

REPORT FROM MANAGEMENT FOR THE FIRST QUARTER

ENDED MARCH 31, 2009

The first quarter of 2009 began with most of South Texas in the grips of exceptional drought, signaling pumping restrictions were just around the corner. As a result, water supply management dominated strategic planning at SAWS, both for near-term and long-range supply certainty.

To enhance our cadre of water management tools, San Antonio Water System asked City Council to change the conservation ordinance and raise drought triggers by 10 feet.

Stage One watering restrictions, limiting outdoor irrigation to once a week, now begin when the Edwards Aquifer level hits 660 feet. The new watering rules will save 2.5 billion gallons over a typical summer, and reinforce our commitment to long-term water management.

In February, SAWS implemented a rate adjustment, averaging about \$1.63 per month for the average residential customer. Revenue from the increase will be used in three major areas: water supply, infrastructure and operations, which includes line cleaning of the wastewater system to prevent stoppages and spills.

Do you know what “CNSRV” stands for? If you said “Conserve,” you’re getting the message. Leveraging the social media trend — specifically text messaging — our new conservation advertising campaign uses simple, bold texting language to tell the conservation story of using only what you need.

The public emphasis on saving water is timely, since conservation is one of the cornerstones of a proposed update to our 50 year water management plan. Presented to our Board of Trustees for consideration in February, the plan builds on the proven success of SAWS conservation, recycled water and underground storage to effectively manage existing Edwards Aquifer and other supplies. Under the plan, SAWS also will continue to develop other water sources for further diversification.

Community outreach on the new plan has been extensive, and public response has been positive and supportive as we move forward, securing San Antonio’s water future.

With a successful 2008 behind us and new challenges and achievements ahead in 2009, SAWS remains committed to leading the community for the next 50 years and beyond with reliable and affordable water and wastewater services for San Antonio.

Robert R. Puente  
President  
Chief Executive Officer

management report



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San Antonio, TX  
Permit No. 40



FIRST QUARTER ENDED MARCH 31, 2009

*The vortex manhole intersects one large sewer into another,  
dissipating energy and helping to eliminate odors.*



# FINANCIAL REVIEW FOR THE FIRST QUARTER ENDED MARCH 31, 2009

Over the last 18 months, San Antonio has experienced extremely dry weather conditions. Rainfall of 3.4 inches during the first quarter of 2009 was 35 percent below normal, and the 14.8 inches received over the last 12 months is less than half the normal annual rainfall. As a result of the dry weather, water usage for the first quarter of 2009 increased 12 percent as compared to the first quarter of 2008, and water usage during the last 12 months has increased 20 percent from the previous 12-month period.

Operating revenues for the first quarter increased from \$81.8 million in 2008 to \$87.9 million in 2009, largely as a result of higher water usage as well as the impact of a 3.9 percent rate increase implemented during the quarter. Operating revenues for the quarter also benefited from a 1.7 percent increase in the number of customers served. Partially offsetting the increase in operating revenues, non-operating revenues declined \$3.3 million from 2008 as a result of the impact of lower short-term interest rates on SAWS interest income.

Operating and maintenance expenses for the first quarter held relatively constant with 2008 levels, with a reduction in contractual services more than offsetting increases in salaries and benefits, utility costs and payments for additional water supplies. Depreciation expense increased \$1.1 million from 2008 to 2009 as a result of more than \$238 million added to utility plant in-service during the last 12 months. Interest and debt-related expenses also increased \$0.8 million from 2008 to 2009 as a result of additional debt issued to fund a portion of these construction initiatives.

Overall, SAWS experienced a loss before capital contributions of \$0.1 million for the first quarter of 2009, compared to the \$0.9 million loss in 2008. After reflecting capital contributions of \$22.7 million for the quarter, the increase in equity was \$22.6 million, compared to \$28.5 million in 2008.

SAWS' strong commitment to fiscal responsibility over the years was rewarded in December when SAWS bond ratings were upgraded by all three major rating agencies. This upgrade comes at a time of tremendous turmoil in the national and global financial markets. These improved ratings have already provided a benefit to SAWS ratepayers by allowing the utility to issue bonds during the first quarter of 2009 at lower interest rates than would have been available previously. The enhanced credit ratings will continue to support SAWS' efforts toward providing affordable water-related services.

Douglas P. Evanson  
Senior Vice President  
Chief Financial Officer

## SUMMARY OF REVENUE, EXPENSES & CHANGES IN EQUITY - UNAUDITED

	QUARTER ENDED		12 MONTHS ENDED	
	March 31		March 31	
	2009	2008(a)	2009	2008(a)
<b>Revenues</b>				
■ Water Supply	\$ 27.4	\$ 25.8	\$ 125.5	\$ 105.3
■ Water Delivery	25.1	22.3	115.6	92.5
■ Wastewater	32.2	31.0	129.7	123.4
■ Chilled Water & Steam	3.2	2.7	13.2	12.4
Total operating revenues	87.9	81.8	384.0	333.6
■ Non-operating revenue	1.8	5.1	11.1	23.5
Total revenues	89.7	86.9	395.1	357.1
<b>Expenses</b>				
■ Operating and maintenance	48.6	48.9	208.4	189.5
■ Depreciation expense	21.1	20.0	84.7	79.6
■ Interest and debt related	16.7	15.9	64.3	64.3
■ Transfer to City of San Antonio	2.3	2.3	10.5	9.4
■ Other	1.1	0.7	(0.6)	2.5
Total expenses	89.8	87.8	367.3	345.3
<b>Income (loss) before capital contributions</b>	(0.1)	(0.9)	27.8	11.8
■ Capital Contributions	22.7	29.4	122.2	139.0
<b>Change in Equity</b>	22.6	28.5	150.0	150.8
<b>Equity Beginning</b>	1,725.8	1,569.9	1,598.4	1,447.6
<b>Equity Ending</b>	\$ 1,748.4	\$ 1,598.4	\$ 1,748.4	\$ 1,598.4

(All amounts in millions)

## SUMMARY OF BALANCE SHEET INFORMATION UNAUDITED

	MARCH 31	
	2009	2008 (a)
<b>Assets</b>		
■ Current Assets	\$ 330.8	\$ 305.4
■ Noncurrent Assets	234.2	212.0
■ Capital Assets, Net	3,005.8	2,767.5
Total Assets	3,570.8	3,284.9
<b>Liabilities</b>		
■ Current Liabilities	119.3	109.2
■ Long-Term Debt, Net	1,703.1	1,577.3
Total Liabilities	1,822.4	1,686.5
<b>Equity</b>		
■ Invested in plant, net of related debt	1,473.3	1,376.7
■ Restricted	93.7	61.0
■ Unrestricted	181.4	160.7
Total Equity	1,748.4	1,598.4
■ Total Liabilities and Equity	\$ 3,570.8	\$ 3,284.9

(All amounts in millions)

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

## AVERAGE RESIDENTIAL WATER & WASTEWATER BILL COMPARISON

Corpus Christi	\$68.08	23.89
Austin	\$67.94	23.75
Houston	\$55.21	11.02
Ft. Worth	\$54.41	10.22
Dallas	\$49.88	5.69
<b>San Antonio</b>	<b>\$44.19</b>	
El Paso	\$34.59	(9.60)

Notes: Average based on 7,788 gallons water / 6,178 gallons sewer usage. Rates as of March 2009. Excludes Stormwater.



## STATISTICAL HIGHLIGHTS UNAUDITED

	QUARTER ENDED		12 MONTHS ENDED	
	March 09	March 08	March 09	March 08
<b>Metered water usage</b> (million gallons)	13,485.8	12,083.7	60,230.1	50,356.0
<b>Water usage per customer</b> (gallons daily)	N/A*	N/A*	142	120
<b>Water customer connections</b> (average per period)	348,874	344,990	347,836	342,966
<b>Wastewater customer connections</b> (average per period)	390,878	382,379	388,096	378,556
<b>Cash flow from operations</b> (\$ in millions)	\$ 35.3	\$ 37.0	\$ 182.1	\$ 160.7
<b>Times debt coverage ratio</b>	N/A*	N/A*	1.71x	1.53x

\*not applicable, measured on a 12-month basis only