Rate. The term "Annual Maximum Rate" shall mean the amount of water delivered through the Delivery Meter during any calendar year and the term "Maximum Instantaneous Rate" means the amount of water delivered through the Delivery Meter during any consecutive 60 seconds. The Corporation shall design and construct the Expansion so that the Corporation's Water System may receive and treat groundwater from SAWS meeting the quality requirements set forth in this Contract at an Annual Maximum of 12,688 acre-feet per year and Maximum Instantaneous rate of 9,500 gallons per minute (not including the Surplus Water delivered to SAWS under Section 1.01), and deliver treated water to SAWS meeting the quality requirements set forth in this Contract at the stated Annual Maximum Rate, less actual losses during treatment and transportation, and at a Maximum Instantaneous Rate of 9,500 gallons per minute (not including the Surplus Water delivered to SAWS under Section 1.01). SAWS agrees not to deliver, or attempt to deliver, to the Corporation untreated water at a volume or rate that exceeds these maximum limits, and the Corporation is under no obligation to receive untreated water from SAWS in a volume or rate that exceeds these limitations. Pursuant to Section 2.02.D of this Contract, the Annual Maximum Rate during any year will be limited to the Annual Authorized Pumping Amount determined in accordance with Section 2.02. D of this Contract. Subject to these limitations on volume and rate, the Corporation agrees, on an annual basis, to treat and deliver SAWS Water to SAWS prior to treating and delivering Surplus Water to SAWS, if SAWS Water is available.

Section 1.06. Financing and Construction.

A. Preliminary Engineering Report. SAWS may exercise its option to acquire water from the Corporation as described in Section 1.02 of this Contract by notifying the Corporation in writing and delivering to the Corporation a check payable to the Corporation in the amount of $50,000. Upon timely receipt of the check, the Corporation will cause its consulting engineer to immediately begin the preparation of a preliminary engineering report for the Expansion and to complete the report as soon as practicable. The preliminary engineering report must contain the following information:

- The amounts, if any, previously paid by the Corporation for the preliminary design of the Expansion, as reflected by copies of invoices provided to SAWS;
- The then-projected cost of designing and constructing the Expansion based upon projected costs at the time SAWS exercises its option;
- A contingency equal to ten percent (10%) of the projected construction cost of the Expansion;
- Three years of capitalized interest on the Contract Revenue Bonds (hereinafter defined);
- Projected premium on insurance policies relating to construction including a builders risk insurance coverage in the amount of the projected construction cost of the Expansion; and
- Projected reserve fund requirements and insurance premiums for the Contract Revenue Bonds and other bond issuance costs and expenses.

A draft of the report will be provided to SAWS for review and comment, and SAWS will have thirty (30) calendar days to submit comments on the draft report. A final engineering report will be submitted to SAWS within thirty (30) calendar days after the receipt of SAWS comments or the expiration of the SAWS comment period, whichever occurs first.

B. Termination of Expansion. If SAWS does not want to proceed with the Expansion based upon the projected cost of the Expansion as set forth in the preliminary engineering report, SAWS will notify the Corporation of the decision within sixty (60) days of receiving the preliminary engineering report. Upon the Corporation's receipt of this notice, the rights and obligations of SAWS and the Corporation under this Contract as they relate to SAWS Water shall terminate. SAWS will not be entitled to any refund of any money previously paid to the Corporation, but shall have the continuing right to purchase Surplus Water in accordance with Section 1.01 of this Contract.

C. Final Plans and Specifications and Bid. If SAWS accepts the preliminary engineering report, then within sixty (60) days after SAWS receives the preliminary engineering report, SAWS shall authorize the Corporation to prepare final plans and specifications, and to require the contractor(s) to provide the agreements and insurance specified in Exhibit D, for the Expansion and to solicit construction bids in accordance with the Corporation's required procurement procedures. The Corporation's costs to prepare the final plans and specifications ("Costs of Final Plans and Specifications") shall be billed by the Corporation to SAWS on a monthly basis as they are incurred, and shall be paid by SAWS to the Corporation within thirty (30) days of receipt of the monthly billing. In the event that the Corporation issues Contract Revenue Bonds as provided herein in Section 1.06.E and Section 2.01, the Corporation shall reimburse SAWS within thirty (30) days of issuance of such Contract Revenue Bonds the Costs of Final Plans and Specifications. Upon completion of the contract documents and plans and specifications, and upon receipt by the Corporation and SAWS of all regulatory approvals from the GCUWCD that may be required for the Corporation to receive and transport SAWS Water, containing permit terms and conditions that are acceptable to the holder of the permit, the Corporation shall advertise for bids. At this time, the Corporation will also initiate the process to issue Contract Revenue Bonds subject to SAWS approval of the bid prices. The Corporation shall notify SAWS in writing of the bid results and the lowest responsible bid. In the event that the lowest responsible bid received by the Corporation for construction of the Expansion exceeds the construction cost estimate reflected in the preliminary engineering report by more than twenty percent (20%), SAWS in its sole discretion may elect not to proceed with the Expansion and shall notify the Corporation of its decision within sixty (60) days after receiving written notice of the bid results from the Corporation. In such event, SAWS' and the Corporation's rights and obligations under this Contract as they relate to SAWS Water shall terminate.

D. Refund of Costs. If the Corporation elects not to proceed with the construction of the Expansion without participation by SAWS, the Corporation shall so notify SAWS. In that event, SAWS shall not be entitled to refund of the Costs of Final Plans and

Specifications. However, if the Corporation decides at any time within five years of the notice to proceed with the Expansion in such a manner as to utilize the final plans and specifications, the Corporation shall, within thirty (30) days of the decision, refund to SAWS the Cost of Final Plans and Specifications. The contract documents will require the contractor to hold the bid prices for ninety (90) days to allow SAWS forty-five (45) days to decide whether to pursue the Expansion. The Corporation shall not be obligated to award contracts prior to receiving the proceeds from the Contract Revenue Bonds.

E. Request to Issue Contract Revenue Bonds. If the lowest responsible bid does not exceed the preliminary construction cost estimate by more than twenty percent (20%), or if SAWS wants the Corporation to proceed with the Expansion regardless of the bid prices, then SAWS shall request the Corporation to issue one or more series of contract revenue bonds (the "Contract Revenue Bonds") secured solely by the pledge of revenue received by the Corporation from SAWS pursuant to Sections 2.01 and 2.02.B of this Contract and SAWS will fully cooperate with the Corporation in the issuance of such Contract Revenue Bonds. SAWS must deliver its written request to the Corporation within forty-five (45) calendar days after opening of bids, and if such request is not timely received the Corporation may terminate the portion of the Contract relating to the SAWS Water or may rebid the Expansion, provided SAWS pays the Corporation all of the costs relating to the rebid. If SAWS rejects the bid prices and the Corporation does not issue the Contract Revenue Bonds, SAWS will reimburse the Corporation for its financial advisory fees associated with the preliminary steps to issue the Contract Revenue Bonds in an amount not to exceed $50,000. The amount of the Contract Revenue Bonds will be the amount required to discharge the following Expansion expenses required to treat and transport SAWS Water and no other:

a. Design (preliminary and final) and engineering costs and other costs relating to design whether paid by the Corporation or SAWS, and cost of construction inspection;
b. Premium for a surety bond from a company authorized to do business in Texas;
c. All contractor construction costs, plus a contingency of at least ten percent (10%);
d. Capitalized interest for the first three (3) years after the Contract Revenue Bonds are issued;
e. Any required deposits to a reserve fund as set forth in subsection F below or any bond insurance premium.
f. Projected premium on insurance policies relating to construction including a builders risk insurance coverage in the amount of the projected construction cost of the Expansion;
g. Other items of cost included in the Preliminary Engineering Report and acceptable to SAWS; and

h. Customary Contract Revenue Bond issuance costs, including bond counsel, financial advisor, trustee, trustee's counsel, paying agent, registrar, underwriters, underwriters' counsel, and bond marketing fees and expenses.

The debt service payments on the Contract Revenue Bonds issued for the Expansion and the Corporation's other customary pecuniary obligations set forth in the Corporation's resolution as approved by SAWS authorizing the issuance of the Contract Revenue Bonds will be secured solely by a pledge of the revenues received from SAWS under Section 2.01 and 2.02.B and from no other source. SAWS shall have the right in its sole discretion to disapprove any proposed refunding of the Contract Revenue Bonds. SAWS will remain only a customer of the Corporation and will have no ownership interest in the Corporation's Water System, any component of the Corporation Water System, or any capacity in the Corporation's Water System. The Corporation will have no ownership interest in the SAWS Water System, or in any component or capacity of the SAWS Water System.

F. Reserve Fund. If the issuance of the Contract Revenue Bonds requires the Corporation to accumulate and maintain a reserve fund for the payment of the Contract Revenue Bonds, the Corporation agrees to establish and maintain a separate and special fund or account known as the "SAWS Contract Revenue Bond Reserve Fund", which fund or account will be maintained at the Corporation's general depository bank or the trustee's or paying agent's bank. All funds deposited into the SAWS Contract Revenue Bond Reserve Fund, including proceeds from the Contract Revenue Bonds and earnings and income derived or received from deposits or investments in the SAWS Contract Revenue Bond Reserve Fund, shall be used solely for the payment of principal and interest on the Contract Revenue Bonds, when and to the extent other funds available for such purposes are insufficient, and in addition, may be used to retire the last stated maturity and/or interest on the Contract Revenue Bonds. Should the funds deposited in the SAWS Contract Revenue Bond Reserve Fund be greater than the amount required to retire the last stated maturity of and/or interest on the Contract Revenue Bonds, the remaining proceeds, after the payment of the last stated maturity and/or interest, shall be returned to SAWS. The Corporation shall provide monthly bank statements to SAWS reflecting all activity in the SAWS Contract Revenue Bond Reserve Fund. Should the SAWS Contract Revenue Bond Reserve Fund be drawn upon, then SAWS shall be obligated to replenish the SAWS Contract Revenue Bond Reserve Fund in the manner set forth in the Corporation's resolution approved by SAWS authorizing issuance of the Contract Revenue Bonds.

G. Construction.

1. Contract Award and Change Orders. Upon receipt of the Contract Revenue Bond proceeds, the Corporation will award the construction contract(s) and notify the contractor(s) to proceed with construction of the Expansion. SAWS shall have the right to approve any change orders to the construction contract(s), which approval shall not be unreasonably withheld. If SAWS disapproves, or does not timely

approve a change order, SAWS agrees to defend, indemnify, and hold harmless the Corporation for any claims by the contractor relating to SAWS' denial of the change order request, or refusal to timely approve the requested change order. If the change order(s) approved by SAWS result in an increase in the construction cost beyond the ten percent (10%) contingency including any proceeds of the Contract Revenue Bonds, the additional costs shall be billed by the Corporation to SAWS on a monthly basis as they are incurred, and shall be paid by SAWS to the Corporation within thirty (30) days of receipt of the monthly billing.

2. Status Reports. The Corporation will make monthly construction status reports to SAWS, and SAWS will have the right to observe construction of the Expansion. A SAWS representative shall have the right to attend and shall attend monthly payment application/design/construction meetings with the design engineer and the contractor. The SAWS representative shall have the right to disapprove any payment application. Approval shall not be unreasonably withheld. The Corporation shall use good faith efforts to resolve any dispute with regard to a payment application within ten (10) days. If the SAWS representative has not approved the payment application within ten (10) days, the application shall be deemed automatically approved by SAWS. In the event SAWS disapproves any payment application, SAWS agrees to defend, indemnify, and hold harmless the Corporation for any claims relating to the denial of the payment request.

3. Disbursement of Contract Revenue Bond Proceeds. Contract Revenue Bond proceeds shall be distributed to a separate Corporation bond proceeds account under the control of Seguin. All disbursements from the Corporation's bond proceeds account shall be approved by no fewer than two (2) signatories previously designated by the Corporation and Seguin. The Corporation shall provide monthly bank statements to SAWS reflecting all account activity.

4. Builder's Risk Insurance. From the Contract Revenue Bond proceeds, the Corporation will purchase a builders risk insurance policy for the risk that the Expansion is not substantially complete by the time that SAWS is required to begin making payments equal to the debt service on the Contract Revenue Bonds from sources other than the proceeds of the capitalized interest.

H. Completion. The Corporation's engineer expects that the Expansion can be completed within fifteen (15) months after the proceeds from the Contract Revenue Bonds are received by the Corporation, and the Corporation agrees to use its best efforts to substantially complete the Expansion within fifteen (15) months after receipt of Contract Revenue Bond proceeds for the Expansion. The Corporation acknowledges that SAWS will be unconditionally required to make payments to the Corporation equal to the debt service on the Contract Revenue Bonds and the other customary pecuniary obligations set forth in the Corporation's resolution approved by SAWS authorizing the issuance of the Contract Revenue Bonds after the three (3) years of capitalized interest has been used and that it is absolutely necessary that the

Expansion be substantially complete by that date. The Corporation agrees to use its best efforts to cause the Expansion to be substantially complete as promptly as possible after the Contract Revenue Bond proceeds are received and in conjunction with SAWS' completion of its untreated groundwater production and delivery facilities, but within three (3) years after the date that the proceeds of the Contract Revenue Bonds are received, subject to Force Majeure, as defined in Section 6.02 of this Contract. If the Corporation has not caused the Expansion to be substantially completed by that date, subject to Force Majeure, the Corporation will pay SAWS the amounts received by the Corporation from the builders risk insurance policy purchased by the Corporation with the proceeds of the Contract Revenue Bonds equal to the debt service payments made by SAWS on the Contract Revenue Bonds from sources other than capitalized interest. SAWS shall remain unconditionally obligated to continue to make payments to the Corporation equal to the debt service payments on the Contract Revenue Bonds and the other customary pecuniary obligations set forth in the Corporation's resolution approved by SAWS authorizing the issuance of the Contract Revenue Bonds. If the Corporation is unable to substantially complete the Expansion within twenty (20) months after the Corporation awards contracts for construction of the Expansion and after notice and opportunity to cure, and SAWS determines that it can cause the Expansion to be completed sooner than the Corporation, then upon SAWS' demand, the Corporation will assign the construction and related engineering contracts to SAWS and grant SAWS a right of entry upon the Corporation's land and facilities to manage the completion of the construction contracts. If SAWS elects to assume the construction contracts, the Corporation will not be obligated to reimburse SAWS for any payments made to the Corporation during construction of the Expansion.

I. Excess Funds. The Corporation shall use the proceeds from the Contract Revenue Bonds for the purposes set forth in subsection E above. If after completion of the Expansion, the Corporation holds excess Contract Revenue Bonds proceeds, the Corporation shall use the excess funds to make debt service payments or otherwise reduce the bonded indebtedness, if the Contract Revenue Bonds provide for partial redemptions.

J. Regulatory Approvals. If any approval or action is required from the GCUWCD or TCEQ in order for either party to perform its obligations under this Contract, that party will use its best efforts to obtain the necessary approval or action at its own expense. The other party will cooperate in obtaining the necessary approval or action. SAWS and the Corporation agree, as between themselves, that the cost to the Corporation of obtaining any regulatory approval from the GCUWCD for the Corporation to receive groundwater from SAWS and to treat, transport, and deliver the water to SAWS shall be an operating expense of the Corporation for purposes of determining the rate paid by SAWS for treatment and transportation of SAWS Water. If the Corporation must obtain GCUWCD approval of any amendment to the Corporation's permits in order to receive and transport SAWS Water, the Corporation will initiate that process upon receipt of the notice from SAWS under Section 1.06 A of this Contract.

Section 1.07. Points of Delivery. Subject to the terms and conditions of this Contract, the Corporation and SAWS agree to interconnect their water systems at the locations described in this Contract (collectively referred to as the "Point of Delivery" or "Points of Delivery"). The Points of Delivery will be located as follows:

A. SAWS Point of Delivery. The SAWS Point of Delivery shall be at the Corporation's existing Water Treatment Plant in Gonzales County.

B. Corporation's Point of Delivery. The Corporation's Point of Delivery shall be at or near a proposed SAWS pump station and ground storage tank site to be located in the general vicinity of the Corporation's existing ground storage tank located in Schertz, it being the intent of the Parties as of the date this Contract is signed for SAWS to install its own pump station and ground storage tank close to the existing Schertz Pump Station/Storage Tank Facility and to construct the piping and related facilities and equipment to take the water from the Corporation's Point of Delivery to the SAWS' proposed pump station and ground storage tank facility near the Corporation's Point of Delivery.

C. Emergency Interconnect Point of Delivery. The point of delivery for the Emergency Interconnect shall be at or near the Corporation's Point of Delivery.

Section 1.08. Metering Station. The parties to this Contract acknowledge and agree that the meter stations located at the Points of Delivery will be located so the Corporation and SAWS will both have unrestricted access to the metering station, but the entity receiving the water at the Point of Delivery may not alter any measuring or recording device without the approval of the designated representative of the other party to this Contract, which approval shall not be unreasonably withheld.

Section 1.09. Delivery Facilities. Using proceeds, or subject to reimbursement, from the sale of Contract Revenue Bonds, the Corporation shall design, construct and install all facilities and equipment required for the Points of Delivery, including any required, tapping of the main, piping, meters, control devices and systems and appurtenances at both the SAWS Point of Delivery and at the Corporation's Point of Delivery. The materials and equipment required will be determined by the Corporation's engineers. SAWS may at its own expense review and approve the design, equipment and materials submitted by the Corporation's engineer. No construction shall begin until SAWS' engineer has reviewed and approved the design and plans and confirmed that the design and plans are compatible with the SAWS facilities on the SAWS side of the Point of Delivery. A SAWS engineer shall review and approve the plans or provide written comments within thirty (30) days of receipt from the Corporation. All such materials and equipment that are not on the Corporation's side of the meter shall be funded directly by SAWS and will become the property of SAWS.

Section 1.10. Water Conservation, Drought Contingency, and other Required Plans. Each party's obligations under this Contract shall be subject to water conservation plans, drought contingency plans, or any other plan adopted by such party and required by the TCEQ, the Texas Water Development Board, or any other federal, state, or local regulatory authority (other than a party to this Contract) with power to require or approve water conservation and drought contingency plans. As required by rules of the TCEQ in effect on the Effective Date of this Contract, all parties have developed and implemented a water conservation plan or water conservation measures using the standards established by the TCEQ. If required by order of the TCEQ, each party to this Contract may be required to implement water conservation strategies and if such party is so ordered, the other parties to this Contract will cooperate and consent to the implementation by the other parties of such water conservation strategies required by the TCEQ. As required by TCEQ rules in effect on the effective date of this Contract, in case of a shortage of water resulting from drought, the water to be distributed by the Corporation to SAWS will be distributed in accordance with the provisions of this Contract, or to the extent required by law. In the event that SAWS is called upon to deliver water to the Corporation during an emergency pursuant to Section 1.15 of this Contract, the Cities agree to adopt water conservation measures no less restrictive than those then adopted by the City of San Antonio for the duration of the emergency. In accordance with TCEQ rules in effect on the Effective Date, the Corporation and SAWS agree that each has, or will, develop and implement a water conservation plan or water conservation measures using the applicable elements of the TCEQ rules and each agrees that if it resells the water delivered under this Contract, each successive contract for the resale of the water must have water conservation requirements so that each successive customer in the resale of the water will be required to implement water conservation measures in accordance with the provisions of the TCEQ rules in 30 Texas Administrative Code Chapter 288.

Section 1.11. Water Quality.

A. SAWS to Corporation. The water that SAWS delivers to the Corporation at the SAWS Point of Delivery will be untreated water produced from the Carrizo Aquifer formation, and the quality of the untreated groundwater will not exceed an instantaneous grab sample of 500 mg/l total dissolved solids. The Corporation shall have no obligation to accept delivery of untreated water from SAWS' distribution system that does not conform to this water quality requirement and Corporation's obligation to deliver potable water to SAWS will be reduced to the amount of untreated water delivered by SAWS that meets the quality requirements set forth above. If the Corporation chooses from time to time to accept water that exceeds 500 mg/l total dissolved solids, the Corporation may impose a surcharge equal to 1.5 times the then-applicable rate charged by the Corporation to SAWS for potable water delivered at the Corporation's Point of Delivery.

B. Corporation to SAWS. The water that the Corporation delivers to SAWS at the Corporation's Point of Delivery shall be treated water suitable for public water supply and shall meet the quality criteria prescribed by the TCEQ Drinking Water Standards Governing Drinking Water Quality and Reporting Requirements for Public Water Systems, 30 Texas Administrative Code Chapter 290 subchapter F. SAWS shall have no obligation to accept or pay for delivery of treated water for introduction into the SAWS distribution system that does not conform to the water quality requirements described herein. If SAWS accepts or receives the water into the SAWS System, SAWS is obligated to pay the Corporation for the amount of water received even if the water does not satisfy the quality requirements of this subsection B.

C. Emergency to Corporation. The water that SAWS delivers to the Corporation at the Emergency Interconnect will be treated water meeting the standards described in subsection B above.

D. Additional Treatment. To the extent any additional, or alternative treatment or processing is required to make the water delivered by the Corporation to SAWS at the Corporation's Point of Delivery, suitable, compatible, or of a quality for introduction into the SAWS distribution system with the water then-within SAWS distribution system, SAWS is responsible, at its sole cost, for installing any additional facilities or processes within the SAWS Water System for any additional treatment, conditioning or processing.

Section 1.12. Control and Responsibility. Subject to the terms of this Contract, the party in possession of water hereunder shall have control of and responsibility for that water. Control and responsibility shall transfer from (i) SAWS to the Corporation on the discharge side of the meters located at the SAWS Point of Delivery and the Emergency Interconnect (ii) the Corporation to SAWS on the discharge side of the meter located at the Corporation's Point of Delivery. The obligations of the Corporation to SAWS and the rights of SAWS when the Corporation has control of and responsibility of water delivered by SAWS to the Corporation shall be described solely in this Contract, and SAWS expressly waives and releases any and all rights, claims, or causes of action, if any, that SAWS may have under the statutes or common law arising from or relating to the Corporation having the control of and the responsibility for water delivered by SAWS to the Corporation.

Section 1.13. Indemnity.

A. SAWS. To the fullest extent allowed by law, SAWS agrees on behalf of itself and its successors and assigns to defend, save and hold harmless the Corporation and the Corporation's officers, directors, and employees from and against any and all claims, losses, expenses, costs, demands, judgments, causes of action, suits, and liability in tort, contract or any other basis and of every kind and character whatsoever (including but not limited to all costs of defense, such as fees and charges of attorneys, expert witnesses, and other professionals and all court or other dispute resolution costs) arising out of or incident to the transportation and delivery of water pursuant to this Contract while possession remains in SAWS and/or arising from failure by SAWS to timely pay to Corporation the amounts equal to the amounts payable by the Corporation for the debt service payments and other pecuniary obligations required on the Contract Revenue Bonds. SAWS acknowledges that all payments under this Contract are paid from the gross revenues of its utility system which is a separate fund of the City of San Antonio and that no payments, including payments under this subsection, are payable from ad valorem taxes.

B. Corporation. To the fullest extent allowed by law, the Corporation agrees on behalf of itself and its successors and assigns to defend, save and hold harmless SAWS and SAWS trustees, officers, directors, and employees from and against any and all claims, losses, expenses, costs, demands, judgments, causes of action, suits, and liability in tort, contract or any other basis and of every kind and character whatsoever (including but not limited to all costs of defense, such as fees and charges of attorneys, expert witnesses, and other professionals and all court or other dispute resolution costs) arising out of or incident to the transportation, treatment and delivery of water pursuant to this Contract while possession remains in the Corporation; provided, however, this indemnity shall not include any claim, loss, expense, judgment or cause of action relating to or arising from failure by SAWS failure to timely pay to Corporation the amounts equal to the amounts payable by the Corporation to pay the debt service payments or other pecuniary obligations required on the Contract Revenue Bonds or to fully comply with the requirements of the Contract Revenue Bonds.

Section 1.14. Approvals. Unless otherwise required by law, each consent, approval, or other official action required of either party to this Contract by any provision of this Contract shall be deemed in compliance with this Contract when written evidence of such action, signed by the respective authorized representative is delivered to the party who is to receive evidence of such action. The parties to this Contract will cooperate with the each other in the design and construction of the Points of Delivery and in obtaining, amending and maintaining all groundwater district permits or other regulatory authorizations necessary for the delivery and treatment of water under this Contract or under the Corporation's contracts with the Cities and Initial Customers. The parties to this Contract will not take any action or fail to take any action (including, without limitation, any exercise or denial of its consent or approval of any action proposed to be taken by the party or any of its agents hereunder), if taking or failing to take such action, respectively, would unreasonably delay or obstruct the delivery of water under this Contract, unless the cessation of delivery is due to non-payment of charges pursuant to this Contract, or the water delivered does not comply with the requirements set forth in this Contract relating to volume, rate of flow, or quality.

Section 1.15. Emergency Interconnect. As described in this Contract, the Corporation shall use due diligence to install and construct an emergency interconnect between the SAWS Water System and the Schertz Water System. The location and design shall be subject to the approval of Schertz, acting by its City Manager. Upon notification by the Corporation to SAWS that an emergency exists, SAWS, subject to reasonable availability, shall allow the Corporation to obtain treated water from SAWS through the Corporation's Point of Delivery or obtain untreated water from SAWS through the SAWS Point of Delivery. By signing this Contract, Schertz agrees to allow the Corporation and SAWS to use the Schertz water distribution system to transport water from the emergency interconnect to the Corporation's Water System, or to the location where the water is needed, without charge to the Corporation or to SAWS. An emergency is defined as a sudden, generally unexpected occurrence or set of circumstances demanding immediate action to prevent a serious health hazard or unreasonable economic loss. The Corporation shall pay SAWS for water received from SAWS during such emergency at the rate set forth in this Contract and not from any funds paid by SAWS relating to the Contract Revenue Bonds. The Corporation shall make all required reports to the TCEQ for water purchased from SAWS during the emergency. SAWS' obligation to provide emergency service pursuant to this Section during any single emergency event shall not extend more than six (6) months beyond the date of notification of the emergency.

Section 1.16. Air Gap. The water delivered by the Corporation to SAWS will be delivered through an air gap into the SAWS Water System (the "Air Gap") at a location upstream of any SAWS' customer as required by TCEQ rules. The treated water delivered by SAWS to the Corporation through the emergency interconnect described in Section 1.15 will be delivered through an air gap into the Corporation Water System at a location upstream of any Corporation customer as required by TCEQ rules.

Section 1.17. Reports.

A. Monthly Reports. Beginning with the initiation of the Preliminary Engineering Report, the Corporation will provide SAWS a monthly report describing the status of the project. The monthly reports may cease once construction of the Expansion is substantially complete (as that term is generally defined, understood, and used in the water utility construction industry). SAWS and the Corporation agree to cause their respective consulting engineers and employees to be available as may be required to exchange information required to design the Expansion. The Corporation grants SAWS and SAWS engineers, agents and employees a right of access to observe construction of the Expansion, but SAWS agrees that it will cause to be observed all safety precautions required by the Corporation and its contractors, and SAWS releases, indemnifies, and holds harmless the Corporation from any and all claims and causes of action arising out of or incident to the negligent conduct of SAWS' engineers, agents or employees during the observation of construction of the expansion funded by SAWS.

B. Consultation. After substantial completion by the Corporation of the Expansion and by SAWS of its well field in western Gonzales County, the Corporation and SAWS agree to make each other's employees of these projects available for consultation and available for periodic and special meetings as may be necessary for the convenient and proper operation of the treatment plant and the well field. The Corporation and SAWS shall each designate in writing to the other a designated operator (the "Designated Operator") who shall be the initial point of contact for all operational issues arising under this Contract. The Designated Operators shall meet at least once each month to review operations and address issues of concern, but such Designated Operators shall not have the authority to waive the requirements of Contract or to amend this Contract.

ARTICLE II

PAYMENTS

Section 2.01. Contract Revenue Bonds.

A. SAWS Unconditional Agreement. By requesting the Corporation to issue Contract Revenue Bonds pursuant to Section 1.06.E, SAWS unconditionally agrees, on a take-or-pay basis, to pay the Corporation an amount equal to the debt service payments on the Contract Revenue Bonds issued by the Corporation and the other customary pecuniary obligations set forth in the Corporation's resolution approved by SAWS authorizing the issuance of the Contract Revenue Bonds. SAWS hereby agrees to make, or cause to be made, each such payment, as and when due, for the benefit of the holders of the Contract Revenue Bonds.

B. Use of proceeds by Corporation. The Corporation agrees to use the proceeds of the sale of the Contract Revenue Bonds only for the purposes set forth in Section 1.06.E. of this Contract.

C. No Legal or Equitable Interest. SAWS acknowledges and agrees that the issuance of the Contract Revenue Bonds and the unconditional obligation of SAWS to make payments to the Corporation equal to the debt service payments on the Contract Revenue Bonds and the other customary pecuniary obligations set forth in the Corporation's resolution approved by SAWS authorizing the issuance of the Contract Revenue Bonds does not and is not intended to create any legal or equitable interest in the land or equipment to be purchased by the Corporation with the proceeds from the sale of the Contract Revenue Bonds.

D. Corporation Resolution. SAWS shall have the right to approve the Corporation's resolution authorizing the issuance of the Contract Revenue Bonds prior to its adoption by the Corporation. Subject to such approval, all customary covenants and provisions in the Corporation's resolution authorizing the issuance of the Contract Revenue Bonds affecting, or purporting to bind, the Corporation, SAWS, Seguin and/or Schertz, shall, upon the delivery of the Contract Revenue Bonds, become absolute, unconditional, valid, and binding covenants and obligations of the Corporation, SAWS, Seguin and/or Schertz, respectively, so long as any Contract Revenue Bonds and interest thereon are outstanding and unpaid, and may be enforced as provided in this Contract and the Corporation's resolution, as approved by SAWS, authorizing the issuance of the Contract Revenue Bonds. Particularly, the obligation of SAWS to make, promptly when due, all payments specified in this Contract and all payments described in Sections 2.01 and 2.02B hereof shall be absolute and unconditional, and such obligation may be enforced as provided in this Contract.

E. Assignment of Corporation's Rights. The parties to this Contract are advised and recognize that as security for the payment of the Contract Revenue Bonds, the

Corporation may assign to a trustee bank, pursuant to one or more trust indentures to be authorized by the Corporation's resolution, as approved by SAWS, authorizing the issuance of the Contract Revenue Bonds, certain of the Corporation's rights under this Contract, including the right to receive the payments hereunder, including the amounts described in Sections 2.01 and 2.02B hereof. The parties to this Contract hereby assent to such assignment and SAWS may make the payments described in Sections 2.01 and 2.02B hereof directly to the trustee bank without defense or set-off by reason of any dispute between the parties to this Contract and the Corporation or the trustee bank. All rights against the parties to this Contract arising under this Contract or the Corporation's resolution, as approved by SAWS, authorizing the issuance of the Contract Revenue Bonds and assigned to the trustee bank may be enforced by the trustee bank, or the holders of the Contract Revenue Bonds, to the extent provided in the Corporation's resolution, as approved by SAWS, authorizing the issuance of the Contract Revenue Bonds, and the trustee bank, or the holders of the Contract Revenue Bonds, shall be entitled to bring any suit, action, or proceeding against the Corporation or SAWS, as applicable, to the extent provided in the Corporation's resolution, as approved by SAWS, authorizing the issuance of the Contract Revenue Bonds, for the enforcement of this Contract, and it shall not be necessary in any such suit, action, or proceeding to make the Corporation a party thereto.

Section 2.02. Monthly Payments. As consideration for the services to be provided by each party to this Contract to the other parties to this Contract, each party agrees to pay the other parties as follows:

A. Surplus Water. Subject to annual reconciliation as provided in Section 1.01.E, SAWS agrees to pay the Corporation's monthly charges for Surplus Water based upon the rate established in Section 2.03.B for water actually measured by the meter in increments of thousand gallons at the Corporation's Point of Delivery less the SAWS Water.

B. Contract Revenue Bonds. Beginning the month that the capitalized interest from the proceeds of the Contract Revenue Bonds is exhausted, SAWS shall make monthly payments to the Corporation in an amount equal to one-twelfth of the annual debt service payment on the Contract Revenue Bonds issued by the Corporation in accordance with Section 2.01 of this Contract and the other customary pecuniary obligations set forth in the Corporation's resolution approved by SAWS authorizing the issuance of the Contract Revenue Bonds; provided, however, that the amount of the monthly payments may be adjusted by the Corporation to ensure that it has received from SAWS a sufficient amount of funds so that the Corporation may pay the next semiannual debt service payment on the Contract Revenue Bonds. SAWS agrees to make these monthly payments regardless of whether SAWS takes any water from the Corporation. The obligation of SAWS to make these monthly payments shall continue as long as the Contract Revenue Bonds issued by the Corporation or any SAWS approved refunding of those Contract Revenue Bonds remains outstanding. To the extent any reserve fund or other fund mandated by the Corporation's resolution authorizing the issuance of the Contract Revenue Bonds needs to be supplemented by additional deposits, then SAWS unconditionally agrees to make such additional deposits as needed from time to time under the terms of the Contract Revenue Bonds at least one business day prior to the date such funds are required to be paid by the Corporation. Neither the Corporation nor the Cities shall have any obligation whatsoever to make any payments required by the Contract Revenue Bonds, except from payments made hereunder by SAWS to the Corporation.

C. Emergency Water. The Corporation agrees to pay, from other lawfully available funds, the monthly charges of SAWS for Emergency Water based upon the rate as established in Section 2.03.C then in effect per thousand gallons times gallons actually measured by the meter at the Corporation's Point of Delivery measured in increments of thousand gallons.

D. SAWS Water. SAWS agrees to pay the Corporation's monthly charges for treatment and transportation of SAWS Water based upon the annual adjusted rate as established in Section 2.03.A. SAWS shall notify the Corporation in writing on or before May 1 of each year during the term of this Contract of the amount of groundwater SAWS and its sources will be authorized by the GCUWCD to pump in the following calendar year (the "Annual Authorized Pumping Amount"). The Corporation's Operation and Maintenance charges, as defined in Section 2.03.D. of this Contract, shall be determined annually by applying the annual adjusted rate to the Annual Authorized Pumping Amount less the Corporation's estimated Annual Water Loss as defined in Section 1.05.A, regardless of the amount of untreated water that SAWS delivers to the Corporation for treatment and transportation. The Corporation's charges shall be assessed in twelve (12) equal monthly installments. The Corporation shall credit SAWS during the next calendar year for any water that the Corporation is unable to deliver because it does not satisfy the water quality requirements set forth in Section 1.11.B. This subsection does not apply to the annual debt service payments on the Contract Revenue Bonds and the other customary pecuniary obligations set forth in the Corporation's resolution approved by SAWS authorizing the issuance of the Contract Revenue Bonds which SAWS unconditionally agrees to pay in monthly installments without demand by Corporation.

Section 2.03. Rate.

A. Rate Paid by SAWS for Treatment and Transportation of SAWS Water. The annual adjusted rate per thousand gallons paid by SAWS for treatment and transportation of SAWS Water shall equal the Corporation's cost per thousand gallons for Operation and Maintenance (excluding all water lease costs) and Used and Useful Facilities Debt Service, all as defined in subsection D below. This subsection A only relates to the determination of Operation and Maintenance Charges and does not relate in any way to the debt service on the Contract Revenue Bonds and the other customary pecuniary obligations set forth in the Corporation's resolution approved by SAWS authorizing the issuance of the Contract Revenue Bonds.

B. Rate Paid by SAWS for Surplus Water. The annual rate paid by SAWS for the Surplus Water shall be the Corporation's rate per thousand gallons then in effect for water sold by the Corporation to the Cities.

C. Rate Paid by Corporation for Emergency Water. The annual rate per thousand gallons paid by the Corporation to SAWS for Emergency Water delivered to the Corporation from SAWS shall be the Corporation's rate per thousand gallons then in effect for water sold by the Corporation to the Cities.

D. Definitions. For purposes of this Section:

1. "Water Treatment Plant" shall mean the Corporation's water treatment plant located at 2130 CR 127, Nixon, Texas.

2. "Facilities" shall mean the Corporation's water transportation infrastructure connecting the Water Treatment Plant to the Corporation's Point of Delivery, together with related water storage tanks, pump stations, chlorination stations, electronic monitoring equipment, and transmission pipelines, and land, rights of way, and permits where Facilities may be located.

3. "Used and Useful Facilities Debt Service" shall mean the Corporation's annual principal and interest payments to discharge debt incurred for construction, expansion, repair, or replacement of Facilities that are used and useful for the receipt, treatment, storage, pumping, and transport of SAWS Water, other than debt evidenced by the Contract Revenue Bonds, plus transfers to reserve funds as permitted or required by the applicable bond resolutions, and for debt service coverage in an amount not to exceed 150%. The parties specifically agree that the term shall include payments of $596,026 attributable to use of capacity in the existing Corporation pipeline from the Corporation's treatment plant to the Corporation's ground storage tank in Schertz, including existing pump stations and storage tank capacity.

4. "Operation and Maintenance" shall mean operation and maintenance in accordance with commonly accepted prudent public utility standards. Water lease costs will be excluded from Operation and Maintenance costs paid by SAWS for SAWS Water. Operation and Maintenance costs as currently anticipated by the parties are identified in the report entitled Schertz-Seguin Local Government Corporation 2010 Rate Study and Long-Term Financial Plan by Economists.com as updated December 27, 2010 which is incorporated by reference into this Contract, and both SAWS and the Corporation acknowledge receipt of the report. However, SAWS recognizes and acknowledges that the costs represented in the

report are intended only as a representative example and will not be considered definitive of costs required by prudent utility standards in the future.

E. Assets Excluded from Cost. The Corporation's cost to SAWS under this Contract for treatment and transportation of SAWS Water shall not include debt service or debt service coverage on any bonds issued by Corporation to acquire land or interests in land used solely for the production of groundwater for the benefit of Corporation's customers, or capital outlays or royalty payments related thereto, or for construction of facilities owned by the Corporation or persons other than SAWS and used to produce groundwater and deliver the groundwater to the Corporation's treatment plant. The parties specifically agree that all costs incurred by the Corporation, whether for facilities debt service, operation and maintenance, or otherwise, associated with a second Corporation transmission pipeline from the Corporation's treatment plant to the Corporation's ground storage tank in Schertz, shall be excluded from cost hereunder.

F. AWWA methodologies. All rates set by any party under this Contract shall be consistent with AWWA rate-making methodologies, except to the extent those methodologies may be inconsistent with the express provisions of this section of the Contract.

G. Annual Projected Volume. Each year on or before May 1, after SAWS exercises its Option under Section 1.02 of this Contract, SAWS will notify the Corporation in writing of the amount of untreated SAWS Water that SAWS expects to deliver to the SAWS Point of Delivery for the following January 1 through December 31 time period and the total estimated amount of treated water that SAWS plans to receive from the Corporation. Each year on or before July 1, after SAWS exercises its Option, the Corporation shall provide written notice to SAWS of the adjusted rates for the following calendar year. The written notice shall include supporting information and documentation to enable SAWS to evaluate the basis for any adjustments. Within fourteen (14) days of receipt of the notice by SAWS, SAWS will notify the Corporation in writing of any objections to the proposed adjustments. Within fourteen (14) days of receipt by the Corporation of the written objections, the parties shall meet and attempt to resolve any objections by SAWS. This subsection G relates only to the determination of Operation and Maintenance Charges and does not relate in any way to the debt service on the Contract Revenue Bonds.

H. Rate Adjustment. The Corporation will use its best efforts to adjust rates once per year effective beginning October 1, but the Corporation reserves the right to adjust rates from time to time and at any time the Corporation deems necessary to address costs that were not expected at the time the rates were set, such as an unexpected significant increases for electric power and chemicals, production, transport, or other fees assessed by local groundwater districts or the State, or water lease payments (applicable only to the Surplus Water). The Corporation will provide SAWS with as much notice of a rate change as may be practical under the circumstances.

Section 2.04. Due Date. Bills will be rendered by the 25th day of the month for amounts due under this Contract by any party. The monthly charges shall be paid in full on or before the thirtieth (30th) calendar day after receipt.

Section 2.05. Other Charges. In the event any sales or use taxes, or taxes, assessments, production fees or charges of any similar nature are imposed by a federal, state, or local authority (other than a party to this Contract) on production, storing, delivering, gathering, impounding, taking, selling, using, or consuming the water received by a party to this Contract, the amount of tax, assessment, or charge shall be borne by that party, in addition to all other charges, and whenever a party shall be required to pay, collect, or remit any tax, assessment, or charge on water received by such party, then the obligated party shall promptly pay or reimburse such party for the tax, assessment, or charge in the manner directed by such party.

Section 2.06. Default in Payments. All amounts due and owing to a party to this Contract by another party to this Contract shall, if not paid when due, bear interest at the Texas post-judgment interest rate under Texas law from the date when due until paid, provided that such rate shall never be usurious or exceed the maximum rate as permitted by law as set forth in Chapter 1204, as amended, Texas Government Code. If any amount due and owing by one party to another party is placed with an attorney for collection, the party owing the amount shall pay to the other party, in addition to all other payments provided by this Contract, including interest, the other party's collection expenses, including court costs and attorneys' fees as may be order the court or tribunal. The party who is owed the money may, to the extent permitted by law, suspend delivery of water to the other party if the other party remains delinquent in any payments due hereunder for a period of sixty (60) days, and is not required to resume delivery of water while the party is so delinquent. Either party may pursue all legal remedies against the other party to enforce and protect the rights of the party under this Contract.

Section 2.07. Pledge of Gross Revenue. Each party to this Contract represents and covenants to the other parties that all payments to be made by it under this Contract shall constitute reasonable and necessary "operating expenses" of its utility system, and that all such payments will be made from the gross revenues of its utility system. Each party represents and has determined that the water supply to be obtained from the other parties is absolutely necessary and essential to the present and future operation of its utility system, and, accordingly all payments required by this Contract to be made by the party shall constitute reasonable and necessary operating expenses of the party's utility system as described above with the effect that the obligation to make such payments from gross revenues of such utility system or systems shall have priority over any obligation to make any payments from such revenues, whether of principal, interest, or otherwise, with respect to all bonds heretofore or hereafter issued by the party. Each party agrees throughout the term of this Contract to continuously operate and maintain its utility system and to fix and collect such rates and charges for water services to be supplied by its utility system as will produce gross revenues in an amount equal to at least all of its payments under this Contract.

A party to this Contract shall never have the right to demand payment by another party of any obligations assumed by or imposed upon that party under or by virtue of this Contract from any funds raised or to be raised by taxation, and a party's obligation under this Agreement shall never be construed to be a debt of the party of such kind as to require it under the Constitution and laws of the State to levy and collect an ad valorem tax to discharge such obligation.

Section 2.08. Payment under Protest. If a party at any time disputes the amount to be paid by it to another party, the party shall nevertheless promptly make the disputed payment or payments, but if it is subsequently determined by agreement or court decision that the disputed amount paid by the party should have been less, or more, the other party shall promptly revise the monthly payment in a manner that the party, will recover the amount due within six (6) months.

Section 2.09. Stipulations. By signing this Contract, each party stipulates and agrees that another party will be prejudiced if a party avoids the obligation to furnish water while accepting the benefits of payments, or avoids the obligation to pay the rates for water specified in this Contract while accepting the benefits of obtaining water, from the other party. Nothing in this Contract shall be construed as constituting an undertaking by a party to furnish water to another party except pursuant to the terms of this Contract.

Section 2.10. Rights Regarding Books and Records. The Corporation shall permit SAWS upon reasonable notice to examine and copy all the books and records kept by the Corporation regarding this Contract and the Corporation's Water System. In addition, upon reasonable prior written notice to the Corporation, SAWS may conduct a complete audit of the books and records kept by the Corporation regarding this Contract and the Corporation's Water System as well as upon the information and documentation used to prepare the books and records. Any such audit shall be at SAWS' sole expense and shall be prepared by a certified public accounting firm. If the audit report discloses actual errors in the books and records such that the charges assessed to SAWS are in error then such error shall be corrected for the period up to four years after the erroneous charge was paid by SAWS and all payments reconciled over the subsequent twelve month period beginning with the Corporation's fiscal year. If the error identified in the audit is greater than the cost of the audit, the Corporation shall reimburse SAWS the cost of the audit.

ARTICLE III

TERM OF CONTRACT AND REMEDIES

Section 3.01. Term. This Contract shall be effective on January 1, 2011 (the "Effective Date"), and shall continue in effect for a period of forty years from the Effective Date and for so long thereafter as the Corporation may have Contract Revenue Bonds, or refunding bonds, outstanding that were issued for the exclusive purpose of financing or refinancing the construction of the Expansion.

Section 3.02. Renewal. This Contract will automatically renew for successive terms of five (5) years after the expiration of the term set forth in Section 3.01 unless the Corporation, SAWS, Schertz or Seguin gives written notice that the party issuing the notice objects to the renewal of this Contract. The notice of the objection to renewal must be given at least three (3) years prior to the termination date of this Contract.

Section 3.03. Termination by SAWS. SAWS may terminate this Contract at any time prior to exercising its Option described in Section 1.02 by providing written notice to the Corporation. However, if SAWS exercises its option by authorizing the Corporation to issue Contract Revenue Bonds, SAWS may not terminate this Contract for any reason until the Contract Revenue Bonds and any SAWS-approved refunding bonds are paid in full or a procedure is mutually agreed upon that provides for the full payment of the Contract Revenue Bonds and any SAWS-approved refunding bonds, and the other customary pecuniary obligations set forth in the Corporation's resolution approved by SAWS authorizing the issuance of the Contract Revenue Bonds without adverse impacts upon the holders of the Contract Revenue Bonds or SAWS-approved refunding bonds. Whether or not SAWS elects to exercise the Option described in Section 1.02, the rights and obligations of the parties with regard to Surplus Water as described in Section 1.01 shall continue in full force and effect unless and until this Contract is terminated.

Section 3.04. Obligations Upon Termination of Contract. Upon termination of this Contract, no party will have any obligation to another party except each party will:

A. Remove its facilities from property owned or controlled by the other party.

B. Pay or reimburse the other party all amounts that may be due upon the date of termination.

SAWS acknowledges that the facilities, equipment, and improvements made to Corporation's Water System pursuant to this Contract belong entirely to the Corporation, and SAWS has no right or obligation to remove any such facilities, equipment, or improvements.

Section 3.05. Remedies. Recognizing that failure in the performance of any party's obligations hereunder could not be adequately compensated in money damages alone, each party agrees in the event of any default on its part that each party shall have available to it the equitable remedy of mandamus and/or specific performance, but not termination as long as the Contract Revenue Bonds, or any refunding of the Contract Revenue Bonds, is outstanding. It is the intent of the parties to this Contract that any default shall be subject to the remedy of specific performance and/or mandamus to the extent that specific performance and/or mandamus is possible under the existing circumstances. The remedy of specific performance and/or mandamus shall be first requested by either party in the event of default by the other party. However, if, despite SAWS' request for specific performance or mandamus, a court determines that the Corporation has breached this Contract by failing to deliver treated water as required hereunder, but the court declines to order specific performance as a remedy, the aggregate damages available to SAWS shall be limited to recovery of a sum equal to the balance of the debt service payments on the Contract Revenue Bonds then outstanding plus the depreciated value at the time of default of the SAWS pump station, pipeline and related conveyance facilities connecting the Corporation's Point of Delivery to the SAWS Pump Station located near the intersection of Nacogdoches Road and O'Connor Road in San Antonio. SAWS will not be entitled to any punitive, incidental, indirect, special or consequential damages resulting from or arising out of any claims against the Corporation, including damages for lost revenues, income, or profits. If a court determines that SAWS has breached this Contract, but the court declines to order specific performance as a remedy, the damages available to the Corporation shall be limited to recovery of a sum equal to the balance of the debt service payments on, and other pecuniary obligations relating to, the Contract Revenue Bonds then outstanding. In either event, the prevailing party may recover court costs, attorneys' fees, and witness fees.

If the Expansion is not substantially completed by the Corporation due to its negligence before the capitalized interest on the Contract Revenue Bonds and proceeds from the builders risk insurance, if any, are exhausted, and SAWS must begin to make payments to the Corporation under Section 2.02.B, then the Corporation shall be liable to SAWS for those payments made prior to the substantial completion of the Expansion, unless SAWS chooses to exercise its rights to assume the construction contracts, in which case the Corporation shall not be liable to SAWS.

Section 3.06. Use of Expansion by Corporation. Notwithstanding any other provision of this Contract, in the event that SAWS is unable for any reason to deliver water to the Corporation for treatment and the Corporation utilizes the Expansion to treat water for itself or other parties, the Corporation shall reimburse SAWS for payments under Section 2.02.B made by SAWS to the Corporation. The Corporation's reimbursement payments shall be made on the same terms and conditions as payments from SAWS to the Corporation under this Contract. In no event shall Corporation's obligation to reimburse SAWS exceed the amount of revenue received by the Corporation for the use of the Expansion.

Section 3.07. Default – Notice and Opportunity to Cure. If any party fails to perform any obligation or make any payment in the required amount when due under this Contract (except for SAWS' payment obligations set forth in Section 2.01 and 2.02.B), the other parties may, without prejudice to any other right or remedy it may have under this Contract, provide written notice of default to the non-performing party. The non-performing party has sixty (60) days from receipt of the notice within which to remedy the default (the "Cure Period").

Provided, however, the Corporation may reduce delivery of treated water to SAWS to reflect any and all reductions in SAWS' delivery of untreated water to the Corporation without the need for notice and providing an opportunity for cure.

Provided, however, the requirement for notice and the sixty (60) day opportunity to cure does not apply to SAWS' obligations to pay the Corporation for Contract Revenue Bonds or for water delivered to SAWS under this Contract and the amount due the Corporation shall be paid by SAWS by the due date specified in Section 2.04 of this Contract.

Section 3.08. Mediation. In the event any controversy arising under this Contract (other than a controversy arising from payments under Section 2.01 or Section 2.02.B. of this Contract or for rates charged under this Contract) is not resolved by informal negotiations between the

Corporation and SAWS within thirty (30) days after any party requests negotiations, then, upon the request of any party, the controversy shall be referred to the voluntary settlement procedure known as mediation, which process shall be governed by the Texas Civil Practice and Remedies Code, Section 154.002, et seq., or its successor statute. The parties shall attempt to select a mutually acceptable mediator. Failing identification of a mutually acceptable mediator, the parties shall request the presiding judge of the State District Courts of Travis County, Texas, to appoint a mediator. The mediation process shall continue until the controversy is resolved, the mediator makes a finding that there is no possibility of settlement through mediation, or either party chooses not to continue further. All costs and expenses of the mediation (including the mediator's fees) shall be shared equally by the parties involved in the mediation; provided however, that costs incurred by each party shall be costs solely of such party, but the Corporation's costs and expenses relating to such mediation shall be included as a system-wide cost within the Corporation's operation and maintenance expense.

ARTICLE IV

METERING AND MEASUREMENT

Section 4.01. Unit of Measurement. The unit of measurement for water delivered hereunder shall be 1,000 gallons of water, U. S. Standard Liquid Measure.

Section 4.02. Measuring Equipment. In accordance with Sections 1.08 and 1.09 of this Contract, the each party shall furnish, and install at least one water meter of standard type for measuring properly the quantity of water delivered under this Contract (the "delivery meter or meters"). Such meter and other equipment so installed shall remain the property of the party installing the meter. The other parties shall have access to such metering equipment at all reasonable times, but the reading, calibration, and adjustment thereof shall be done only by the employees or agents of the party that owns the meter. For the purpose of this Contract the original record or reading of the meter or meters shall be the journal or other record book of the party installing the meter in its office in which the records of the employees or agents of the party who take readings are or may be transcribed. Upon written request of another party, the party owning the meter will give the other party a copy of such journal or record book, or permit the other party to have access to the same in the office of the party during reasonable business hours.

Each party at the party's expense shall annually test its meter(s) at the point of delivery, if requested in writing by another other party to do so, in the presence of a representative of the other party, and the parties shall jointly observe any adjustments which are made to the meters in case any adjustments shall be necessary, and if the check meters hereinafter provided for have been installed by the party, the same shall also be calibrated by the party in the presence of a representative of the other party and the parties shall jointly observe any adjustment in case any adjustment is necessary. The party will provide to the other parties a copy of the meter calibration test to the party for its sanitary inspection reports. If the party shall in writing request another party to calibrate its meters and the other party shall give the party notice of the time when any such calibration is to be made and a representative of the party is not present at the time set, the other party may proceed with calibration and adjustment in the absence of any representative of the party.

If any party at any time observes a variation between the delivery meter or meters and the check meter or meters, if any such check meter or meters shall be installed, such party will promptly notify the other parties, and the parties hereto shall then cooperate to procure an immediate calibration test and joint observation of any adjustment and the said meter or meters shall then be adjusted to accuracy. Each party shall give the other party forty- eight (48) hours' notice of the time of all tests of meters so that the other parties may conveniently have a representative present.

If upon any test, the percentage of inaccuracy of any metering equipment is found to be in excess of accuracy limits as established in AWWA Manual 6 – Testing of Meters, registration thereof shall be corrected for a period extending back to the time when such inaccuracy began, if such time is ascertainable, and if such time is not ascertainable, then for a period extending back one - half (½) of the time elapsed since the last date of calibration. If for any reason any meters are out of service or out of repair so that the amount of water delivered cannot be ascertained or computed from the reading thereof, the water delivered during the period such meters are out of service or out of repair shall be estimated and agreed upon by the parties hereto upon the basis of the best data available. For such purpose, the best data available shall be deemed to be the registration of any check meter or meters if the same have been installed and are accurately registering. Otherwise the amount of water delivered during such period may be estimated (i) by correcting the error if the percentage of the error is ascertainable by calibration tests or mathematical calculation, or (ii) by estimating the quantity of delivery by deliveries during the preceding periods under similar conditions when the meter or meters were registering accurately.

Each party may, at the party's option and expense, install and operate a check meter to check each meter installed by another party, but the measurement of water for the purpose of this Contract shall be solely by the party's meters, except in the cases hereinabove specifically provided to the contrary. All such check meters shall be of standard make and shall be subject at all reasonable times to inspection and examination by any employee or agent of the other party, but the reading, calibration and adjustment thereof shall be made only by the party who owns the meter. During any period when a check meter may be used under the provisions hereof for measuring the amount of water delivered, in which case the reading, calibration and adjustment thereof shall be made by the party with representation from the other party.

If a party requests another party to test the other party's meter, either more frequently than once every year required by this section or because the other party's meter and the party's check meter show different readings, the party requesting the test will pay the cost of the test if the test shows that the meter is within the accuracy limits as established in AWWA Manual 6 – Testing of Meters (within two percent registration), but if the test shows that the meter is not accurate (in excess of accuracy limits as established in AWWA Manual 6 – Testing of Meters), then the other party will pay the costs for conducting the test.

ARTICLE V

INTERPRETATIONS AND CORPORATION BONDS

Section 5.01. Interpretation. The table of contents and caption headings of this Contract are for reference purposes only and shall not affect its interpretation in any respect. Unless the context otherwise requires, words of the masculine gender shall be construed to include correlative words of the feminine and neuter genders and vice versa. This Contract and all the terms and provisions shall be liberally construed to effectuate the purpose set forth herein and to sustain the validity of this Contract.

Section 5.02. Schertz, Seguin, SAWS, and Corporation Bonds. Each party expressly acknowledges, agrees, and warrants that it will take no action to adversely affect the tax-exempt status of the tax-exempt bonds or other obligations of another party hereto. Each party hereto acknowledges that any SAWS bonds or other obligations are issued by the City Council of the City of San Antonio, Texas.

Section 5.03. Subordination of Cities' Rights. Under the Corporation/City Contracts, Schertz and Seguin each have a right to receive fifty percent (50%) of the water produced by the Corporation. Subject to the terms and conditions of this Contract, including but not limited to Section 1.01C, Schertz and Seguin each subordinate their right to receive water in equal amounts from the Corporation so that the Corporation may supply water to SAWS in accordance with this Contract. Schertz and Seguin shall both remain unconditionally obligated to pay the Corporation the amount due under the Corporation/City Contracts, but the Corporation, Schertz and Seguin acknowledge and agree that the amounts payable by Schertz and Seguin to the Corporation (except for payments due on any Contract Revenue Bonds) shall be reduced by the Corporation's actual receipt of the amounts paid by SAWS under this Contract, so as between the Corporation, Schertz and Seguin and for the purposes of Section 3.01 of the Corporation/City Contracts, the amounts paid by SAWS to the Corporation shall be considered to be proportionate payments of the Annual Payments required to be paid by Schertz and Seguin under the Corporation/City Contract.

ARTICLE VI

GENERAL PROVISIONS

Section 6.01. Participation by the Parties. Each party to this Contract represents to the others that it is empowered by law to execute this Contract and other agreements and documents as are or may hereafter be required to accomplish the same; and that its execution of this Contract has been duly authorized by action of its governing body.

Section 6.02. Force Majeure. If by reason of Force Majeure any party hereto shall be rendered unable wholly or in part to carry out its obligations under this Contract, other than the obligation of SAWS to make the payments required under this Contract with respect to any payment obligation on Contract Revenue Bonds, then if such party shall give notice and full particulars of such Force Majeure in writing to the other parties within a reasonable time after the occurrence of the event or cause relied on, the obligation of the party giving such notice, so far as it is affected by such Force Majeure, shall be suspended during the continuance of the inability then claimed, but for no longer period, and any such party shall endeavor to remove or overcome such inability with all reasonable dispatch. The term "Force Majeure" as employed herein shall mean acts of God, strikes, lockouts or other industrial disturbances, acts of public enemy, orders of any kind of the Government of the United States or the State of Texas, or regulatory restrictions by a groundwater district, any civil or military authority, insurrection, riots, epidemics, landslides, lightning, earthquake, fires, hurricanes, tornados, blue northers, storms, floods, washouts, droughts, arrests, restraint of government and people, civil disturbances, explosions, breakage or accidents to machinery, pipelines or canals, partial or entire failure of water supply, inability on the part of the Corporation to deliver water for any reason, or on account of any other causes not reasonably within the control of the party claiming such inability.

Section 6.03. Modification. No change, amendment, or modification of this Contract shall be made or be effective that will affect adversely the prompt payment when due of all money required to be paid by a party under the terms of this Contract.

Section 6.04. Addresses and Notice. Unless otherwise provided herein, any notice, communication, request, reply, or advice (herein severally and collectively, for convenience, called "Notice") herein provided or permitted to be given, made, or accepted by any party to the other parties must be in writing and may be given or be served by depositing the same in the United States mail postpaid and registered or certified and addressed to the party to be notified, with return receipt requested, or by delivering the same to an officer of such party, or by prepaid telegram when appropriate, addressed to the party to be notified. Notice deposited in the mail in the manner hereinabove described shall be conclusively deemed to be effective, unless otherwise stated herein, from and after the expiration of three days after it is so deposited. Notice given in any other manner shall be effective only if and when received by the party to be notified. For the purposes of notice, the addresses of the parties shall, until changed as hereinafter provided, be as follows:

If to the Corporation:
General Manager
Schertz/Seguin Local Government Corporation
P.O. Box 833/600 River Drive West
Seguin, Texas 78156-0833

If to the SAWS:
President/Chief Executive Officer
San Antonio Water System
P.O. Box 2449/2800 U.S. Hwy. 281 North
San Antonio, Texas 78298

If to the Cities:

City Manager
City of Schertz, Texas
1400 Schertz Parkway
Schertz, Texas 78154

City Manager
City of Seguin, Texas
210 East Gonzales
Seguin, Texas 78155

The Corporation, SAWS and the Cities shall have the right from time to time and at any time to change their respective addresses and each shall have the right to specify as its address any other address by at least five (5) days' written notice to the other parties.

Section 6.05. State or Federal Laws, Rules, Orders, or Regulations. This Contract is subject to all applicable federal and State laws and any applicable permits, ordinances, rules, orders, and regulations of any local, state, or federal governmental authority having or asserting jurisdiction but nothing contained herein shall be construed as a waiver of any right to question or contest any such law, ordinance, order, rule, or regulation in any forum having jurisdiction. Each party represents that, to the best of its knowledge, no provisions of any applicable federal or State law, nor any permit, ordinance, rule, order, or regulation of either party will limit or restrict the ability of either party to carry out their respective obligations under or contemplated by this Contract.

Section 6.06. Severability. The parties hereto specifically agree that in case any one or more of the sections, subsections, provisions, clauses, or words of this Contract or the application of such sections, subsections, provisions, clauses, or words to any situation or circumstance should be, or should be held to be, for any reason, invalid or unconstitutional, under the laws or constitutions of the State or the United States of America, or in contravention of any such laws or constitutions, such invalidity, unconstitutionality, or contravention shall not affect any other sections, subsections, provisions, clauses, or words of this Contract or the application of such actions, subsections, provisions, clauses, or words to any other situation or circumstance, and it is intended that this Contract shall be severable and shall be construed and applied as if any such invalid or unconstitutional section, subsection, provision, clause, or word had not been included herein, and the rights and obligations of the parties hereto shall be construed and remain in force accordingly.

Section 6.07. Waiver. Notwithstanding anything to the contrary contained in this Contract, any right or remedy or any default hereunder, except the right of a party to receive the payments from another party, which shall never be determined to be waived, shall be deemed to be conclusively waived unless asserted by a proper proceeding at law or in equity within four (4) years after the occurrence of such default. No waiver or waivers of any breach or default (or any breaches or defaults) by any party hereto or of the performance by any other party of any duty or obligation hereunder shall be deemed a waiver thereof in the future, nor shall any such waiver or waivers be deemed or construed to be a waiver of subsequent breaches or defaults of any kind, character or description, under any circumstances.

Section 6.08. Venue. All amounts due to the Corporation from SAWS under this Contract, including, but not limited to, payments due under this Contract, shall be paid and be due in Guadalupe County, Texas, which is the County in which the principal administrative offices of the Corporation are located. All amounts due to SAWS from the Corporation under this Contract, including, but not limited to, payments due under this Contract, shall be paid and be due in Bexar County, Texas, which is the County in which the principal administrative offices of SAWS are located. It is specifically agreed among the parties to this Contract that in the event that any legal proceeding is brought to enforce this Contract or any provision hereof, the same shall be brought in Travis County, Texas.

Section 6.09. Succession and Assignment. This Contract is binding on and inures to the benefit of the parties hereto and their respective successors, representatives, and assigns. This Contract may not be assigned by any party hereto without prior written notice to and approval by the other parties, which consent may be withheld without cause. The provisions of this Section do not affect the assignment of the Corporation's rights under this Contract to the trustee bank for the Contract Revenue Bonds.

Section 6.10. Entire Contract. This Contract constitutes the entire agreement among the parties with respect to the matters described herein.

Section 6.11. Applicable Law. This Contract shall be governed by and construed in accordance with the laws of the State, and the obligations, rights, and remedies of the parties hereunder shall be determined in accordance with such laws without reference to the laws of any other state or jurisdiction, except for applicable federal laws, rules, and regulations.

Section 6.12. Counterparts. This Contract may be executed in counterparts, each of which shall be an original and all of which together shall constitute but one and the same instrument.

Section 6.13. Officers and Agents. No officer or agent of the parties is authorized to waive or modify any provision of the Contract. No modifications to or rescission of this Contract may be made except by a written documents signed by the parties' authorized representatives.

Section 6.14. Recitals. The parties agree that the recitals in this Contract are true and correct and are incorporated into the terms of this Contract.

Section 6.15. Approval by Parties. Attached as Exhibit E are the official actions of Schertz, Seguin and the Corporation evidencing approval of and consent to this Contract as required by the terms of the Corporation/City Contracts.

Section 6.16. Condition Precedents. The Corporation's obligations under this Contract are contingent upon approval of this Contract by the Corporation, Schertz, and Seguin.

Section 6.17. Goods and Services. The parties agree that the mutual commitments stated in this Contract to provide water, emergency water service, water treatment services, and funding for utility system improvements constitute an agreement by each party for providing goods and services to the other parties, and that this Contract is subject to Chapter 271, Subchapter I, of the Texas Local Government Code.

Section 6.18. No Third Party Beneficiary; No Partnership. This Contract is not intended to confer any rights, privileges or causes of action upon any third party other than the Cities, the Corporation, and SAWS. The relationship of the parties under this Contract is not and shall not be construed or interpreted to be a partnership, joint venture or agency. The relationship of the parties shall be an independent contractor relationship. No party shall have the authority to make any statements, representations or commitments of any kind, or to take any action, which shall be binding on another party.

Section 6.19. Continuing Disclosure of Information.

Definitions.

As used in this Section, the following terms have the meanings ascribed to such terms below:

Rule means SEC Rule 15c2-12, as amended from time to time.

SEC means the United States Securities and Exchange Commission.

The Contract Revenue Bonds will likely be publically offered, and SAWS agrees to comply with the continuing disclosure requirements set forth in the SEC Rule relating to the Contract Revenue Bonds in the time, form, and manner set forth in the Corporation's resolution as approved by SAWS authorizing the issuance of the Contract Revenue Bonds.

IN WITNESS WHEREOF, the parties hereto acting under authority of their respective governing bodies have caused this Contract to be duly executed as of the Effective Date.

SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION

By: ______________________
President, Board of Directors

Attest:

____
Secretary, Board of Directors

SAN ANTONIO WATER SYSTEM

By: ______________________
Robert R. Puente
President/Chief Executive Officer

PAULINE VILLAGRAN
Notary Public, State of Texas
My Commission Expires
August 20, 2012

Attest:

Pauline Villagran
____

CITY OF SCHERTZ, TEXAS

By: ______________________
City Manager

Attest:

Brenda Dennis
____
City Secretary

CITY OF SEGUIN, TEXAS

By: ______________________
City Manager

Attest:

____
City Secretary

Exhibits:

Exhibit A – Improvements Known as of the Effective Date and Estimated Costs (Section 1.04.A)

Exhibit B – Facility Site in Schertz (Section 1.04.C.2)

Exhibit C – Pump Station Site (Section 1.04.C.4)

Exhibit D – Agreements and Insurance (Section 1.06.C)

Exhibit E – Official Actions (Section 6.15)

EXHIBIT A

Improvements Known as of the Effective Date and Estimated Costs (Section 1.04.A)

Improvement Facility Estimated
Cost

Water Treatment Plant Expansion
$8,500,000

Water Treatment Plant High Service Pump Station Expansion
$1,400,000

Water Treatment Plant Chemical Feed Modifications/Expansions
$1,200,000

Mid-line Booster Pump Station Improvements/Expansion
$3,400,000

SCADA Expansion $220,000

SAWS Point of Delivery at Water Treatment Plant Expansion*
$90,000

Corporation Point of Delivery in Schertz* $120,000

TOTAL ESTIMATED COST FOR EXPANSION IMPROVEMENTS** $14,930,000

* Points of Delivery are on the Corporation's property

** Total cost does not include cost of capitalized interest during construction

NOTE: The actual improvements will not be known until the preliminary engineering report described in the Contract is completed and actual cost of the improvements will not be known until bids from contractors are received.

EXHIBIT B
Facility Site in Schertz (Section 1.04.C.2)

San Antonio Water System

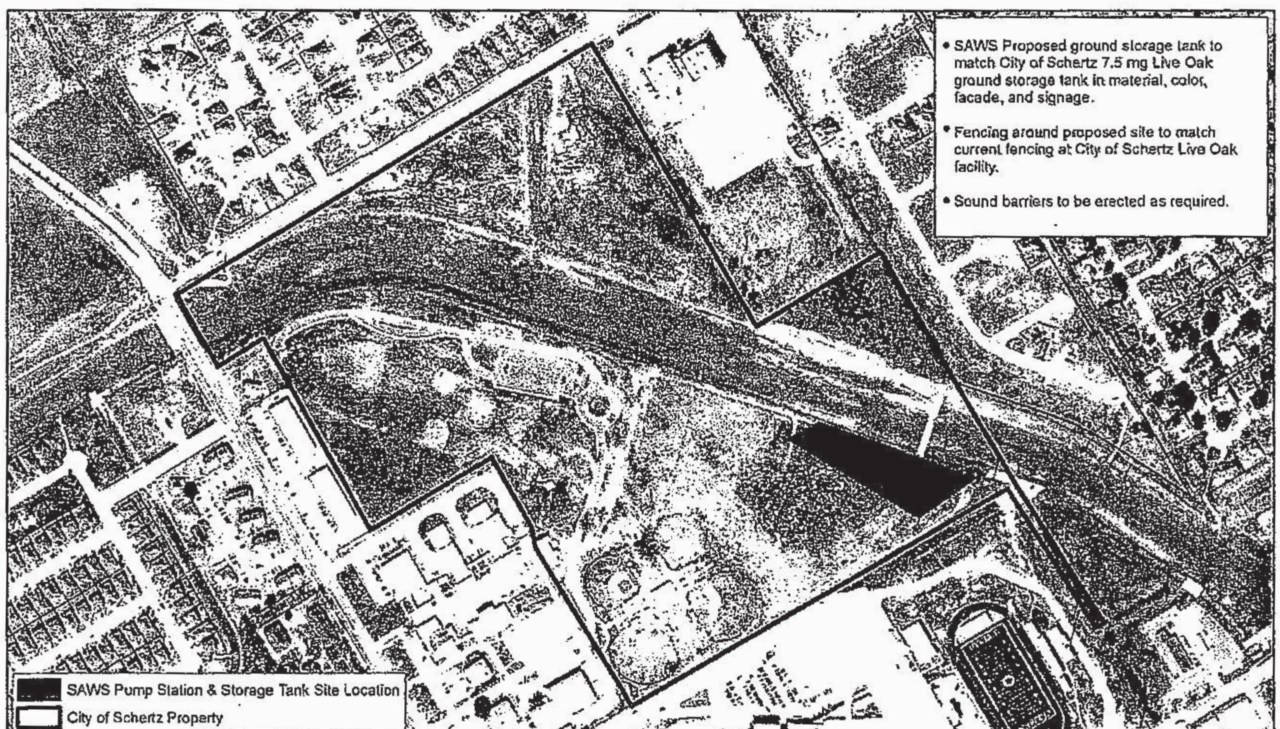


EXHIBIT C
Pump Station Site (Section 1.04.C.4)

San Antonio Water System

Exhibit "D"

Agreements and Insurance (Section 1.06.C)

1. **Commercial Insurance Specifications:**

   a. Commencing on the date of this Contract, the CONTRACTOR shall, at his own expense, purchase, maintain and keep in force such lines of insurance coverage as will protect him and the Schertz/Seguin Local Government Corporation ("the CORPORATION") and their employees and agents from claims, which may arise out of or result from his operations under this Contract, whether such operations are by himself, by any Sub-contractor, supplier or by anyone directly or indirectly employed by any of them or by anyone for whose acts any of them may be liable, including, without limitation, the following lines of insurance coverage:

      1) **Workers' Compensation (WC)** insurance that will protect the CONTRACTOR and the CORPORATION from claims under statutory Workers' Compensation laws, disability laws or such other employee benefit laws and that will fulfill the requirements of the jurisdiction in which the work is to be performed.

         The minimum policy limits of liability for this line of insurance coverage shall be statutory limits.

         This line of insurance coverage shall be endorsed to provide a **Waiver of Subrogation** in favor of the CORPORATION with respect to both this line of insurance coverage and the **Employers' Liability (EL)** insurance (as specified immediately below in section 1**.a.2)**).

      2) **Employers' Liability (EL)** insurance (**Part 2** under a standard Workers' Compensation policy) that will protect the CONTRACTOR and the CORPORATION for damages because of bodily injury, sickness, disease of vendor's employees apart from that imposed by Workers' Compensation laws.

         This line of insurance coverage shall have minimum policy limits of liability of not less than:

$ 1,000,000.00	Bodily Injury by Accident
1,000,000.00	Bodily Injury by Disease - Each Employee
1,000,000.00	Bodily Injury by Disease - Policy Limit

      3) **Commercial General Liability (CGL)** insurance that will protect the CONTRACTOR and the CORPORATION from claims for damages because of bodily injury, personal injury, sickness, disease or death and insurance that will protect the CONTRACTOR and the CORPORATION from claims for damages to or destruction of tangible property of others, including loss of use thereof.

This line of insurance coverage shall:

- Cover independent contractors;
- Not include any exclusions relating to blasting, explosion, collapse of buildings or damage to underground property;
- Afford coverage for Products Liability and/or Completed Operations and, Contractual Liability.

The minimum policy limits of liability for this line of insurance coverage shall be:

$ 1,000,000.00	Occurrence Limit
2,000,000.00	General Aggregate
2,000,000.00	Products/Completed Operations Aggregate
1,000,000.00	Personal and Advertising Injury
1,000,000.00	Contractual Liability

This line of insurance coverage shall be endorsed:

- Naming the CORPORATION as an **Additional Insured**; and
- To provide a **Waiver of Subrogation** in favor of the CORPORATION.

Commercial/Business Automobile Liability (AL) insurance that will protect the CONTRACTOR and the CORPORATION from claims for damages arising out of the maintenance, operation, or use of any owned, non-owned or hired vehicles.

Minimum policy limits of liability for this line of insurance coverage for bodily injury and property damage **combined** shall be not less than $1,000,000.00 per each occurrence.

This line of insurance coverage shall be endorsed:

- Naming the CORPORATION as an **Additional Insured**; and
- To provide a **Waiver of Subrogation** in favor of the CORPORATION.

5) **Excess/Umbrella Liability (UL)** insurance in the amount of $2,000,000.00. This policy shall be of an **"Occurrence" type** and the limit of liability shall be concurrent with (following form) and in excess of the **EL**, **CGL**, and **AL** lines of insurance coverage as described in paragraphs 1.a.2), 1.a.3), and 1.a.4) listed above.

NOTE - For the Excess/Umbrella Liability policy, describe in the Description of Operations section of the Certificate of Liability Insurance ("Certificate"), the coverage form under which this line of coverage is written – either:

- Umbrella form; or
- Other Than Umbrella form.

6) **Contractor's Pollution Liability** Insurance with limits of $2,000,000 per claim/occurrence/$2,000,000 in the aggregate.

The policy shall provide either a "claims made" or an occurrence based coverage for all claims, liabilities, damages, costs, fees, and expenses of any kind or character arising out of any Pollution Condition(s) (as defined below) that is in any way related to CONTRACTOR's operations, actions or inactions, and completed operations associated with any work performed by CONTRACTOR, its subcontractors, or any of their respective employees, agents, representatives, or officers under this Contract.

If the Policy is "claims made" based, coverage must be maintained for a minimum of twenty-four (24) months after the date that a Certificate of Completion is issued, or if the Contract is terminated for any reason, for a minimum of twenty-four (24) months following the date of termination.

The "claims made" policy retroactive date will be no later than the Contract date or the project commencement date, whichever is earliest.

Pollution Condition(s) means the discharge, dispersal, release or escape of any solid, liquid, gaseous or thermal irritant or contaminant, including, but not limited to, smoke, sewage, vapors, soot, fumes, acids, alkalis, toxic chemicals, medical waste and waste materials into or upon land, the atmosphere or any watercourse or body of water, including groundwater, provided such conditions are not naturally present in the environment in the amounts or concentrations discovered.

The **Contractor's Pollution Liability** Insurance will pay on behalf of the CONTRACTOR and the CORPORATION all claims, demands, damages, liabilities, costs, fees, and expenses of any kind or character for bodily injury or death, property damage, environmental or natural resource damage, and any fines, fees, assessments or penalties of any kind assessed by any governmental department, agency or commission that result from or are related to a Pollution Condition(s). Coverage will include all subcontractors hired by CONTRACTOR to perform any work on the Project or under this Contract.

The policy shall also include the following provisions:

a) Coverage for bodily injury to include physical injury, sickness, disease, mental anguish and emotional distress sustained by any person, including death;

b) All costs that are related to or that arise out of or from the investigation or adjustment of any claim or in connection with any court, arbitration, mediation, state administrative hearing, or other proceeding of any kind, including attorneys fees, expert witness fees, costs, charges and expenses of any kind or character, that arise out of or that are related to a Pollution Condition(s);

c) Coverage shall be Primary and in addition to any other valid and collectible insurance carried by the CORPORATION and the City of San Antonio as respects to this Contract;

d) Coverage for Natural Resource Damages and any fines, fees penalties or assessments by any governmental agency, commission or department related to any Pollution Condition(s);

e) Insured versus Insured exclusion, if found in the policy, shall not apply to a claim by an Insured who qualifies as a Client of the Named Insured under the policy;

f) If Non-Owned Disposal sites are used for disposal of wastes, these sites shall be specifically included under the Contractors Pollution Liability Insurance policy; and

g) Coverage for punitive, exemplary, and multiple damages.

Commercial/Business Automobile Liability policy of CONTRACTOR hauling excavated spoil shall either be endorsed to provide coverage under the CA9948 endorsement **or** the **Contractor's Pollution Liability** Insurance policy shall be endorsed to provide transportation coverage beyond the boundaries of the job site.

NOTE - For the **Contractor's Pollution Liability**, declare on the **Certificate of Liability Insurance** ("Certificate") the coverage form under which this line of insurance is written – either:

a) Claims-made form - if the coverage form declared on the Certificate is the Claims-made form, also include on the Certificate the "**Retro-date**" when this line of coverage was first written or started; **or**

b) Occurrence basis – no additional wording required.

b. CONTRACTOR shall require all Sub-contractors to carry lines of insurance coverage appropriate to their scope of Work.

c. CONTRACTOR agrees that with respect to the above required lines of insurance, all insurance policies are to contain or be endorsed to the extent, not inconsistent with the requirements of the issuing insurance carrier, to provide for an endorsement that the "other insurance" clause shall not apply where the CORPORATION is an Additional Insured shown on the policy if such endorsement is permitted by law and regulations.

d. CONTRACTOR shall, upon request of the CORPORATION, provide copies of all insurance policies and endorsements required under Contract.

e. CONTRACTOR is responsible for the deductibles under all lines of insurance coverage required by these Specifications.

f. The stated policy limits of each line of insurance coverage required by these Specifications are MINIMUM ONLY and it shall be the CONTRACTOR's responsibility to determine what policy limits are adequate and the length of time each line of insurance coverage shall be maintained; insurance policy limits are not a limit of the CONTRACTOR's liability.

g. These minimum limits of insurance coverage may be either basic policy limits of the WC/ EL, CGL and AL or any combination of basic limits or umbrella limits.

h. The CORPORATION's acceptance of Certificate(s) of Liability Insurance that in any respect, do not comply with these Specifications does not release the CONTRACTOR from compliance herewith.

i. Within five (5) calendar days of a suspension, cancellation or non-renewal of coverage, the CONTRACTOR shall provide a replacement Certificate of Liability Insurance and applicable endorsements to the CORPORATION. The CORPORATION shall have the option to suspend the CONTRACTOR's performance should there be a lapse in coverage at any time during this Contract.

j. Failure to provide and to maintain the required lines of insurance coverage shall constitute a material breach of this contract.

k. In addition to any other remedies the CORPORATION may have upon the CONTRACTOR's failure to provide and maintain any insurance or policy endorsements to the extent and within the time herein required, the CORPORATION shall have the right to order the CONTRACTOR to stop performing services hereunder and/or withhold any payment(s) which become due to the CONTRACTOR hereunder until the CONTRACTOR demonstrates compliance with the specifications hereof.

l. Nothing herein contained shall be construed as limiting in any way the extent to which the CONTRACTOR may be held responsible for payments of damages to persons or property resulting from the CONTRACTOR 's or its Sub-contractor's performance of the services covered under this Contract.

m. It is agreed that the CONTRACTOR's insurance shall be deemed primary and non-contributory with respect to any insurance or self insurance carried by the CORPORATION, the City and their employees and agents for liability arising out of operations under this Contract.

n. CONTRACTOR agrees that all lines of insurance coverage required by these Specifications shall be with insurance companies, firms or entities that have an **A.M. Best** rating of "**A- ("A"- minus)**" and a **Financial Size Category** of a "**VII**" or better. All lines of insurance coverage shall be of an "Occurrence" type except for the Contractor's Pollution Liability line of insurance coverage.

The CORPORATION will accept worker's compensation coverage written by the Texas Workers Compensation Insurance Fund.

o. The CORPORATION reserves the right to review the above stated insurance specifications during the effective period of this Contract and any extension or renewal hereof and to request modification of lines of insurance coverage and their respective liability limits when deemed necessary and prudent by the CORPORATION based upon changes in statutory law, court decisions, or circumstances surrounding this Contract.

In no instance will the CORPORATION allow modification whereupon the CORPORATION may incur increased risk exposure.

2. **Certificate(s) of Liability Insurance ("Certificate") Requirements**

Prior to the commencement of any work under this Contract and once notified by the CORPORATION that your Company has been selected as the apparent, lowest responsive Bidder, pending Board final approval, and you will be requested to submit your Company's Certificate(s) of Liability Insurance, that Certificate(s) must meet all of the following requirements:

a. The CONTRACTOR shall have completed by its insurance agent(s), a Certificate(s) providing evidence of the lines of insurance coverage pursuant to Section 1.a.1) through 1.a.6) listed above.

b. The original Certificate(s) or form must include the agent's original signature, including the signer's company affiliation, mailing address, Office and FAX phone numbers, email address, and contact person's name; and, be mailed, with copies of all applicable endorsements, directly from the insurer's authorized representative in strictly compliance with sections 2.g. (**Certificate Holder**) and 2.h. **(Distribution of Completed Certificates**) below.

c. The CORPORATION will not accept Memorandum of Insurance or Binders as proof of insurance.

d. The CORPORATION shall have no duty to pay or perform under this Agreement until such certificate(s) and endorsements have been received, reviewed and deemed 100% compliant with the CORPORATION's Bid document Insurance Specifications by the CORPORATION. No one other than the CORPORATION shall have authority to waive any part of this requirement.

e. The CORPORATION Bid number(s) and the Bid name **shall be included** in the Description of Operations section located in the bottom half of the standard ACORD Certificate of Liability Insurance forms.

f. **Certificate Holder** - The CORPORATION shall be shown as the Certificate Holder in the Certificate Holder section located in the bottom half of the standard ACORD Certificate of Liability Insurance forms styled in the following manner:

The Corporation
P.O. Box 833/600 River Drive West
Seguin, Texas 78156-0833

g. **Distribution of Completed Certificates** - Completed **Certificate(s) of Liability Insurance** shall be distributed by the CONTRACTOR within 5 days after receipt of written confirmation of being notified as the lowest, responsive Bidder pending final CORPORATION approval, as follows:

1) Send Original to:

The Corporation
P.O. Box 833/600 River Drive West
Seguin, Texas 78156-0833

2) Send Copy by mail to:

San Antonio Water System
Attention: Project Engineer – Water Supply Projects
P.O. Box 2449
San Antonio, TX 78298-2449

h. CONTRACTOR shall be responsible for obtaining Certificates of Liability Insurance from the first tier Sub-contractor, and upon request furnish copies to the CORPORATION.

3. SURVIVAL

Any and all representations, conditions and warranties made by CONTRACTOR under this Contract including, without limitation, the provisions of Section 1.a.2), 1.a.3) and 1.a.4) of these **Insurance Specifications** are of the essence of this Contract and shall survive the execution and delivery of it, and all statements contained in any document required by the CORPORATION whether delivered at the time of the execution, or at a later date, shall constitute representations and warranties hereunder.

4. PERFORMANCE BOND

a. **Definition:** The security furnished by the Contractor through the Surety in the full amount of the Contract Sum as a guaranty that the Work will be faithfully performed and completed and that the

Owner will be saved harmless from all costs and damages which the Owner may suffer by reason of the Contractor's default or failure to perform the Work. <u>If the contract amount does not exceed $25,000, a Performance Bond is not required</u>.

b. CONTRACTOR shall furnish Performance Bond in favor of CORPORATION in an amount equal to 100% of the total construction cost under this Contract. Total construction costs are defined as the entire cost of materials and their installation, and include, but are not limited to, the cost of labor, equipment, supplies, materials and additional construction costs. The Performance Bond shall: (1) guarantee the completion of the entire construction herein identified in conformity with the Plans and Specification approved by CORPORATION, and (2) guarantee the work against defects in workmanship and materials for a period of twenty four (24) months after acceptance of the work by the CORPORATION. The bond shall have corporate Sureties that are licensed to conduct business in Texas. The contractor agrees that the following shall apply to bonds provided by a surety:

> If any bond is in an amount in excess of 10 percent of the surety company's capital and surplus, the CORPORATION shall require, as a condition to accepting the bond, written certification that the surety company has reinsured the portion of the risk that exceeds 10 percent of the surety company's capital and surplus with one or more reinsurers who are duly authorized, accredited, or trusted to do business in this state. The amount reinsured by any reinsurer may not exceed 10 percent of the reinsurer's capital and surplus.
>
> If the amount of the bond exceeds $100,000, the surety must also:
>
> (1) hold a certificate of authority from the United States secretary of the treasury to qualify as a surety on obligations permitted or required under federal law; or
>
> (2) have obtained reinsurance for any liability in excess of $100,000 from a reinsurer that is authorized and admitted as a reinsurer in this state and is the holder of a certificate of authority from the United States secretary of the treasury to qualify as a surety or reinsurer on obligations permitted or required under federal law.

c. If the surety on any bond furnished by the CONTRACTOR to the CORPORATION is declared bankrupt or becomes insolvent, or has its right to do business revoked in the State of Texas, then the CONTRACTOR will have <u>ten (10)</u> days to substitute another bond and surety therefore which shall be acceptable to SAWS and which shall be at the expense of the CONTRACTOR.

APPENDIX G

Form of Legal Opinion of Bond Counsel

(this page intentionally left blank)

Norton Rose Fulbright US LLP
111 West Houston Street, Suite 1800
San Antonio, Texas 78205
United States

Tel +1 210 224 5575
Fax +1 210 270 7205
nortonrosefulbright.com

DRAFT

IN REGARD to the authorization and issuance of the "Schertz/Seguin Local Government Corporation Contract Revenue Refunding Bonds, Series 2019 (San Antonio Water System Expansion Water Treatment Project 2)" (the *Bonds*), dated November 15, 2019, in the principal amount of $________ we have reviewed the legality and validity of the issuance thereof by the Schertz/Seguin Local Government Corporation (the *Corporation*), which Bonds are issuable in fully registered form only, shall be in denominations of $5,000 or any integral multiple thereof(within a Stated Maturity). The Bonds have Stated Maturities of February 1 in each of the years of 2021 through 2041, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the resolution (the *Resolution*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Resolution.

WE HAVE SERVED AS BOND COUNSEL for the Corporation solely to pass upon the legality and validity of the issuance of the Bonds under the laws of the State of Texas and with respect to the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Corporation, the Cities, or SAWS (as defined below) or their respective utility systems. We have not assumed any responsibility with respect to the financial condition or capabilities of the Corporation, the Cities, or SAWS or the disclosure thereof in connection with the sale of the Bonds. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds. Our role in connection with the Corporation's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the Corporation in connection with the issuance of the Bonds, including the Resolution and the Mutual Regional Water Supply Contract dated as of January 1, 2011 (the *Contract*) among the Corporation, the City of Seguin, Texas (*Seguin*), the City of Schertz, Texas (*Schertz*, and together with Seguin, the *Cities*), and the City of San Antonio, Texas, acting by and through its San Antonio Water System (*SAWS*), the Escrow Deposit Letter (the *Escrow Agreement*) between the Issuer and ______________________, ____________, _____________ (the *Escrow Agent*), and a sufficiency certificate (the *Certificate)* of SAMCO Capital Markets, Inc. as the Corporation's financial advisor (the *Financial Advisor*) concerning the sufficiency of the cash deposited with the Escrow Agent; (2) the legal opinions of the Schertz City Attorney, the Seguin City Attorney, and the General Counsel to the Corporation; (3) customary certifications and opinions of officials of the Corporation, the Cities, and SAWS and certificates executed by officers of the Corporation, the Cities, and SAWS relating to the expected use and investment of proceeds of the Bonds and certain other funds of the Corporation, and to certain other facts solely within the knowledge and control of the Corporation, the Cities, and SAWS; and (4) such other documentation, including an examination of the Bond executed and delivered initially by the Corporation, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Escrow Agreement has been duly authorized, executed, and delivered by the Issuer and, assuming due authorization, execution, and delivery thereof by the Escrow Agent, is a valid and binding obligation, enforceable in accordance with its terms (except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity), and that the outstanding obligations refunded, discharged, paid, and retired with the proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in trust with the Escrow Agent, pursuant to the Escrow Agreement, the resolution authorizing their issuance, and in accordance with the provisions of Chapter 22, as amended, Texas Business Organizations Code and Chapter 1201, as amended, Texas Government Code (incorporated by reference, respectively, under Sections 431.006 and 431.070, as amended, Texas Transportation Code). In rendering this opinion, we have relied upon the Certificate of the Financial Advisor concerning the sufficiency of cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that the Bonds have been duly authorized by the Corporation in compliance with the Constitution and laws of the State of Texas now in force, and the Bonds issued in compliance with the provisions of the Resolution are valid, legally binding and enforceable special obligations of the Corporation payable, together with the currently outstanding Parity Bonds, solely from and equally and ratably secured by a lien on and pledge of the Pledged Revenues, being (primarily) a first lien on and pledge of the Bond Payment portion of the Annual Payments to be received by the Corporation from SAWS pursuant to the Contract, together with certain other funds on deposit in the accounts established in the Resolution, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Bonds do not constitute a legal or equitable pledge, charge, lien, or encumbrance upon any property of the Corporation, except with respect to the Pledged Revenues. The holder of the Bonds shall never have the right to demand payment of the Bonds out of any funds raised or to be raised by taxation. In the Resolution, the Corporation retains the right to issue Additional Bonds, without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise.

Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of "SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION CONTRACT REVENUE REFUNDING BONDS, SERIES 2019 (SAN ANTONIO WATER SYSTEM EXPANSION WATER TREATMENT PROJECT 2)"

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that, assuming continuing compliance after the date hereof by the Corporation, the Cities, and SAWS with the provisions of the Resolution and the Contract and in reliance upon the Certificate of the Financial Advisor concerning the sufficiency of the amount deposited to the Escrow Fund and the representations and certifications of the Corporation, the Cities, and SAWS made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Bonds will not be included in computing the alternative minimum taxable income of the owners thereof.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Norton Rose Fulbright US LLP

(this page intentionally left blank)

Financial Advisory Services
Provided By:

SAMCO Capital