

Management Report

REPORT FROM MANAGEMENT FOR THE THIRD QUARTER

Ended September 30, 2010

With acquisitions of ample Edwards Aquifer water secured, San Antonio Water System is now focusing on alternative supplies. Our commitment to diversification continued in the third quarter with a full slate of innovative efforts, all aimed at building partnerships to sustain our vibrant community and sound economy.

We are doing more now than ever to diversify our water. SAWS has already invested more than \$600 million in the recycled water system, Trinity Aquifer, Western Canyon Project, aquifer storage and recovery, and Carrizo Aquifer water in southern Bexar County. We have thoughtfully declined to purchase additional Edwards rights to commit capital dollars through 2016 for non-Edwards projects.

Permits for up to 11,687 acre-feet of Carrizo Aquifer water from Gonzales County were recently approved. Now SAWS is working to finalize a win-win partnership to transport this water through existing pipes owned by the Schertz-Seguin Local Government Corporation.

SAWS also is testing brackish groundwater treatment in southern Bexar County, as well as seeking additional land for future brackish production. This project will initially yield 11,800 acre-feet, and up to 25,000 acre-feet in future phases.

SAWS continues to reach out to our regional partners in the spirit of cooperation. However, as various groups regularly approach us with plans to provide water to the city, it is often difficult to assess their relative value due to widely differing terms, conditions, and cost methodologies. Because SAWS is committed to garnering valuable insight and perspectives on diversification, we issued a Request for Information (RFI) this quarter, seeking innovative ideas to bolster the city's long-term water supply through 2060.

As a national leader in conservation, water management and recycled water, SAWS is committed to guiding the community in responsible resource stewardship. Toward that end, we sponsored the first Refreshing Ideas Awards in August. SAWS honored the City of San Antonio's HemisFair Fountains project, Maxim Integrated Products, Bill Miller Bar-B-Q Commissary Plant, H-E-B Snack Plant and Johnson Controls Power Solutions, for sharing a social responsibility to save water and prevent pollution.

Our leadership in supply management is helping San Antonio successfully plan well beyond this decade. By providing sustainable affordable water services, SAWS ensures that economic development, job creation and investment in our community will continue to flourish for generations to come.

Robert R. Puente
President/CEO



Finance Department
2800 US Hwy. 281 North
San Antonio, Texas 78212



2010 Refreshing Ideas Award



Third Quarter Ended September 30, 2010

Financial Review

FINANCIAL REVIEW FOR THE THIRD QUARTER

Ended September 30, 2010

Rainfall during the last 12 months has been nearly 60 percent higher than normal for the San Antonio region. The increased rainfall was a welcome sight as it served to restore the Edwards Aquifer to above normal levels and end a drought that had gripped the region for the previous two years.

Despite the increased rainfall, third quarter operating revenues increased from \$100.8 million in 2009 to \$103.5 million in 2010 as higher water revenues more than offset lower wastewater operating revenues. The impact of customer growth helped to offset the impact of a 1 percent decrease in water usage, resulting in higher water revenues for the quarter. Over the last 12 months, the significant increase in rainfall contributed to the \$20.7 million decline in operating revenues from \$375.1 million in 2009 to \$354.4 million in 2010.

Operating and maintenance expenses for the third quarter decreased from \$56.2 million in 2009 to \$54.4 million in 2010 as decreases in utility costs, water option payments, and contractual services more than offset an increase in employee benefit costs. As a result of the nearly \$133.7 million added to capital assets, depreciation expense increased \$1.7 million and interest and debt-related expenses increased \$1.2 million from 2009 to 2010.

Overall, net income before capital contributions was \$5.1 million for the third quarter of 2010 compared to net income of \$3.3 million in 2009. After reflecting capital contributions of \$10.7 million for the quarter, equity increased \$15.8 million compared to an increase of \$18.8 million in 2009.

SAWS instituted cost reductions early in 2010 to mitigate the expected reduction in operating revenues as a result of the significant increase in rainfall. While these cost savings are not expected to completely offset the expected decrease in revenues in 2010, SAWS financial condition remains strong. While extreme weather conditions can have a volatile effect on revenues – both positively and negatively – SAWS remains committed to prudent financial management while providing sustainable, affordable water services.



Douglas P. Evanson
Senior Vice President
Chief Financial Officer

Summary of Revenue, Expenses & Changes in Equity Unaudited

	QUARTER ENDED		12 MONTHS ENDED	
	Sept. 30	Sept. 30	Sept. 30	Sept. 30
Revenues	2010	2009(a)	2010	2009(a)
■ Water Supply	\$ 33.9	\$ 32.0	\$ 110.7	\$ 119.7
■ Water Delivery	32.8	30.6	101.4	110.5
■ Wastewater	33.4	34.6	130.1	132.5
■ Chilled Water & Steam	3.4	3.6	12.2	12.4
Total operating revenues	103.5	100.8	354.4	375.1
■ Non-operating revenue	0.5	0.8	3.3	6.4
Total revenues	104.0	101.6	357.7	381.5
Expenses				
■ Operating and maintenance	54.4	56.2	221.3	209.5
■ Depreciation expense	23.2	21.5	90.7	86.1
■ Interest and debt related	18.1	16.9	73.1	65.8
■ Transfer to City of San Antonio	2.7	2.7	9.3	10.1
■ Other	0.5	1.0	4.8	1.8
Total expenses	98.9	98.3	399.2	373.3
Income/(Loss) before capital contributions	5.1	3.3	(41.5)	8.2
■ Capital Contributions	10.7	15.5	49.8	87.6
Change in Equity	15.8	18.8	8.3	95.8
Equity Beginning	1,783.8	1,772.5	1,791.3	1,695.5
Equity Ending	\$ 1,799.6	\$ 1,791.3	\$ 1,799.6	\$ 1,791.3

(All amounts in millions)

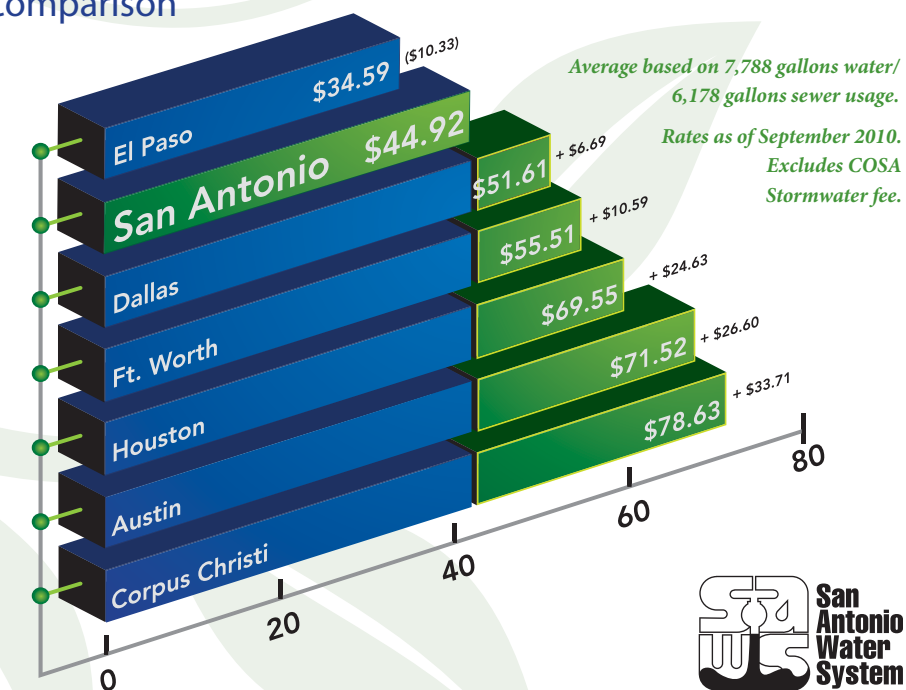
Summary of Balance Sheet Unaudited

	SEPTEMBER 30	
	2010	2009 (a)
Assets		
■ Current Assets	\$ 328.5	\$ 353.3
■ Noncurrent Assets	259.9	183.4
■ Capital Assets, Net	3,311.8	3,106.1
Total Assets	3,900.2	3,642.8
Liabilities		
■ Current Liabilities	128.3	118.6
■ Long-Term Debt, Net	1,972.3	1,732.9
Total Liabilities	2,100.6	1,851.5
Equity		
■ Invested in plant, net of related debt	1,560.8	1,516.7
■ Restricted	101.6	84.6
■ Unrestricted	137.2	190.0
Total Equity	1,799.6	1,791.3
■ Total Liabilities and Equity	\$ 3,900.2	\$ 3,642.8

(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



Statistical Highlights Unaudited

	QUARTER ENDED		12 MONTHS ENDED	
	Sept. '10	Sept. '09	Sept. '10	Sept. '09
Water usage (million gallons)	18,109.5	18,277.4	56,911.7	64,529.7
Gallons per capita per day (GPCD)	N/A	N/A	115	132
Water customer connections (average per period)	355,932	351,867	354,137	349,976
Wastewater customer connections (average per period)	399,095	394,206	397,050	391,840
Cash flow from operations (\$ in millions)	\$ 49.3	\$51.4	\$155.3	\$177.8
Debt service coverage - senior lien bonds	N/A	N/A	1.48x	2.02x

