



OFFICIAL STATEMENT

Dated: July 13, 2011

Ratings:

Fitch: "AA+"

S&P: "AA"

(See "Other Information - Ratings" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS" including a description of alternative minimum tax consequences for corporations.

\$14,680,000

CITY OF EL PASO, TEXAS

(El Paso County)

WATER AND SEWER REVENUE REFUNDING BONDS, SERIES 2011

Dated Date: July 15, 2011

Due: March 1, as shown on page 2

Interest to Accrue From Delivery

PAYMENT TERMS . . . Interest on the \$14,680,000 City of El Paso, Texas, Water and Sewer Revenue Refunding Bonds, Series 2011 (the "Bonds") will accrue from the date of the initial delivery of the Bonds, will be payable March 1 and September 1 of each year, commencing March 1, 2012, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("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 within a maturity. **No physical delivery of the Bonds will be made to the owners 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 participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "The Bonds - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is Wells Fargo Bank, National Association, Fort Worth, Texas (see "The Bonds - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended, and an ordinance authorizing the issuance of the Bonds (the "Bond Ordinance"). In the Bond Ordinance, the City Council delegated to certain officers of the City, pursuant to certain provisions of Chapter 1207, Texas Government Code, as amended, authority to complete the sale of the Bonds. The terms of the sale are included in a "Pricing Certificate" which completed the sale of the Bonds (the Bond Ordinance and the Pricing Certificate are jointly referred to as the "Ordinance"). The Bonds are special obligations of the City of El Paso, Texas (the "City"), payable, both as to principal and interest, solely from and secured by a first lien on and pledge of the Net Revenues of the City's Waterworks and Sewer System (the "System"). **The City has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation** (see "The Bonds - Authority for Issuance").

PURPOSE . . . Proceeds from the sale of the Bonds will be used to (i) refund a portion of the City's presently outstanding water and sewer system commercial paper notes (the "Refunded Obligations"), and (ii) pay costs of issuance of the Bonds. The Commercial Paper Notes were issued to fund the construction of System projects. Such projects are near completion and consequently, the Refunded Obligations are being refunded to replace such notes with long-term fixed rate debt (see "Plan of Financing - Purpose").

CUSIP PREFIX: 283822
MATURITY SCHEDULE & 9 DIGIT CUSIP
See Schedule on Page 2

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of Fulbright & Jaworski L.L.P., Bond Counsel. The opinion of Bond Counsel will be printed on or attached to the Bonds (see Appendix C, "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by Ainsa Hutson LLP, El Paso, Texas, Counsel for the Underwriters.

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on or about August 16, 2011.

BOFA MERRILL LYNCH

SOUTHWEST SECURITIES, INC.

MATURITY SCHEDULE

CUSIP Prefix: 283822 ⁽¹⁾

Principal Amount	March 1 Maturity	Interest Rate	Initial Yield	CUSIP Suffix ⁽¹⁾	Principal Amount	March 1 Maturity	Interest Rate	Initial Yield	CUSIP Suffix ⁽¹⁾
\$ 100,000	2013	2.000%	0.700%	CV4	\$ 100,000	2023	3.500%	3.730%	DF8
540,000	2014	3.000%	1.050%	CW2	100,000	2024	3.500%	3.870%	DG6
500,000	2015	3.000%	1.390%	CX0	305,000	2025	4.000%	4.000%	DH4
500,000	2016	4.000%	1.730%	CY8	315,000	2026	4.000%	4.100%	DJ0
100,000	2017	3.000%	2.090%	CZ5	330,000	2027	4.000%	4.190%	DK7
3,400,000	2018	5.000%	2.420%	DA9	345,000	2028	4.125%	4.280%	DL5
3,000,000	2019	5.000%	2.750%	DB7	360,000	2029	4.250%	4.370%	DM3
3,360,000	2020	5.000%	2.990%	DC5	375,000	2030	4.250%	4.440%	DN1
275,000	2021	3.000%	3.240%	DD3	390,000	2031	4.375%	4.540%	DP6
285,000	2022	3.250%	3.500%	DE1					

(Interest accrues from date of delivery)

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC 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. The City, the Financial Advisor and the Underwriters take no responsibility for the accuracy of such numbers.

REDEMPTION. . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after March 1, 2021, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on March 1, 2020, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Bonds - Optional Redemption").

This Official Statement, which includes the cover page and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those 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 the City or the Underwriters.

The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized. See "Continuing Disclosure of Information" for a description of the City's undertaking 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 information and expressions of opinion contained 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 affairs of the City or other matters described herein since the date hereof.

None of the City, the Financial Advisor, or the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company or its Book-Entry-Only System.

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

The information contained in this Official Statement has been furnished by the City, DTC and other sources that are believed to be reliable. No dealer, broker, salesperson, or other person has been authorized by the City or the Underwriters to give any information or to make any representations other than those made herein. Any such other information or representations must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or 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 and expressions of opinions herein are subject to change without notice and neither the delivery of this document nor the sale of any of the bonds shall, under any circumstances, create any implication that the information herein is correct as of any time subsequent to the date hereof.

The Bonds will not be registered under the Securities Act of 1933, as amended, or any state securities law and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any state securities commission has passed upon the accuracy or adequacy of this document. Any representation to the contrary is unlawful.

All inquiries relating to this Official Statement and the offering contemplated herein should be directed to the Underwriters. Prospective investors may obtain additional information from the Underwriters or the City which they may reasonable require in connection with the decision to purchase any of the Bonds from the Underwriters.

The yields at which the bonds are offered to the public may vary from the initial reoffering yields on the inside cover page of this Official Statement. In addition, the Underwriters may allow concessions of discounts from the initial offering prices of the Bonds to dealers and others.

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 FORM OF BOND COUNSEL’S OPINIONC

The cover page hereof, this page, the appendices included herein and any addendum, supplement or amendment hereto, are part of the Official Statement.

OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

- THE ISSUER**..... The City of El Paso, Texas (the “City”), is a political subdivision and municipal corporation of the State of Texas (the “State”), located in El Paso County, Texas. The City covers approximately 247 square miles.

- THE PUBLIC SERVICE BOARD**..... The City’s Waterworks and Sewer System (the “System”) is operated under the name “El Paso Water Utilities.” The El Paso Water Utilities is managed by a seven-member Board of Trustees (the “Public Service Board”) appointed by the City Council. The Public Service Board has complete authority for the management and operation of the System (see “The Public Service Board”).

- THE BONDS** The \$14,680,000 Water and Sewer Revenue Refunding Bonds, Series 2011 (the “Bonds”) are issued as serial Bonds maturing March 1 in each of the years 2013 through 2031 (see “The Bonds - Description of the Bonds”).

- PAYMENT OF INTEREST** Interest on the Bonds will accrue from the date of the initial delivery of the Bonds, and is payable March 1, 2012, and each September 1 and March 1 thereafter until maturity or prior redemption (see “The Bonds - Description of the Bonds” and “The Bonds - Optional Redemption”).

- AUTHORITY FOR ISSUANCE**..... The Bonds are issued pursuant to the Constitution and general laws of the State, particularly Chapter 1207, Texas Government Code, and a Bond Ordinance passed by the City Council of the City. In the Bond Ordinance, the City Council delegated to certain officers of the City, pursuant to certain provisions of Chapter 1207, Texas Government Code, as amended, authority to complete the sale of the Bonds. The terms of the sale are included in a “Pricing Certificate,” which completed the sale of the Bonds (the Bond Ordinance and the Pricing Certificate are jointly referred to as the “Ordinance”) (see “The Bonds - Authority for Issuance”).

- SECURITY FOR THE BONDS** The Bonds constitute special obligations of the City, payable, both as to principal and interest, solely from and secured by a first lien on and pledge of the Net Revenues of the City's System. **The City has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation** (see “The Bonds - Security and Source of Payment”).

- OPTIONAL REDEMPTION** The City reserves the right, at its option, to redeem Bonds having stated maturities on and after March 1, 2021, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on March 1, 2020, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “The Bonds - Optional Redemption”).

- TAX EXEMPTION** In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under “Tax Matters”, including a description of the alternative minimum tax consequences for corporations.

- USE OF PROCEEDS**..... Proceeds from the sale of the Bonds will be used to (i) refund a portion of the City’s presently outstanding water and sewer system commercial paper notes (the “Refunded Obligations”), and (ii) pay costs of issuance of the Bonds. The Commercial Paper Notes were issued to fund the construction of System projects. Such projects are near completion and consequently, the Refunded Obligations are being refunded to replace such notes with long-term fixed rate debt (see “Plan of Financing – Purpose”).

- RATINGS** The Bonds and the presently outstanding waterworks and sewer system revenue debt of the City are rated “AA” by Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”) and “AA+” by Fitch Ratings (“Fitch”) without regard to credit enhancement (see “Other Information - Ratings”).

BOOK-ENTRY-ONLY

SYSTEM The definitive Bonds will be initially registered and delivered 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 beneficial owners 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 participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “The Bonds - Book-Entry-Only System”).

PAYMENT RECORD The City has never defaulted in payment of its water and sewer revenue bonds.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended	Estimated City Population	Water Usage ⁽¹⁾⁽²⁾			Net Revenue Available For Debt Service	Annual Debt Service Requirements	Coverage of Debt Service
		Average Day Usage	Peak Day Usage	Water Pumped			
2/28	629,425	97.0	162.7	35,457	\$ 64,852,655	\$ 38,712,137	1.68 x
2/29/2008	634,488	97.5	154.8	35,636	65,485,023	40,747,771	1.61 x
2009	644,638	97.1	158.7	35,476	72,776,308	37,817,783	1.92 x
2010	665,055	101.6	152.6	37,067	72,896,428	44,779,366	1.63 x
2011	665,338	102.4	158.5	37,368	81,831,635	44,263,167	1.85 x

(1) Million Gallons.

(2) Calendar years 2006-2010.

For additional information regarding the El Paso Water Utilities, please contact:

Ms. Marcela Navarrete
Chief Financial Officer
El Paso Water Utilities
1154 Hawkins Blvd.
El Paso, Texas 79925
(915) 594-5614

or

Ms. Maria Urbina
Mr. J. C. Hall
First Southwest Company
221 N. Kansas, Suite 1200
El Paso, Texas 79901
(915) 351-7228

or

Mr. George Williford
Mr. Jason Hughes
First Southwest Company
325 N. St. Paul St., Suite 800
Dallas, Texas 75201
(214) 953-4000

CITY ADMINISTRATION

CITY COUNCIL

John F. Cook, Mayor
Ann Morgan Lilly
Susie Byrd
Emma Acosta
Carl Robinson
Michiel Noe
Eddie Holguin, Jr.
Steve Ortega
Courtney Niland

THE PUBLIC SERVICE BOARD

Edward Escudero, Chair
Maria F. Teran, Vice-Chair
Richard T. Schoephoerster, Secretary/Treasurer
John F. Cook, Mayor – City of El Paso
Richard C. Bonart, Member
Ruth Katherine Brennand, Member
David C. Nemir, Member

CERTAIN ADMINISTRATIVE STAFF

Joyce WilsonCity Manager
William F. Studer, Jr.Deputy City Manager of Finance
and Management Support
Carmen Arrieta-Candelaria Chief Financial Officer
Richarda Duffy Momsen City Clerk
Charles McNabbCity Attorney
Juan Sandoval Tax Assessor/Collector

CERTAIN ADMINISTRATIVE STAFF

Edmund G. Archuleta, P.E. President & CEO
Nicholas J. Costanzo Vice President
John Balliew Vice President
Marcela Navarrete, CPA Chief Financial Officer
Robert D. Andron, J.D. General Counsel

CONSULTANTS AND ADVISORS (EL PASO WATER UTILITIES)

Auditors Gibson Ruddock Patterson LLC
El Paso, Texas
Bond CounselFulbright & Jaworski L.L.P.
Dallas, Texas
Financial Advisor First Southwest Company
Dallas and El Paso, Texas

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OFFICIAL STATEMENT

RELATING TO

\$14,680,000

CITY OF EL PASO, TEXAS

WATER AND SEWER REVENUE REFUNDING BONDS, SERIES 2011

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$14,680,000 City of El Paso, Texas, Water and Sewer Revenue Refunding Bonds, Series 2011 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance (defined below), except as otherwise indicated herein (see "Selected Provisions of the Ordinance").

The City of El Paso, Texas (the "City"), has heretofore issued several series of first lien Water and Sewer Revenue Bonds, of which \$488,685,000 (includes the Bonds) are outstanding as of July 15, 2011. The City is authorized to have outstanding from time to time up to \$40,000,000 Water and Sewer Commercial Paper Notes which are subordinate to the first lien of the Water and Sewer Revenue Bonds, and the Previously Issued Senior Lien Bonds hereinafter described. The City currently has approximately \$19,000,000 of outstanding Water and Sewer Commercial Paper Notes; provided, however, that the Bonds are being issued to refund approximately \$16,000,000 of such outstanding Water and Sewer Commercial Paper Notes.

The City is a political subdivision and municipal corporation of the State of Texas (the "State"), duly organized and existing under the laws of the State, including its duly adopted Home Rule Charter (the "Charter") and is authorized by the Charter and by Chapter 1502, Texas Government Code, to own, operate and maintain a water and sewer utility (the "System"). Pursuant to a Charter Election held on February 7, 2004, the City converted to a City Manager form of government on September 1, 2004. The Charter election also changed the terms of the City Representatives from two year terms to staggered four year terms. The Mayor's term was also changed from a two year term to a four year term. Each elected official may serve no more than two consecutive terms. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, water and sanitary sewer utilities, health and social services, culture-recreation, public transportation, public improvements, planning and zoning, and general administrative services. The 2000 Census population for the City was 563,662. The City covers approximately 247 square miles.

There follow in this Official Statement descriptions of the Bonds and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, First Southwest Company, Dallas or El Paso, Texas.

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

PLAN OF FINANCING

PURPOSE . . . Proceeds from the sale of the Bonds will be used to (i) refund a portion of the City's presently outstanding water and sewer system commercial paper notes (the "Refunded Obligations"), and (ii) pay costs of issuance of the Bonds. The Commercial Paper Notes were issued to fund the construction of System projects. Such projects are near completion and consequently, the Refunded Obligations are being refunded to replace such notes with long-term fixed rate debt.

REFUNDED OBLIGATIONS . . . The proceeds of sale of the Bonds will be deposited with The Bank of New York Mellon Trust Company, N.A., as paying agent for the Refunded Obligations (the "Refunded Obligations Paying Agent"). Such funds will be held by the Refunded Obligations Paying Agent in the Note Payment Fund created for the payment of the Refunded Obligations, and such funds will be used to pay the principal of and interest on the Refunded Obligations on August 18, 2011. By the deposit with the Refunded Obligations Paying Agent, the City will have effected the defeasance of the Refunded Obligations in accordance with the law, and the Refunded Obligations will be payable solely from and secured by such deposits and will cease to be payable from Net Revenues of the System.

SOURCES AND USES OF PROCEEDS . . . The proceeds from the sale of the Bonds will be applied approximately as follows:

Sources of Funds:	
Par Amount of Bonds	\$ 14,680,000.00
Net Reoffering Premium	<u>1,543,681.35</u>
Total Sources of Funds	<u>\$ 16,223,681.35</u>
Uses of Funds:	
Deposit to Escrow Fund	\$ 16,000,000.00
Underwriters' Discount	92,158.06
Costs of Issuance/Rounding Amount	<u>131,523.29</u>
Total Uses of Funds	<u>\$ 16,223,681.35</u>

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds are dated July 15, 2011, and mature on March 1 in each of the years and in the amounts shown on page two hereof unless redeemed prior to maturity as described herein (see “The Bonds – Optional Redemption”). Interest on the Bonds will accrue from the date of their initial delivery to the Underwriters and will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on March 1 and September 1 of each year, commencing March 1, 2012, until maturity or optional redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”) pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners 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 participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “The Bonds - Book-Entry-Only System” herein.

Interest on the Bonds shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest shall be paid (i) by check sent United States Mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Bonds will be paid to the registered owner at their stated maturity or upon earlier redemption upon presentation to the designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under “The Bonds - Book-Entry-Only System” herein. If the date for any payment on the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State, particularly Chapter 1207, Texas Government Code, as amended and an ordinance authorizing the issuance of the Bonds (the “Bond Ordinance”). In the Bond Ordinance, the City Council delegated to certain officers of the City, pursuant to certain provisions of Chapter 1207, Texas Government Code, as amended, authority to complete the sale of the Bonds. The terms of the sale are included in a “Pricing Certificate,” which completed the sale of the Bonds (the Bond Ordinance and the Pricing Certificate are jointly referred to as the “Ordinance”).

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SECURITY AND SOURCE OF PAYMENT . . . The Bonds are special obligations of the City payable, both as to principal and interest, solely from and, together with certain outstanding revenue bonds of the City (the “Previously Issued Senior Lien Bonds”) and any additional parity bonds which may be issued in the future, secured by a first lien on and pledge of the Net Revenues of the System after the payment of maintenance and operating expenses. Maintenance and operating expenses include contractual payments which under State laws and their provisions are established as operating expenses. The City has outstanding Previously Issued Senior Lien Bonds secured by and payable from Net Revenues on a parity with the Bonds, as follows:

Dated Date	Outstanding Debt ⁽¹⁾⁽²⁾	Issue Description
12-1-1990	\$ 8,000,000	Water & Sewer Taxable Revenue Bonds, Series 1990B
8-1-2001	770,000	Water & Sewer Revenue Bonds, Series 2001
12-15-2001	7,050,000	Water & Sewer Revenue Refunding & Improvement Bonds, Series 2001A
1-01-2002	4,620,000	Water & Sewer Revenue Bonds, Series 2002
8-15-2003	56,215,000	Water & Sewer Revenue Refunding & Improvement Bonds, Series 2003
8-15-2003	650,000	Water & Sewer Revenue Bonds, Series 2003A
12-1-2003	9,970,000	Water & Sewer Revenue Bonds, Series 2003B
2-1-2004	29,485,000	Water & Sewer Revenue Refunding Bonds, Series 2004
11-15-2004	11,350,000	Water & Sewer Revenue Refunding Bonds, Series 2004A
3-1-2005	43,820,000	Water & Sewer Revenue Bonds, Series 2005A
4-1-2005	35,585,000	Water & Sewer Revenue Refunding Bonds, Series 2005B
4-1-2005	8,020,000	Water & Sewer Revenue Bonds, Series 2005C
2-15-2006	21,310,000	Water & Sewer Revenue Refunding Bonds, Series 2006
11-15-2006	33,450,000	Water & Sewer Revenue Refunding Bonds, Series 2006A
7-15-2007	35,500,000	Water & Sewer Revenue Refunding Bonds, Series 2007
1-15-2008	18,755,000	Water & Sewer Revenue Refunding Bonds, Series 2008
8-15-2008	13,990,000	Water & Sewer Revenue Bonds, Series 2008A
8-15-2008	21,990,000	Water & Sewer Revenue Bonds, Series 2008B
11-15-2008	35,000,000	Water & Sewer Revenue Refunding Bonds, Series 2008C
1-15-2010	20,895,000	Water & Sewer Revenue Refunding Bonds, Series 2010
7-13-2010	15,000,000	Water & Sewer Revenue Bonds, Taxable Series 2010 (Build America Bonds)
10-1-2010	42,580,000	Water & Sewer Revenue Refunding Bonds, Series 2010A

(1) As of July 15, 2011.

(2) Excludes up to \$40,000,000, from time to time outstanding Water and Sewer Commercial Paper Notes, Series A, which are subordinate to the Previously Issued Senior Lien Bonds. The City currently has approximately \$19,000,000 of outstanding Water and Sewer Commercial Paper Notes; provided, however, that the Bonds are being issued to refund approximately \$16,000,000 of such outstanding Water and Sewer Commercial Paper Notes.

The Bonds are not a charge upon any other income or revenues of the City and **shall never constitute an indebtedness or pledge of the general credit or taxing powers of the City.** The Ordinance does not create a lien or mortgage on the System, except for the pledge of the Net Revenues, and any judgment against the City may not be enforced by levy and execution against any property owned by the City.

RESERVE FUND . . . As additional security, a Reserve Fund is required to be maintained in an amount at least equal to the average annual debt service requirements of the outstanding Previously Issued Senior Lien Bonds, the Bonds and any Additional Bonds issued on a parity with the Bonds. Any additional amount required to be accumulated in the fund by reason of the issuance of the Bonds will be funded over a sixty-one month period in accordance with the provisions of the Ordinance (see “Selected Provisions of the Ordinance”).

PLEGGED REVENUES . . . The Net Revenues of the System are irrevocably pledged first to the amounts required to maintain the Reserve Fund and the Interest and Sinking Fund for the payment of the Bonds, the Previously Issued Senior Lien Bonds and any Additional Bonds; and, next to the amounts required to maintain the Note Payment Fund for the payment of the Subordinate Lien Obligations. Net Revenues in excess of the amounts described above shall be transferred in the order of priority, in the manner, and in the amounts set forth in the Ordinance (see “Selected Provisions of the Ordinance”).

RATES . . . The City has covenanted in the Ordinance that it will at all times charge and collect rates for services rendered by the System sufficient to pay all operating and maintenance expenses of the System and an additional amount equal to 150% of the aggregate amount required to be paid in such year for principal and interest on all outstanding Previously Issued Senior Lien Bonds, the Bonds and any Additional Bonds. The City has further covenanted that, if the System should become legally liable for any other

indebtedness, it will fix and maintain rates and collect charges for the services of the System sufficient to discharge such indebtedness (see "Selected Provisions of the Ordinance").

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after March 1, 2021, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on March 1, 2020, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the City may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds 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. 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.

With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Ordinance have been met and moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed shall have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption is conditional upon the satisfaction of such prerequisites and receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for such redemption, or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption and sufficient moneys are not received, such notice shall be of no force and effect, the City shall not redeem such Bonds and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

DEFEASANCE . . . The Ordinance provides that the City may discharge its obligations to the registered owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by current law. Under current State law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place of payment (paying agent) for obligations of the City payable from revenues or from ad valorem taxes or both, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct 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, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; and (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, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in book entry form, and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. There is no assurance that current law will not be changed in a manner that would permit investments other than those described above to be made with amounts deposited to defease the Bonds. If any of such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Ordinance.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the City to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

ADDITIONAL BONDS . . . The City may issue additional revenue obligations payable from the Net Revenues which together with the Previously Issued Senior Lien Bonds and the Bonds shall be equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System, subject, however, to complying with certain conditions in the Ordinance. See "Selected Provisions of the Ordinance – Additional Covenants - Additional Bonds" for terms and conditions to be satisfied for the issuance of additional bonds.

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 accredited by DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the 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). One fully registered certificate will be issued for each maturity of the Bonds in the aggregate principal amount of each such maturity 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 instrument (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 of DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owners entered into the transaction. Transfers of ownership interest in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 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 Participant to whose account such Bonds are credited, which may or may not be the Beneficial Owners. The 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, tenders, defaults, and proposed amendments to the Bond 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, the Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of the 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. will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible

after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City, the Financial Advisor or the Underwriters.

Effect of Termination of Book-Entry-Only System In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "The Bonds - Transfer, Exchange and Registration" below.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is Wells Fargo Bank, National Association, Fort Worth, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, the Bonds will be printed and delivered to the registered owners thereof, and thereafter the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar and such transfer or exchange 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, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the principal office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, 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 business days after the receipt of the Bonds to be canceled, 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 any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "The Bonds - Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation on transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the 15th day of the month preceding such interest payment date.

In the event of a nonpayment of interest on a scheduled payment date, and for 30 days thereafter, a new Record Date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date," which shall be 15 days after the Special Record Date) shall 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 Owner 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.

AMENDMENTS . . . The City may amend the Ordinance without notice to or the consent of any owner of the Bonds or any other Previously Issued Senior Lien Bonds solely for any one or more of the following purposes: (1) add to the covenants and agreements of the City contained in the Ordinance, other covenants and agreements thereafter to be observed, or to surrender any right or power reserved to or conferred upon the City in the Ordinance; (2) cure any ambiguity or inconsistency, or to cure or correct any defective provisions contained in the Ordinance, upon receipt by the City of an opinion of nationally recognized bond counsel, that the same is needed for such purpose, and will more clearly express the intent of the Ordinance; (3) supplement the security for the Bonds, replace or provide additional credit facilities, or change the form of the Bonds or make such other changes in the provisions hereof as the City may deem necessary or desirable and which shall not, in the judgment of the City, materially adversely affect the interests of the owners of the outstanding Bonds; (4) make any changes or amendments requested by any bond rating agency then rating or requested to rate Previously Issued Senior Lien Bonds, as a condition to the issuance or maintenance of a rating, which changes or amendments do not, in the judgment of the City, materially adversely affect the interests of the owners of the outstanding Previously Issued Senior Lien Bonds; or (5) make such other changes in the provisions hereof as the City may deem necessary or desirable and which shall not, in the judgment of the City, materially adversely affect the interests of the owners of outstanding Previously Issued Senior Lien Bonds.

In addition, the City may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Ordinance; except that, without consent of the registered owners of all of the outstanding Bonds, no such amendment, addition or rescission may (1) make any change in the maturity of the outstanding Bonds, (2) reduce the rate of interest borne by outstanding Bonds, (3) reduce the amount of the principal payable on outstanding Bonds, (4) modify the terms of payment of principal or interest on the outstanding Bonds, or impose any conditions with respect to such payment, (5) affect the rights of the owners of less than all Bonds then outstanding; or (6) change the minimum percentage of the outstanding principal amount of Bonds necessary for consent to such amendment.

BONDHOLDERS' REMEDIES . . . In addition to all the rights and remedies provided by the laws of the State of Texas, the City covenants and agrees in the Bond Ordinance that in the event the City (a) defaults in payments to be made to the Interest and Sinking Fund or the Reserve Fund as required by the Bond Ordinance, or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in the Bond Ordinance, the Owner or Owners of any of the Bonds shall be entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the City and its officers to observe and perform any covenant, condition or obligation prescribed in the Bond Ordinance. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. The enforcement of such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Bond Ordinance does not provide for the appointment of a trustee to represent the interests of the bondholders upon any failure of the City to perform in accordance with the terms of the Bond Ordinance, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, holders of the Bonds may not be able to bring such a suit against the City for breach of the Bonds or Bond Ordinance covenants. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, such as the pledged Net Revenues, such provisions are subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or holders of the Bonds of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bond Ordinance and Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

THE PUBLIC SERVICE BOARD

The ordinances authorizing the outstanding Water and Sewer Revenue Bonds provide for the complete management and control of the operations of the System (under the name "El Paso Water Utilities"), during such time as any of such bonds are outstanding and unpaid, by a Board of Trustees known as the El Paso Water Utilities Public Service Board (the "Board" or "Utility" or "PSB").

MEMBERSHIP . . . The Board consists of seven citizens of the United States of America residing in El Paso County, Texas. The Mayor of the City is an ex-officio member of the Board. The remaining six are named by the City Council for four year terms.

TERM OF OFFICE AND FILLING OF VACANCIES . . . Each member of the Board serves for a term of four years. Board members serve no more than two consecutive terms. A Board member whose term has expired serves until his or her successor qualifies and is appointed or until sixty days has passed, whichever occurs first. All vacancies in membership, whether occasioned by expiration of office or otherwise, are filled by appointment of the majority vote of the City Council from a slate of three persons eligible to serve as Board members and presented to the City Council by the Chair of the PSB Nominating Committee (the "Committee"). The Committee is chaired by the Mayor of the City and is comprised of the Board and such additional members as appointed by the City Council. If the City Council rejects all three names, three others are submitted in like manner, and so on until an appointment is made.

ORGANIZATION OF THE BOARD . . . The Board shall elect one of its own members as Chairman and one as Vice-Chairman and appoint a Secretary and a Treasurer or a Secretary-Treasurer, who may, but need not, be a member or members of the Board. The Board makes such regulations and by-laws for the orderly handling of its affairs as it sees fit.

POWERS AND DUTIES . . . The Board has complete authority and control of the management and operation of the System and the expenditure and application of its revenues and operates and manages the System with the same freedom and in the same manner as a board of directors of a private corporation operating properties of a similar nature. The Board elects or appoints all officers and employees which it may consider desirable.

THE WATER SYSTEM

GENERAL INFORMATION AND HIGHLIGHTS . . . The PSB recognizes it exists to serve a large population situated in an arid climate and has been aggressively planning for the future to insure an adequate long-term water supply. Major steps taken include passing a stringent water conservation ordinance, establishing a rate structure designed to encourage conservation, completion of a comprehensive Water Resource Management Plan, and the development of a Drought and Water Emergency Management Plan while continuing to increase reliance on the recycling of wastewater. The Utility has also expanded its surface water supplies (a renewable source) to decrease demand on ground water aquifers.

The Utility operates 170 wells, 73 reservoirs, 53 booster pump stations, two surface water treatment plants, one groundwater treatment plant, one desalination plant, three arsenic removal plants and over 2,500 miles of pipelines. The Utility also operates 9 reservoirs, 10 pump stations and 48 miles of pipelines comprising the reclaimed water system.

The Franklin Mountains divide the City but water supplies are geographically spread throughout. Historically, 60 percent of the annual usage has been from the Hueco Bolson aquifer which extends from Southern New Mexico, through east El Paso and into Mexico, although this has changed in recent years due to the increased use of surface water. About 20 percent of the historical annual usage has been from the renewable Mesilla Bolson aquifer west of the mountains.

The Utility's 40 million gallon per day (MGD) Robertson/Umbenhauer surface water treatment plant, originally built in 1943, is centrally located in the City. The filtration and disinfection systems in this plant were upgraded in 1999 to meet anticipated future drinking water regulations. The second surface water plant, the Jonathan W. Rogers surface water treatment plant, with a capacity of 60 MGD, started production in early 1993. It is located further downstream to serve the City's eastside and expanding lower valley area. Together, they produce 100 MGD, which represents more than 50 percent of total annual demand. As a result of increased surface water use, increased water conservation and water reclamation, withdrawals from the Hueco Bolson were 25% of the water supply in 2010. Both surface water treatment plants operate during the seven-month irrigation season when Rio Grande Project water is available. However, the Utility is developing a plan to obtain river water throughout the year. The Utility's water system each year consistently receives a Superior Water System ranking by the Texas Commission on Environmental Quality.

Water demand for the Utility was at 203 gallons per person per day (gpcd) in 1989 prior to institution of an aggressive water conservation program, but has been declining rapidly since. The current demand is 133 gpcd and has exceeded the Utility's goal of reducing usage to 140 gpcd by the year 2010. The goal now is to achieve overall per capita water consumption of 130 gpcd by the year 2020. A reduction in peak day demand has also been observed. Peak demand has declined from 195.0 MGD in 1990 to 158.5 MGD in 2010. This highlights not only the significant changes in water use, but also has allowed for the deferral of spending significant dollars on capital projects to meet higher water demands.

Long term water management planning in El Paso began in the early 1990s with the development of a 50-year water management plan. As a result of the plan, a new surface water treatment plant was constructed in 1992 and later expanded in 2002. This new treatment plan resulted in increased surface water deliveries to El Paso. The net result of increased conservation and increased surface water diversions was a decrease in groundwater pumping from the Hueco Bolson, which resulted in stabilization of groundwater levels. Groundwater management of the Hueco Bolson was further extended with the construction of the Kay Bailey Hutchison Desalination Plant in 2007. The strategic location of the wells that supply the plant will result in the interception of brackish groundwater that will enhance El Paso's ability to utilize the Hueco Bolson during drought periods when surface water supplies are limited. The most recent articulation of El Paso's municipal water management through the year 2060 is presented in the recently updated Far West Texas Regional Water Plan, to be approved by the Texas legislature in 2011. This plan contemplates the use of local water resources exclusively until the year 2040, and then supplementing local sources with imported supplies from other parts of Far West Texas beginning in 2040.

The Utility spent \$13.45 million for water system capital improvements in Fiscal Year 2010-2011. Major water expenditures included \$1.39 million in new distribution lines and pumping equipment and \$5.49 million for water system rehabilitation.

KAY BAILEY HUTCHISON DESALINATION PLANT . . . The Utility, in conjunction with Fort Bliss, has constructed a joint desalination plant to treat brackish ground water. The desalination plant, which went online July 2007, is the country's largest inland desalination plant and cost \$87 million. The goal of the project is to extend the Utility's underground water supply by tapping the abundant brackish water in the Hueco Bolson. This plant will provide water supply during a drought impacting the Rio Grande and will further reduce fresh water pumping from the Hueco Bolson. The plant can produce 27.5 million gallons per day of drinking water for both the City and Fort Bliss. Brine disposal will be handled through deep well injection. This plant complements and adds to current water supplies for both the City and Fort Bliss. This plant has won numerous awards, including the 2008 Membrane Facility Award from the American Membrane Technology Association, the American Academy of Environmental Engineers 2008 Superior Achievement Award and the Texas Council of Engineering Companies 2008 Eminent Conceptor Award.

TABLE 1 - HISTORICAL WATER CONSUMPTION (MILLION GALLONS)

Calendar Year	Daily Average	Peak Day	Daily Average in Peak Month	Water Pumped	Water Billed	Water Revenue ⁽¹⁾
2006	97.0	162.7	144.0	35,457	32,595	\$ 85,745,542
2007	97.5	154.8	138.0	35,636	32,284	92,847,023
2008	97.1	158.7	144.0	35,476	32,069	98,854,071
2009	101.6	152.6	138.7	37,067	34,147	101,087,373
2010	102.4	158.5	147.7	37,368	34,407	106,468,341

(1) For fiscal year beginning on March 1 of year shown.

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TABLE 2 - TEN LARGEST WATER CUSTOMERS (BASED ON GALLONS CONSUMED)

The City's ten largest water customers, the amount billed to each and the percent of annual water revenues for the City that each represented is shown below for fiscal year ended 2-28-11:

Customer	Type of Industry	Water Usage (000's)	% of Total Water Usage	Water Revenue	% of Total Water Revenue
Lower Valley Water District Authority	Wholesale Customer	1,820,776	5.2%	\$ 2,119,483	2.4%
City of El Paso	City Government	1,510,746	4.3%	3,125,320	3.6%
El Paso Electric Co.	Utility	1,003,087	2.9%	1,210,151	1.4%
Western Refining	Industrial	632,925	1.8%	2,283,362	2.6%
El Paso County	County Government	504,531	1.4%	1,071,541	1.2%
El Paso Housing Authority	Housing Authority	492,625	1.4%	1,075,457	1.2%
El Paso Independent School District	Public Schools	482,063	1.4%	1,804,410	2.1%
Federal Government	U.S. Government	403,327	1.2%	345,838	0.4%
Ysleta Independent School District	Public Schools	354,925	1.0%	1,669,531	1.9%
El Paso County East Montana Water District	Wholesale Customer	258,919	0.7%	344,103	0.4%
		<u>7,463,925</u>	<u>21.4%</u>	<u>\$ 15,049,196</u>	<u>17.3%</u>

TABLE 3 - CURRENT MONTHLY WATER RATES (EFFECTIVE MARCH 1, 2008)

Following are excerpts from the City's current Water Rate Ordinance. Monthly minimum charges for water service, based on size of meter with a 400 cubic foot (4 Ccfs) volume allowance for customers whose property is within the City limits, are as follows:

Meter Size	Minimum Monthly Bill	Meter Size	Minimum Monthly Bill
Less than 1"	\$ 4.79	3"	\$ 30.71
1"	7.46	4"	45.84
1 1/2"	12.78	6"	69.51
2"	15.38	8"	119.07

Water used in excess of the volume allowance included in the minimum charge shall be billed at the following rates:

Block 1	Over 4 Ccf's to 150% of AWC ⁽¹⁾	\$1.45 per Ccf;
Block 2	150% to 250% of AWC	3.40 per Ccf;
Block 3	Over 250% of AWC	4.87 per Ccf.

(1) Average Winter Consumption (AWC) is the average amount of water used during the most recent December, January and February billing periods.

Charges for service for property that is outside the City limits of El Paso are one hundred and fifteen percent (115%) of the charges for service to customers inside the City limits.

WATER SUPPLY REPLACEMENT CHARGE . . . The Water Supply Replacement Charge will be collected from the users of each and every service connected to the water system, including local government turf accounts and very large water users (does not apply to firelines required for fire protection services).

Meter Size	Monthly Charge	Meter Size	Monthly Charge
Less than 1"	\$ 5.91	3"	\$ 94.48
1"	14.77	4"	147.64
1 1/2"	29.53	6"	295.27
2"	47.25	8"	549.19

THE WASTEWATER SYSTEM

GENERAL INFORMATION AND HIGHLIGHTS . . . The City is in full compliance with Environmental Protection Agency (“EPA”) and Texas Commission on Environmental Quality (“TCEQ”) pretreatment, sludge handling and effluent discharge requirements. The Wastewater Division has been a member of the TCEQ Clean Texas Program since 2003, and has been awarded the National Association of Clean Water Agencies (“NACWA”) Excellence in Management Recognition in 2003, 2006, and 2009.

The Roberto R. Bustamante Wastewater Treatment Plant was placed into service in 1991 and provides 39 MGD of capacity for the east and lower valley areas of the City. The plant currently treats about 25 MGD. The plant also has the capability to provide reclaimed water and has been supplying the Rio Bosque Wetlands Park with water since 1996. Since the plant’s inception, it has received seventeen NACWA Peak Performance Gold Awards and two NACWA Silver Awards. In 1994, the plant placed second in the nation in the EPA Operations and Maintenance Excellence Awards, Large-Secondary Treatment category, representing the State of Texas and EPA Region VI. The plant also received NACWA’s Platinum Peak Performance Award for five consecutive years of complete compliance in 2002. The Water Environment Association of Texas also judged this plant the Municipal Wastewater Treatment Plant of the Year for 2005.

The Northwest Wastewater Treatment Plant is an extended aeration activated sludge plant that provides 17.7 MGD of capacity for the fast growing west areas of the City. The plant presently treats about 7.7 MGD of wastewater. The plant was a nominee for the 1988, 1989, 1990, 1992 and 1993 EPA Operations and Maintenance Excellence Awards. In 2008 the plant won the 1st Place national EPA Operations and Maintenance Excellence Award for Large Advanced Plant. It has received 9 NACWA Gold Awards, 6 NACWA Silver Awards and the 1992 George W. Burke award for safety. At the end of 2003, the plant was the recipient of the NACWA Platinum Peak Performance Award for having achieved perfect compliance for five consecutive years. It also received the NACWA 2009 Platinum Award for being the recipient of the Gold Award for eleven consecutive years. In 1999, a major pump station was added to provide reclaimed water to a large distribution system serving parks, schools and a golf course.

The central core of the City is largely developed and the existing Haskell R. Street Wastewater Treatment Plant will continue to serve that area without expansion. A \$25 million upgrade and renovation was completed in 1999, which featured improvements to remove ammonia from the effluent. This upgrade included many energy efficient features including a biological denitrification process and natural gas fueled blowers. The plant also had upgrades made in 2003 to provide reclaimed water to local parks, schools, industries and golf courses. The plant presently treats about 17.7 MGD of wastewater and provides 27.7 MGD of capacity. The plant meets all permit standards. The plant was the recipient of the 1989 Community Pride Award, 11 NACWA Gold Awards and 7 NACWA Silver Awards. The plant received NACWA Platinum Peak Performance Award in 2004 for five consecutive years of complete compliance. It also received the NACWA Platinum Award in 2007 for being the recipient of the Gold Award for eight consecutive years. The plant was selected to represent the State of Texas as well as EPA Region VI for the 1994 EPA O&M Excellence Award in the Advanced Treatment category.

The Fred Hervey Water Reclamation Plant with 10 MGD capacity serves the northeast part of El Paso and produces about 6.8 MGD of drinking water from wastewater. This unique plant was one of the first in the nation to take raw sewage and treat it to drinking water standards. The reclaimed water is then used to recharge the Hueco Bolson aquifer, to irrigate a local golf course and to supply cooling water for electric power generation. The plant is currently in the last phase of a multi-year multi-phased program to renovate and upgrade the plant for new permit requirements from 10 MGD to 12 MGD. It is a key element in reducing El Paso’s groundwater demand. This plant has received numerous awards, including: the 1994 NACWA Public Information and Education Award; second place in the national 1994 EPA Operations and Maintenance Excellence Award, No Discharge category; and the 1998 American Water Works Association’s Conservation and Reuse Award. In 1999 the plant received special recognition by the El Paso del Norte Region Mission Possible–Survival Strategies in the category Protection and Preservation of the Environment. Beginning in 2006, the plant became eligible for the NACWA awards and has now received four Gold Awards.

The Wastewater Collection System Maintenance Section of the Utility received the 2007 Medal for Heroism from the Water Environment Association of Texas for their great efforts in helping the City during the storm of 2006. The Utility also received the 2007 George Burke Award from the Water Environment Association of Texas for their perfect safety record in the area of Lift Station operations.

The Utility spent approximately \$24.87 million for wastewater and reclaimed water system capital improvements in Fiscal Year 2010-2011. Major expenditures included \$9.32 million for collection system, \$12.20 million for rehabilitation of the wastewater system, including the Fred Hervey Water Reclamation Plant project, and \$2.97 million on reclaimed water facilities.

TABLE 4 - WASTEWATER VOLUME (MILLION GALLONS)

<u>Calendar Year</u>	<u>Average Daily</u>	<u>Maximum Daily Flow</u>	<u>Total Usage</u>	<u>Total Revenue</u> ⁽¹⁾
2006	58.23	78.62	21,254	\$ 45,348,889
2007	57.98	66.05	21,163	46,246,662
2008	58.23	82.31	21,253	50,233,301
2009	58.66	72.68	21,411	51,567,727
2010	60.35	68.62	22,028	51,563,606

(1) Fiscal Year beginning on March 1 of the year shown.

TABLE 5 - TEN LARGEST WASTEWATER CUSTOMERS (BASED ON GALLONS CONSUMED) (FISCAL YEAR ENDED 2-28-11)

<u>Customer</u>	<u>Type of Industry</u>	<u>Wastewater Revenue</u>	<u>% of Total Wastewater Revenue</u>
Western Refining	Industrial	\$ 801,459	1.6%
El Paso Housing Authority	Housing Authority	764,254	1.5%
Lower Valley Water District Authority	Wholesale Customer	664,528	1.3%
El Paso County	County Government	469,647	0.9%
Eagle Family Foods	Industrial	467,258	0.9%
El Paso Independent School District	Public Schools	447,030	0.9%
El Paso City	City Government	337,055	0.7%
Ysleta Independent School District	Public Schools	284,953	0.6%
State Accounts	State Government	256,290	0.5%
U.T.E.P.	University	213,513	0.4%
		<u>\$ 4,705,987</u>	<u>9.1%</u>

TABLE 6 - CURRENT MONTHLY SEWER RATES (EFFECTIVE MARCH 1, 2008)

The following excerpts are from the City's current Sanitary Sewer Service Rate Ordinance. Monthly minimum sewer service charges for City water customers, based on size of water meter with a 400 cubic foot (4 Ccf's) volume allowance, are as follows:

<u>Meter Size</u>	<u>Minimum Monthly Bill</u>	<u>Meter Size</u>	<u>Minimum Monthly Bill</u>
Less than 1"	\$ 10.11	3"	\$ 137.61
1"	23.24	4"	211.95
1 1/2"	49.48	6"	328.28
2"	62.24	8"	572.04

Charges for service for property that is outside the City limits are 1.15 times the charges for service to customers inside the City limits.

COMMODITY CHARGE. . .The sewer charge for water used in excess of the allowance in the minimum monthly charges is \$1.27 per Ccf. The commodity charge shall be calculated based on 90% of AWC in excess of the volume allowance included in the minimum charge. The minimum and commodity charge will be set through the following February billing cycle. (A customer may make arrangements to be billed for the actual measured volume of sewage at the rate of \$15.00 per month plus \$1.27 per hundred cubic feet).

DEBT INFORMATION

TABLE 7 – WATER AND SEWER REVENUE DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 2/28	Outstanding Debt Service ⁽¹⁾				The Bonds			Grand Total Requirements	% of Principal Retired
	Series 2010				Principal	Interest	Total		
	Principal	Interest	BAB Subsidy	Total					
2012	\$ 23,715,000	\$ 21,632,117	\$ (262,592)	\$ 45,084,525	\$ -	\$ -	\$ -	\$ 45,084,525	
2013	22,935,000	20,891,553	(249,428)	43,577,126	-	697,129	697,129	44,274,255	
2014	23,595,000	19,959,872	(244,938)	43,309,935	100,000	668,244	768,244	44,078,178	
2015	24,050,000	18,994,711	(235,751)	42,808,961	540,000	659,144	1,199,144	44,008,104	
2016	26,635,000	17,906,610	(226,106)	44,315,504	500,000	643,544	1,143,544	45,459,047	23.82%
2017	27,860,000	16,735,760	(215,963)	44,379,797	500,000	626,044	1,126,044	45,505,841	
2018	30,135,000	15,499,118	(205,320)	45,428,797	100,000	614,544	714,544	46,143,341	
2019	27,300,000	14,228,085	(194,179)	41,333,906	3,400,000	528,044	3,928,044	45,261,949	
2020	28,600,000	12,943,816	(182,498)	41,361,319	3,000,000	368,044	3,368,044	44,729,362	
2021	28,520,000	11,652,988	(170,234)	40,002,754	3,360,000	209,044	3,569,044	43,571,798	53.64%
2022	29,870,000	10,320,290	(157,389)	40,032,901	275,000	120,919	395,919	40,428,820	
2023	27,605,000	8,987,370	(143,920)	36,448,450	285,000	112,163	397,163	36,845,612	
2024	27,185,000	7,715,269	(129,785)	34,770,484	100,000	105,781	205,781	34,976,265	
2025	28,440,000	6,414,084	(114,986)	34,739,098	100,000	102,281	202,281	34,941,379	
2026	25,175,000	5,157,694	(99,480)	30,233,214	305,000	94,431	399,431	30,632,645	80.83%
2027	25,200,000	3,976,834	(83,226)	29,093,608	315,000	82,031	397,031	29,490,639	
2028	23,815,000	2,813,629	(66,181)	26,562,448	330,000	69,131	399,131	26,961,579	
2029	18,015,000	1,811,042	(48,306)	19,777,736	345,000	55,416	400,416	20,178,152	
2030	14,010,000	1,050,187	(29,599)	15,030,588	360,000	40,650	400,650	15,431,238	
2031	8,260,000	518,900	(10,019)	8,768,881	375,000	25,031	400,031	9,168,912	98.60%
2032	4,910,000	207,163	-	5,117,163	390,000	8,531	398,531	5,515,694	
2033	920,000	71,500	-	991,500	-	-	-	991,500	
2034	970,000	24,250	-	994,250	-	-	-	994,250	100.00%
	<u>\$ 497,720,000</u>	<u>\$ 219,512,839</u>	<u>\$ (3,069,898)</u>	<u>\$ 714,162,941</u>	<u>\$ 14,680,000</u>	<u>\$ 5,830,145</u>	<u>\$ 20,510,145</u>	<u>\$ 734,673,086</u>	

(1) "Outstanding Debt Service" does not include the Water and Sewer Commercial Paper Notes, Series A, authorized to be outstanding from time to time in an amount up to \$40,000,000.

TABLE 8 - AUTHORIZED BUT UNISSUED REVENUE BONDS

The City has no voted but unissued revenue bonds, and pursuant to State law is not required to approve its revenue bonds through election.

ANTICIPATED ISSUANCE OF COMMERCIAL PAPER NOTES. . . The City has authorized the issuance of Water and Sewer Commercial Paper Notes, Series A in a principal amount not to exceed \$40,000,000. The Water and Sewer Commercial Paper Notes are short-term obligations authorized to be issued to fund improvements and extensions to the System. The City currently has approximately \$19,000,000 of outstanding Water and Sewer Commercial Paper Notes; provided, however, that the Bonds are being issued to refund approximately \$16,000,000 of such outstanding Water and Sewer Commercial Paper Notes. The City anticipates issuing additional Water and Sewer Commercial Paper Notes in the future. The Water and Sewer Commercial Paper Notes are payable from a lien on and pledge of the Net Revenues, such lien on and pledge of the Net Revenues being subordinate to the lien on and pledge of the Net Revenues securing the payment of the Previously Issued Senior Lien Bonds and the Bonds. The City further anticipates the issuance of Additional Bonds on a parity with the Previously Issued Senior Lien Bonds and the Bonds to refund or defease outstanding Water and Sewer Commercial Paper Notes in the future.

PENSION PLANS. . . . The City has two single-employer defined benefit pension plans: the City Employees' Pension Fund and the Firemen and Policemen's Pension Funds (the "FPP Funds") (which consist of separate divisions for firemen and policemen). The PSB contributes to the City Employees' Pension Fund which is a single-employer defined benefit pension plan. It is the responsibility of the City Employees' Pension Fund to function as an investment and administrative agent for the City and the PSB with respect to the pension plan. See also Appendix B – Excerpts from the Annual Financial Report for the year ended February 28, 2011.

The City Employees' Pension Fund covers substantially all full-time employees of the City, except for fire fighters and police officers who are covered under the FPP Funds. The plans currently provide for mandatory deductions from employees and contributions by the City based on total compensation. The City's policy is to fund pension costs accrued. The City contributes 11.65% of covered payroll to the City Employees' Pension Fund. Contributions by the City for the fiscal year ended August 31, 2010, totaled \$17,626,236 and employee contributions were \$11,814,128. As of September 1, 2010, the latest actuarial valuation date, the City Employees' Pension Plan is 80.2% funded, with an unfunded actuarial accrued liability of \$140.3 million.

The City also makes contributions to the FPP Funds pursuant to a formula in the City's Charter. The FPP Funds are administered by an eleven person board of governors (the "FPP Funds Board") appointed in accordance with State law, in particular Article 6243b of the Texas Revised Civil Statutes (the "Act"). In accordance with the Act, the FPP Funds Board is required to report annually to the City Council of the City the condition of the FPP Funds. In addition, the FPP Funds Board is required to employ an actuary to complete a valuation of the assets and liabilities of the FPP Funds at least once every three years. The report completed by the actuary for the FPP Fund as of January 1, 2010, reflected unfunded liabilities of \$89,572,311 for the firemen's pension division and \$127,052,367 for the policemen's pension division, respectively, of the FPP Funds. Additionally, such report reflected that as of January 1, 2010, the firemen's pension division was 81.8% funded and the policemen's pension division was 82.2% funded, respectively. Under provisions of the City Charter, the contributions of the City to the Funds are limited to eighteen and one-half percent of the total amount expended for salaries of participants in a single year. In February 2004, the voters of the City authorized the City to contract with the FPP Funds to make a one-time contribution to the FPP Funds solely for the purpose of addressing the unfunded liability in the FPP Funds, subject to receipt of certain agreements between the City and the FPP Funds. Additionally, in September 2003, the voters of the State ratified an amendment to the Texas Constitution, Article 16, Sec. 66 which provides: "The political subdivision or subdivisions and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits under this section are not reduced or otherwise impaired." In the event of a conflict between a City Charter provision and a provision of the Constitution, the Constitution provision would likely prevail, in which case the City could be obligated to make additional contributions to the FPP Funds.

The 80th Texas Legislature approved HB 3355 which significantly modifies the Act. HB 3355, among other things, modifies (i) the composition of the FPP Funds Board, (ii) the term of service of the FPP Funds Board members, and (iii) the procedures by which pension benefits may be modified and contributions to the FPP Funds may be increased by both the City and employees. HB 3355 specifically amends the Act to require that any changes or modifications under the Act also be approved by an actuary, with such approval being based on an actuarial finding that the change is supported by the existing funding status of the FPP Funds. Additionally, HB 3355 also provides that if a qualified actuary determines that the total contribution rate, expressed as a percentage of wages, is insufficient to amortize the unfunded actuarial accrued liability of the FPP Funds over a period not to exceed 40 years, the City may increase the City's contribution rate to the FPP Funds. If the City elects to increase its contribution rate, HB 3355 also requires the member contribution rate to increase. The sum of the City contribution rate and the member contribution rate is not permitted to exceed the total contribution rate determined by the actuary to be necessary to amortize the unfunded actuarial accrued liability over a forty year period. The changes to the Act as described above are contingent on the deposit to the FPP Funds by the City of an amount of at least \$100 million not later than July 31, 2007 and \$110 million to the FPP Funds no later than July 31, 2009. On July 19, 2007, the City issued its Taxable General Obligation Pension Bonds, Series 2007, in the aggregate principal amount of \$101,240,000, the proceeds of which were used to make a \$100 million deposit to the FPP. On May 12, 2009, The City issued its Taxable General Obligation Pension Bonds, Series 2009

in the aggregate principal amount of \$114,715,000, the proceeds of which were used to make a \$110 million deposit to the FPP. The deposit of such \$210 million under HB 3355 was meant to address the then current unfunded liability of the FPP Funds.

OTHER POST EMPLOYMENT BENEFITS . . . The City of El Paso provides certain health care benefits for its retired employees. Substantially all of the City's employees may become eligible for those benefits if they reach normal retirement age while working for the City. The City offers a basic and a buy-up plan for its retirees and it subsidizes a percentage of the employee, spouse and child rate for both pre-Medicare and post-Medicare retirees and the City has set separate rates for pre-Medicare and post-Medicare retirees. The plans are self-funded and stop loss is provided. Retirees pay premiums ranging from \$171.56 per month to \$1,249.79 per month depending on the coverage elected. The City's adopted budget policy is that retirees must pay 45% of the cost of coverage. The cost of retiree health care benefits is recognized as an expense in the Internal Service Self-Insurance Fund as liabilities are incurred. Of 3,962 retirees eligible, there were 957 retirees covered under this plan at August 31, 2010. Dependent coverage was provided for 442 of the retirees. Total benefits paid for retirees during fiscal year 2010 were \$5,396,303.

In its fiscal year ended August 31, 2008, the City implemented the Governmental Accounting Standards Board's Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions ("GASB 45"). Under GASB 45, the City will report an actuarially determined cost of post-employment benefits, other than pensions, such as health insurance for current and future retirees, the City must recognize such costs over certain time frames and, to the extent such costs are not prefunded, report such costs as a financial statement liability.

As of September 1, 2009, the most recent actuarial valuation date, the City's health benefit plan for retirees was not funded. The actuarial accrued liability and the unfunded actuarial accrued liability for the plan was \$147.7 million. The City's annual other post-employment benefit ("OPEB") expense is calculated based on the annual required contribution of the City that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over thirty years. The City's annual OPEB cost is calculated to be \$10,812,736, resulting in a net OPEB obligation of the City of \$32,206,950 on August 31, 2010.

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FINANCIAL INFORMATION

TABLE 9 - CONDENSED STATEMENT OF OPERATIONS

	Fiscal Year Ended February 28,				
	2011	2010	2009	2008	2007
Revenues:					
Water & Sewer Services	\$ 158,031,947	\$ 152,655,100	\$ 149,087,372	\$ 139,093,685	\$ 131,094,431
Interest Income	597,158	589,012	1,692,534	3,677,147	6,260,084
Billing Fees (Sanitation)	581,176	623,311	950,659	934,744	795,865
Gain on Sale of Assets	204,578	86,812	109,539	185,866	122,180
Other Operating Revenue	3,826,204	3,726,900	3,534,399	3,276,464	2,924,367
Total Revenues	\$ 163,241,063	\$ 157,681,135	\$ 155,374,503	\$ 147,167,906	\$ 141,196,927
Expenses:					
Waterworks System	\$ 39,390,294	\$ 40,059,350	\$ 41,710,342	\$ 41,324,237	\$ 38,953,835
Sewer System	21,568,553	23,008,449	22,114,191	21,178,635	21,146,388
Administration	17,737,705	18,992,978	17,856,384	16,969,210	17,095,415
Capitalized Construction Projects	-	-	(1,090,539)	(1,058,081)	(2,590,235)
Indirect Cost Allocation	-	-	(1,355,500)	-	-
Other Post-Employment Benefits Expenses	868,891	898,501	1,366,925	1,293,985	-
Other Operating Expenses	1,843,985	1,825,429	1,996,392	1,974,897	1,738,869
Total Expenses	\$ 81,409,428	\$ 84,784,707	\$ 82,598,195	\$ 81,682,883	\$ 76,344,272
REVENUE AVAILABLE FOR					
DEBT SERVICE	\$ 81,831,635	\$ 72,896,428	\$ 72,776,308	\$ 65,485,023	\$ 64,852,655
Water Customers	189,110	185,673	182,659	179,715	176,368
Sewer Customers	180,204	176,755	173,477	170,623	167,357

TABLE 10 - COVERAGE AND FUND BALANCES⁽¹⁾

Average Annual Principal and Interest Requirements 2012-2034	\$ 31,942,308
Coverage of Average Requirements by 2-28-11 Net Revenue Available for Debt Service	2.56 x
Maximum Principal and Interest Requirements (2018)	\$ 46,143,341
Coverage of Maximum Requirements by 2-28-11 Net Revenue Available for Debt Service	1.77 x
Water and Sewer Revenue Bonds Outstanding, July 15, 2011	\$ 488,685,000
Interest and Sinking Fund, February 28, 2011	\$ 34,690,912
Reserve Fund, February 28, 2011	\$ 24,590,313

(1) Includes the Bonds; excludes the Water and Sewer Commercial Paper Notes, Series A.

TABLE 11 - VALUE OF THE SYSTEM

	Fiscal Year Ended February 28,				
	2011	2010	2009	2008	2007 ⁽¹⁾
Land and Right-of-Way	\$ 6,699,262	\$ 6,169,109	\$ 5,395,078	\$ 4,203,075	\$ 3,885,964
Land Not In Service	58,205,730	57,942,084	57,967,334	57,970,073	57,972,816
Irrigation Water Rights Contracts	8,900,389	8,676,289	8,491,924	7,443,049	4,882,892
Buildings and Shops	14,112,019	13,861,012	13,726,369	11,599,694	11,214,017
Vehicles	14,242,636	13,480,664	13,060,997	13,623,854	12,618,411
Equipment and Tools	31,394,923	30,438,618	29,512,693	27,949,826	26,137,041
Water Plant	939,192,887	913,917,825	898,026,666	831,731,252	706,833,318
Wastewater Plant	669,360,959	639,085,317	633,325,395	557,149,226	536,177,735
Construction In Progress	38,959,047	41,219,040	21,253,471	108,434,064	152,241,511
Total Value	\$ 1,781,067,852	\$ 1,724,789,958	\$ 1,680,759,927	\$ 1,620,104,113	\$ 1,511,963,705
Less: Depreciation	(665,720,094)	(620,866,384)	(576,247,160)	(532,108,390)	(492,550,646)
Net System Value	\$ 1,115,347,758	\$ 1,103,923,574	\$ 1,104,512,767	\$ 1,087,995,723	\$ 1,019,413,059

(1) Restated.

Source: El Paso Water Utilities Comprehensive Annual Financial Report for Fiscal Year Ended February 28, 2011.

TABLE 12 - CITY'S EQUITY IN SYSTEM

	Fiscal Year Ended February 28,				
	2011	2010	2009	2008	2007
<u>Resources</u>					
Net System Value	\$ 1,115,347,758	\$ 1,103,923,574	\$ 1,104,512,767	\$ 1,087,995,723	\$ 1,019,413,059
Cash and Investments	142,988,427	125,220,248	123,351,115	81,877,104	119,684,100
Other Resources	29,316,170	27,869,502	31,382,982	28,866,339	27,097,767
Total Resources	\$ 1,287,652,355	\$ 1,257,013,324	\$ 1,259,246,864	\$ 1,198,739,166	\$ 1,166,194,926
<u>Obligations</u>					
Revenue Bonds Payable	\$ 497,720,000	\$ 504,971,000	\$ 519,273,000	\$ 465,542,000	\$ 436,375,000
Other Obligations	83,785,162	69,482,863	65,808,070	81,825,253	89,367,949
Total Obligations	\$ 581,505,162	\$ 574,453,863	\$ 585,081,070	\$ 547,367,253	\$ 525,742,949
City's Equity in System	\$ 706,147,193	\$ 682,559,461	\$ 674,165,794	\$ 651,371,913	\$ 640,451,977
Percentage City's Equity in System	54.84%	54.30%	53.54%	54.34%	54.92%

Source: El Paso Water Utilities Comprehensive Annual Financial Report for Fiscal Year Ended February 28, 2011.

TABLE 13 - CAPITAL IMPROVEMENT SUMMARY (IN THOUSANDS)

	Budget Year 2011-12	Budget Year 2012-13	Budget Year 2013-14	Budget Year 2014-15	Budget Year 2015-16
<u>WATER</u>					
Water Supply Facilities	\$5,545	\$4,576	\$1,100	\$4,500	\$4,455
Reservoirs	0	6,248	6,290	1,700	2,550
Distribution Pumping Equipment	2,025	756	4,250	0	0
Distribution Lines	10,710	9,313	11,246	8,075	10,795
Rehabilitation	23,123	17,068	16,473	18,513	10,608
New Customer Facilities	995	846	846	901	901
Support Facilities	345	0	0	0	2,125
Other Major Capital Programs	10,911	722	977	6,078	808
Total Water Capital Programs	<u>\$53,654</u>	<u>\$39,529</u>	<u>\$41,182</u>	<u>\$39,767</u>	<u>\$32,242</u>
<u>WASTEWATER</u>					
Collection System	\$12,416	\$6,401	\$2,129	\$4,021	\$10,243
Pumping & Force Mains	378	481	1,870	0	0
Treatment	0	0	2,550	12,750	14,450
Rehabilitation	14,337	10,315	5,015	9,563	4,803
New Customer Facilities	325	276	276	276	276
Wastewater Reuse & Brackish Water System	4,098	1,764	1,764	64	64
Support Facilities	0	0	0	0	1,870
Other Major Capital Programs	2,773	21	21	21	191
Total Wastewater Capital Programs	<u>\$34,327</u>	<u>\$19,258</u>	<u>\$13,625</u>	<u>\$26,695</u>	<u>\$31,897</u>
TOTAL ESTIMATED CIP	<u><u>\$87,981</u></u>	<u><u>\$58,787</u></u>	<u><u>\$54,807</u></u>	<u><u>\$66,462</u></u>	<u><u>\$64,139</u></u>

FINANCIAL POLICIES . . . In developing and evaluating the PSB's accounting system, consideration is given to the adequacy of internal accounting controls. These controls are designed to provide reasonable, but not absolute, assurance regarding safeguarding assets against loss from unauthorized use or disposition and reliable financial records for preparing financial statements and maintaining accountability for assets.

As a recipient of federal and state assistance, the PSB is responsible for ensuring that an adequate internal control structure is in place to guarantee compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management.

The internal audit function is the responsibility of the Chief Financial Officer. The auditor's responsibilities include (1) measuring and evaluating the effectiveness of the accounting and administrative controls, (2) assisting management in achieving the most efficient administration of the PSB's operations, and (3) maintaining budgetary controls to ensure compliance with legal provisions.

The Board adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*; and related statements as of March 1, 2001.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Board's enterprise fund are charges to customers for sales and services. The Board also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

INVESTMENTS

The PSB invests its investable funds in investments authorized by State law in accordance with investment policies approved by the Board. Both State law and the PSB's investment policies are subject to change.

LEGAL INVESTMENTS . . . Under State law, the PSB 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 or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) certificates of deposit and share certificates meeting the requirements of the Public Funds Investment Act (Chapter 2256 of the Texas Government Code, as amended) (i) that are issued by an institution that has its main office or a branch office in the State of Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for PSB deposits, or (ii) where (a) the funds are invested by the PSB through a depository institution that has a main office or branch office in the State and that is selected by the PSB; (b) the depository institution selected by the PSB arranges for the deposit of funds in one or more federally insured depository institutions, wherever located, for the account of the PSB; (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; (d) the depository institution acts as a custodian for the PSB with respect to the certificates of deposit; and (e) at the same time that the certificates of deposit are issued, the depository institution selected by the PSB receives deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the funds invested by the PSB through the depository institution selected under clause (ii)(a) above; deposits; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1) above, and are placed through a primary government securities dealer or a financial institution doing business in the State; (9) bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state; (11) no-load money market mutual funds regulated by the Securities and Exchange Commission that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; (12) no-load mutual funds registered with the Securities and Exchange Commission that: have an average weighted maturity of less than two years; invests exclusively in obligations described in the preceding clauses; and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; provided, however, that the PSB is not authorized to invest in the aggregate more than 15% of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in such no-load mutual funds, and (13) for bond proceeds, guaranteed investment contracts that have a defined termination date, are secured by obligations of the United States or its agencies and instrumentalities in an amount equal to the amount invested under the contract, and are pledged to the PSB and deposited with the PSB or a third party selected and approved by the PSB.

Effective September 1, 2003, governmental bodies in the State are authorized to implement 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 (6) of the first paragraph under this subcaption, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than "A" or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (6) and (10) through (12) of the first paragraph under this subcaption, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the governmental body, held in the name of the governmental body and deposited at the time the investment is made with the PSB or a third party designated by the PSB; (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 PSB 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 or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days. The PSB is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

INVESTMENT POLICIES . . . Under State law, the PSB is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of

investment management; and that includes a list of authorized investments for PSB funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All PSB funds must be invested in a manner consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type; (2) preservation and safety of principal; (3) liquidity; (4) marketability of each investment; (5) diversification of the portfolio; and (6) yield.

Under State law, PSB 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 PSB shall submit an investment report detailing: (1) the investment position of the PSB; (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 PSB funds without express written authority from the PSB.

ADDITIONAL PROVISIONS . . . Under State law, the PSB is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the PSB; (4) require the qualified representative of firms offering to engage in an investment transaction with the PSB to: (a) receive and review the PSB's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the PSB and the business organization that are not authorized by the PSB's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the PSB's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the PSB and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the PSB's investment policy; (6) provide specific investment training for the PSB's designated Investment Officer; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the PSB's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the PSB.

TABLE 14 - CURRENT INVESTMENTS

As of February 28, 2011, the PSB's investable funds were invested in the following categories:

Investment Type	Market Value	% of Portfolio
TexStar ⁽¹⁾	\$ 23,047,006.22	13.1%
Texpool	53,489,554.12	30.5%
Mutual Funds	37,767,409.28	21.5%
Certificates of Deposit	23,027,124.26	13.1%
Agency Discos	7,924,000.00	4.5%
Agency Coupons	30,237,000.00	17.2%
	\$ 175,492,093.88	100.0%

(1) TextSTAR is a local government investment pool for whom First Southwest Asset Management, Inc., an affiliate of First Southwest Company, provides customer service and marketing. TextSTAR currently maintains a "AAAm" rating from Standard & Poors and has an investment objective of achieving and maintaining a stable net asset value of \$1.00 per share. Daily investments or redemptions of funds are allowed by the participants.

SELECTED PROVISIONS OF THE ORDINANCE

The following is a summary of certain provisions of an ordinance adopted by the City Council authorizing the issuance of the Bonds (the "Ordinance"). Such summary does not purport to be complete and reference should be made to the Ordinance for the complete provisions and the precise wording thereof.

DEFINITIONS . . .

"Additional Bonds" means the additional revenue bonds permitted to be issued on a parity with the Bonds and the Previously Issued Senior Lien Bonds by Section 10.03(a) of [the] Ordinance.

"Gross Revenues" means all of the revenues of every nature received through the operation of the System.

"Net Revenues" means the Gross Revenues less the Operation and Maintenance Expenses.

"Operation and Maintenance Expenses" means the reasonable and proper expenses of operating and maintaining the System, including all salaries, labor, materials, repairs and extensions necessary to render efficient service; provided, however, that only such repairs and extensions as are necessary to keep the System in operation or which are necessary to meet some physical accident or condition that would otherwise impair the Bonds, the Previously Issued Senior Lien Bonds and any Additional Bonds shall be included as Operation and Maintenance Expenses.

"Previously Issued Senior Lien Bonds" means the outstanding bonds of the following issues of the City (such bonds being designated as "Previously Issued Bonds" in ordinances adopted prior to March 1, 1993):

- (1) Water and Sewer Taxable Revenue Bonds, Series 1990B, authorized by ordinance duly passed and approved December 18, 1990;
- (2) Water and Sewer Revenue Bonds, Series 2001, authorized by ordinance duly passed and approved August 14, 2001;
- (3) Water and Sewer Revenue Refunding and Improvement Bonds, Series 2001A, authorized by ordinance duly passed and approved December 18, 2001;
- (4) Water and Sewer Revenue Bonds, Series 2002, authorized by ordinance duly passed and approved January 14, 2002;
- (5) Water and Sewer Revenue Refunding and Improvement Bonds, Series 2003, authorized by ordinance duly passed and approved October 7, 2003;
- (6) Water and Sewer Revenue Bonds, Series 2003A, authorized by ordinance duly passed and approved August 26, 2003;
- (7) Water and Sewer Revenue Bonds, Series 2003B, authorized by ordinance duly passed and approved December 2, 2003;
- (8) Water and Sewer Revenue Refunding Bonds, Series 2004, authorized by ordinance duly passed and approved January 27, 2004;
- (9) Water and Sewer Revenue Refunding Bonds, Series 2004A, authorized by ordinance duly passed and approved November 30, 2004;
- (10) Water and Sewer Revenue Bonds, Series 2005A, authorized by ordinance duly passed and approved March 1, 2005;
- (11) Water and Sewer Revenue Refunding Bonds, Series 2005B, authorized by ordinance duly passed and approved March 22, 2005;
- (12) Water and Sewer Revenue Bonds, Series 2005C, authorized by ordinance duly passed and approved April 5, 2005;
- (13) Water and Sewer Revenue Refunding Bonds, Series 2006, authorized by ordinance duly passed and approved February 14, 2006;

- (14) Water and Sewer Revenue Refunding Bonds, Series 2006A, authorized by ordinance duly passed and approved November 14, 2006;
- (15) Water and Sewer Revenue Refunding Bonds, Series 2007, authorized by ordinance duly passed and approved July 24, 2007;
- (16) Water and Sewer Revenue Refunding Bonds, Series 2008, authorized by ordinance duly passed and approved January 15, 2008;
- (17) Water and Sewer Revenue Bonds, Series 2008A, authorized by ordinance duly passed and adopted on September 16, 2008;
- (18) Water and Sewer Revenue Bonds, Series 2008B, authorized by ordinance duly passed and adopted on September 16, 2008;
- (19) Water and Sewer Revenue Refunding Bonds, Series 2008C, authorized by ordinance duly passed and adopted on October 7, 2008;
- (20) Water and Sewer Revenue Refunding Bonds, Series 2010, authorized by ordinance duly passed and adopted on December 22, 2009;
- (21) Water and Sewer Revenue Bonds, Taxable Series 2010 (Direct Subsidy – Build America Bonds), authorized by ordinance duly passed and adopted on July 13, 2010; and
- (22) Water and Sewer Revenue Refunding Bonds, Series 2010A, authorized by ordinance duly passed and adopted on September 21, 2010.

“Subordinate Lien Obligations” shall mean the obligations of the City under the City’s Commercial Paper Notes, Series A and the documents pertaining thereto.

“System” means the complete waterworks plant and system of the City as they now exist and may be improved, added to, or extended hereafter, and the complete sewer system of the City as it now exists and may hereafter be improved, added to, or extended, there being included in such term all water and sewer facilities now or hereafter owned or operated by the City, lying within and without the boundaries of the City, and including all real estate and real and personal property of every kind and nature comprising any part of or used or useful in the operation of the water and sewer facilities of the City.

SECURITY FOR THE BONDS ... The Bonds, the Previously Issued Senior Lien Bonds and any Additional Bonds, both principal and interest, are and shall be equally and ratably secured by and payable from an irrevocable first lien on and pledge of the Net Revenues.

LIMITED OBLIGATIONS... The Bonds, the Previously Issued Senior Lien Bonds and any Additional Bonds, are special obligations of the City, payable solely from the Net Revenues, and do not constitute a prohibited indebtedness of the City. Neither the Bonds, the Previously Issued Senior Lien Bonds, nor the Additional Bonds shall ever be payable out of funds raised or to be raised by taxation.

RATE COVENANT... The Board covenants that it will establish and maintain rates for water and sewer services supplied by the System which shall produce or yield revenues sufficient to pay maintenance and operating expenses of the System and an additional amount equal to 150% of the aggregate amount required to be paid in such year for principal and interest on all outstanding Previously Issued Senior Lien Bonds, the Bonds, and any Additional Bonds.

CHARGES FOR WATER AND SEWER SERVICE... The City and the Board covenant that charges for sewer services will be made jointly with charges made for the sale of water and water services. Such charges shall be required to be paid by the customer at the same time. Water connections shall be permitted only on a metered basis. Additionally, the Board covenants that it will shut off the supply of water to any premises the owner or occupant of which shall be delinquent for more than thirty (30) days in the payment of any charges imposed hereunder.

The Board also covenants that it will not permit free water or services to be supplied to the City or to any other user, and the City hereby agrees that it will pay from its general fund the reasonable value of all water and services obtained from the System by the City and all departments and agencies thereof.

FUNDS... The City covenants and agrees that all revenues derived from the operation of the System shall be kept separate from other funds of the City and that all revenues of every nature received through the operation of the System shall be paid as collected into a fund known as the “City of El Paso, Texas, Water and Sewer Revenue Bonds Waterworks and Sewage Fund”

(the "Revenue Fund"). Moneys on deposit in the Revenue Fund shall first be used to pay all Operating and Maintenance Expenses. Thereafter, transfers shall be made from the Revenue Fund to the other Funds in the order of priority, in the manner, and in the amounts set forth below:

WATER AND SEWER REVENUE BONDS INTEREST AND SINKING FUND (THE "INTEREST AND SINKING FUND") . . . There shall be paid into this fund each month in equal installments amounts which, in the aggregate, will equal the interest payable on the next ensuing interest payment date on all Previously Issued Senior Lien Bonds and the Bonds outstanding and the principal thereof, including any scheduled mandatory redemption payment, on the next principal payment date.

WATER AND SEWER REVENUE BONDS RESERVE FUND (THE "RESERVE FUND") . . . Under the Ordinance, the City covenants to accumulate and maintain in the Reserve Fund an amount equal to the average annual principal and interest requirements of all outstanding Bonds and Previously Issued Senior Lien Bonds, and that whenever Additional Bonds are issued, the Reserve Fund is to be increased to an amount not less than the average annual principal and interest requirements of all Previously Issued Senior Lien Bonds and Bonds to be outstanding after the issuance of any Additional Bonds. Such increased amount shall be accumulated by equal monthly deposits in not to exceed five years and one month after the date of the Additional Bonds. The Reserve Fund shall be used to pay principal of or interest on the Bonds, the Previously Issued Senior Lien Bonds and any Additional Bonds falling due at any time when there is not sufficient money available in the Interest and Sinking Fund for such purpose.

NOTE PAYMENT FUND . . . After making the foregoing deposits required under the Ordinance, and the ordinances authorizing the Previously Issued Senior Lien Bonds, moneys shall be transferred from the Revenue Fund to the Note Payment Fund in the amounts and at the times to pay debt service on the Subordinate Lien Obligations.

PAYMENTS TO THE CITY . . . At the end of each month there shall be paid to the City Treasurer from any money which may remain in the Revenue Fund after all of the payments referred to above have been made, and any prior deficiencies have been remedied, such amounts as will result in there having been paid to the City during each fiscal year, 10% of the total amount received by the PSB from the sale of water during the fiscal year. The sums so received by the City may be expended for any lawful purpose.

To the extent permitted by the provisions of previous bond ordinances, an amount equal to five percent (5%) of the net proceeds from the sale of lands of the System shall be paid as received to the general fund of the City and used for any lawful purpose.

WATERWORKS AND SEWER SYSTEM IMPROVEMENT FUND (THE "IMPROVEMENT FUND") . . . All money remaining in the Revenue Fund at the end of each month after all of the above payments have been made and all deficiencies remedied shall be transferred to the Improvement Fund. Money in this Fund shall be used for the following purposes:

- (i) to pay the cost of any special or extraordinary repairs or replacements to or of the properties comprising the System, properly payable under the laws of the State of Texas, necessitated by reason of some emergency; and
- (ii) to the extent permitted by law, for the making of extensions, improvements and betterments of the System.

INVESTMENT OF FUNDS . . . Money in the Interest and Sinking Fund, the Reserve Fund and the Improvement Fund may be invested and secured in the manner required by State or federal law, as appropriate.

INSURANCE . . . The City covenants that it will carry at all times for the benefit of the Owners of the Bonds and the Previously Issued Senior Lien Bonds, such insurance on the System that is reasonably obtainable of the kinds and in the amounts which are usually carried by private companies operating similar properties. Such insurance may be provided by means of a self-insurance fund in which event deposits to such fund shall be a maintenance and operating expense of the System.

BOOKS AND RECORDS . . . The City covenants that complete and proper books of record and account will be kept and that the Owners of any of the Bonds, or any duly authorized agent or agents of such holders, shall have the right to inspect such records at all reasonable times. The Board further agrees that it will, within sixty days following the close of each fiscal year, cause an audit of the books and accounts to be made by an independent firm of certified public accountants and that such audit will be available for inspection by the Owners of any of the Bonds.

ADDITIONAL PARITY BONDS . . . The City may issue "Additional Bonds" if the following conditions are met:

- (i) the City is not then in default as to any covenant, condition or obligation prescribed by an ordinance authorizing the issuance of any bonds payable from and secured by a first lien on and pledge of the Net Revenues;
- (ii) the Additional Bonds are made to mature on March 1 or September 1 in each of the years in which they are scheduled to mature;
- (iii) the net earnings of the System for any consecutive period of 12 months of the 15 months next preceding the month of the date of the Additional Bonds then to be issued, or for the City's completed fiscal year next preceding the date of such Additional Bonds, are equal to at least 1.25 times the maximum annual principal and interest

requirements of all bonds to be outstanding after the issuance of the Additional Bonds, as such net earnings are shown by a report by a certified public accountant; and

- (iv) the amount to be accumulated and maintained in the Reserve Fund shall be increased to an amount not less than the average annual requirements for the payment of principal of and interest on the Bonds, the Previously Issued Senior Lien Bonds and the Additional Bonds, such additional amount to be accumulated in equal monthly installments during a period not to exceed five years and one month.

COMPETING SYSTEMS . . . The City covenants, so far as it legally may, that it will not grant a franchise for the operation of any competing water or sewer system in the City until all Bonds, Previously Issued Senior Lien Bonds, and any Additional Bonds have been paid in full with respect to principal and interest.

REMEDIES IN THE EVENT OF DEFAULT . . . In addition to all the rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City (a) defaults in payments to be made to the Interest and Sinking Fund or the Reserve Fund as required by the Ordinance, or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in the Ordinance, the Owner or Owners of any of the Bonds shall be entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the City and its officers to observe and perform any covenant, condition or obligation prescribed in the Ordinance. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, nor shall such delay or omission 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.

DISCHARGE . . . The Bonds may be defeased, refunded or discharged in any manner permitted by law.

UNCLAIMED PAYMENTS . . . Unclaimed payments shall be segregated in a special escrow account and held in trust, uninvested by the Paying Agent/Registrar, for the account of the Owner of the Bonds to which the unclaimed payments pertain. Subject to Title 6 of the Texas Property Code, payments remaining unclaimed by the Owners entitled thereto for three years after the applicable payment or redemption date shall be applied to the next payment or payments on the Bonds thereafter coming due and, to the extent any such money remains after the retirement of all outstanding Bonds, shall be paid to the City to be used for any lawful purpose. Thereafter, neither the City, the Paying Agent/Registrar nor any other person shall be liable or responsible to any Owners of such Bonds for any further payment of such unclaimed moneys or on account of any such Bonds, subject to Title 6 of the Texas Property Code.

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TAX MATTERS

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

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

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the City made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the City with the provisions of the Ordinance subsequent to the issuance of the Bonds. The Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the Bonds and the facilities 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.

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

Except as described above, Bond Counsel expresses 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. 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, 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, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, 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 AND PREMIUM ON CERTAIN BONDS . . . The initial public offering price of certain Bonds (the "Discount Bonds") may be less than the amount payable on such Bonds at maturity. 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 Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Bonds described above under "Tax Exemption." 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 the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal

income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with “subchapter C” earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for earned income tax credit, owners of an interest in a FASIT, 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. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner 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 of accrued original issue discount on Discount Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of certain Bonds (the “Premium Bonds”) may be greater than the amount payable on such Bonds at maturity. 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 the amount payable 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. 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.

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CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). In the Ordinance, the City has agreed to cause the PSB, acting on behalf of the City, to make all of the required filings set forth below.

ANNUAL REPORTS . . . The City will provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 14 and in Appendix B. The City will update and provide this information within six months after the end of each fiscal year ending in and after 2011.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The PSB's current fiscal year end is the last day of February. Accordingly, the City must provide updated information by August 31 in each year following the end of its fiscal year, unless the PSB changes its fiscal year. If the PSB changes its fiscal year, the City will cause the PSB to notify the MSRB of the change (and of the date of the new fiscal year end) prior to the next date by which the PSB otherwise would be required to provide financial information and operating data pursuant to this Section.

NOTICE OF CERTAIN EVENTS . . . The City will provide notice in a timely manner not in excess of ten business days after the occurrence of the event of any of the following events with respect to the Bonds: (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 holders 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 City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, 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; and (14) appointment of a successor Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material.

For these purposes, any event described in the immediately preceding paragraph (12) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the PSB or City in a proceeding under the United States 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 PSB or City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers 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 PSB or City. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

AVAILABILITY OF INFORMATION . . . The City has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

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

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the 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 (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement 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 financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

OTHER INFORMATION

RATINGS

The Bonds and the presently outstanding waterworks and sewer system revenue debt of the City are rated "AA" by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "AA+" by Fitch Ratings ("Fitch") without regard to credit enhancement. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds.

LITIGATION

It is the opinion of the General Counsel for the PSB that there is no pending litigation against the System that would have a material adverse financial impact upon the System, the PSB or its operations.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201) the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (iii) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions of the State which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds must 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. 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 City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The City has been made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL MATTERS

The City will furnish to the Underwriters 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 to the effect that the Initial Bond is a valid and binding obligation of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel to the effect that the Bonds issued in compliance with the provisions of the Ordinance are valid and legally binding special obligations of the City and the interest on such Bonds is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "Tax Matters" herein, including the alternative minimum tax on corporations. A form of such opinion is attached hereto as Appendix C. Bond Counsel 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" (except for the subcaption "Sources and Uses of Proceeds"), "The Bonds" (except for the subcaption "Book-Entry-Only System"), "Selected Provisions of the Ordinance," "Tax Matters," "Continuing Disclosure of Information" (except for the subcaption "Compliance with Prior Undertakings"), and under the subcaptions "Legal Investments and Eligibility to Secure Public Funds in Texas" and "Legal Matters" (except for the last sentence of the first paragraph thereof) under the caption "Other Information" and is of the opinion that the information relating to the Bonds and the Ordinance contained therein fairly and accurately describes the provisions thereof. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by Ainsa Hutson LLP, El Paso, Texas, Counsel to the Underwriters.

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 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.

FINANCIAL ADVISOR

First Southwest Company is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. First Southwest Company, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the City 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, and as part of, its responsibilities to the City and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the City, at an underwriting discount of \$92,158.06. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are 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 City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

CRIMINAL INVESTIGATION

The Federal Bureau of Investigation has been conducting a criminal investigation of public corruption in El Paso County. Several persons have been indicted and/or pled guilty to charges of bribery and fraud involving votes on government contracts with various local government entities. As of the date of this Official Statement, no City nor any PSB official has been indicted, charged, named or otherwise identified in any publicly disclosed information about the investigation. In addition, none of the actions referenced in the publicly disclosed information about the investigation or various indictments directly impacts the ability of the City to set system rates which support the debt service on the Bonds or to make debt service payments on the Bonds.

MISCELLANEOUS

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

JOHN F. COOK
Mayor
City of El Paso, Texas

ATTEST:

RICHARDA DUFFY MOMSEN
City Clerk

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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LOCATION AND HISTORY . . . The City of El Paso (the “City” or “El Paso”) is located in far West Texas on the international boundary between the United States and the Republic of Mexico, on the Rio Grande, and is the lowest altitude, all-weather pass through the Rocky Mountains. It is approximately equidistant from the Cities of Houston, Texas, Denver, Colorado, and Los Angeles, California. Since the first appearance of Europeans on the North American Continent, it has been a major crossroads for continental north-south and east-west traffic. In 1536, Cabeza de Vaca and his party crossed the Rio Grande at El Paso. In 1659, the first permanent European settlement was established in the El Paso region, and the Mission of Guadalupe was erected (the Mission still stands in the central square of the City of Ciudad Juarez, Mexico). The first trading post was erected in central El Paso in 1848, and the same year, the United States Military Post, later named Fort Bliss, was established. El Paso has continued since that time to be a highly strategic military base. The City’s corporate limits encompass 247 square miles.

This historic City, situated at the foot of the Franklin Mountains, enjoys an excellent diversification in its economy. Mining and manufacturing, important military establishments, domestic and foreign commerce, farming and tourist trade are major contributors to the economy. El Paso’s large natural retail and wholesale trade territory extends well into New Mexico and Arizona, as well as Texas and Mexico.

El Paso is the sixth largest city in Texas and the largest U.S. city on the Mexico border. Population increased 112% during the period from 1950 to 1960. Population in the 1960 Census was 276,687; the 1970 Census was 322,261; the 1980 Census was 425,259; the 1990 Census was 515,342 and the 2000 Census was 563,662. The City’s January 1, 2011 estimated population was 665,338. As of January 1, 2008, the population of El Paso County was estimated at 850,613. From 2000 – 2006, El Paso was the seventh fastest growing large city in the nation. As of January 1, 2008, the population of the sister Mexican city of Ciudad Juarez was estimated at 1,563,973.

EDUCATION . . . Most of the public schools in El Paso are under the supervision of two independent school districts, the El Paso Independent School District and the Ysleta Independent School District. Combined, these districts have a total of 148 schools, including 19 high schools, 28 middle and junior high schools, 93 elementary and elementary/intermediate schools, and 8 special schools. Total employees are approximately 15,000. In addition to public schools, there are several private and parochial schools in the El Paso area, with enrollment of approximately 5,500.

Many excellent junior colleges, colleges and universities are located within the El Paso trade area. Among these are: El Paso Community College (El Paso); University of Texas at El Paso (El Paso); New Mexico State University (Las Cruces, New Mexico); Sul Ross State College (Alpine, Texas); Western New Mexico University (Silver City, New Mexico); New Mexico School of Mines (Socorro, New Mexico); Eastern New Mexico University (Portales, New Mexico); and New Mexico Military Institute (Roswell, New Mexico).

The University of Texas at El Paso (the “University”) was established in 1914, and attracts thousands of visitors to seminars, conferences, convocations, sport contests and other events. The University offers degrees in nine schools: Engineering, Business Administration, Science, Education, Health Sciences, Liberal Arts, Nursing, Multidisciplinary Studies and Graduate. Fall 2010 enrollment was approximately 22,106.

The Texas Tech University Health Sciences Center (the “Health Sciences Center”) is an educational multi-campus institution created under Chapter 110 of the Texas Education Code and is governed by the Texas Tech University Board of Regents. The Health Sciences Center’s administrative center is located in Lubbock, Texas, and one of its regional centers, the Paul L. Foster School of Medicine at El Paso (the “School of Medicine”), is located in the City. In February 2008, the School of Medicine received accreditation as a four-year medical school by the Liaison Committee on Medical Education. The Health Sciences Center’s facilities operated in the City include a Health Sciences Center Building, a recently expanded Clinic Building, and a recently completed Medical Sciences Research Building and Medical Education Building.

El Paso Community College, which offers a wide range of studies for both daytime and evening classes, had a Fall 2010 enrollment of approximately 37,604.

HOSPITALS . . . El Paso is a major medical center, with eight hospitals providing approximately 2,256 beds, including William Beaumont Army Medical Center.

AGRICULTURE . . . Agriculture is an important activity in El Paso County with crop production in the lowlands and livestock in upland areas adding a vital dimension to El Paso’s versatile economy. Major farm products include beef and dairy cattle, cotton, alfalfa, grain, and pecans. As reported in the Texas Almanac, the average annual income from El Paso County farm products sold is about \$41 million.

CONVENTIONS AND TOURISM . . . The El Paso Civic and Convention Center (the “Center”) includes a 70,000 square foot Assembly-Exhibition Hall, theatre-auditorium, and headquarters for the Chamber of Commerce. To accommodate conventioners attracted by the Center to the City, approximately 8,743 hotel and motel rooms are available.

Ciudad Juarez, immediately adjacent to El Paso, is a major factor and attraction in the area.

TRANSPORTATION . . . Excellent transportation facilities, together with El Paso’s strategic location, have contributed substantially to development and growth of the City. Four major rail lines operate through El Paso, with the National Railway of Mexico serving Ciudad Juarez. Interstate Highways 10 and 25 provide direct access to El Paso for commercial truckers and tourists. Five other U.S. Highways and the Central Highway of Mexico link El Paso to its surrounding market areas.

The El Paso International Airport is a large, modern airport with facilities for handling all types and sizes of commercial aircraft. The Airport is classified as a medium air traffic hub by the Federal Aviation Administration and is currently served by six passenger airlines and four all-cargo airlines. The following table shows the total airline passenger enplanements for the past five years (Airport Fiscal Year):

2006	1,711,910
2007	1,721,068
2008	1,713,382
2009	1,537,068
2010	1,541,171

MINING, SMELTING AND REFINERIES . . . Freeport-McMoRan Copper & Gold Inc. processes approximately 30% of all copper refined in the United States. While mining within El Paso County is of negligible proportions, substantial supplies of ore are produced in the trade territory, both domestic and in Mexico. Other minerals contribute to the prosperity of the trade area, notably potash from the Carlsbad vicinity where 90% of the United States' production is mined.

The steel rolling mill facility of Border Steel Rolling Mill, Inc. has the capacity to produce 16,500 tons per month of merchants rod and bar steel products. The modern electric furnaces use scrap metal as the basic ingredient.

Two oil refineries provide asphalt, jet fuel, gasoline and fuel oil for a market area encompassing West Texas, New Mexico and Arizona. El Paso Energy Company is a pipeline transmission firm which provides wholesale natural gas to five western states.

MANUFACTURING . . . Because of El Paso's location on the Mexican border, firms can maintain manufacturing plant operations in the United States but can assemble their goods in Mexico. This "dual plant" operation is commonly called the Maquila Program and enables firms to cut production costs by producing the main component of goods across the border while assembling the finished product in the United States.

The Directory of El Paso Manufacturers lists more than 500 industrial firms in El Paso County and Ciudad Juarez. Currently, according to employment and value, the electronics industry has emerged as the leader among El Paso manufacturers, surpassing both the automotive and apparel industries. Other current growth industries in the area include plastics (primarily injected molded parts), electrical equipment, and military defense manufacturing. Approximately 71 Fortune 500 companies are located in El Paso.

MAJOR EMPLOYERS

Name of Business	Nature of Business	Number of Employees
El Paso Independent School District	Education	9,031
Ysleta Independent School District	Education	8,767
Sierra Providence/Tenet	Healthcare	6,587
City of El Paso	City government	6,229
Fort Bliss Civilian Employees	Army base	6,006
Socorro Independent School District	Education	5,433
T&T Staff Management, LP	Professional employment organization	4,876
University of Texas at El Paso	Education	4,365
County of El Paso	County government	3,976
El Paso Community College	Education	2,997
Del Sol/Las Palmas	Healthcare	1,945
Echostar Communications Corporation	Call Center	1,750
GC Services	Telemarketing	1,710
RM Personnel	Employment services	1,325
Clint Independent School District	Education	1,301
ADP	Professional employment organization	1,200
Ready One Industries	Manufacturer of uniforms	1,150
West Telemarketing	Telemarketing	1,000
El Paso Electric	Electric utility	987
REDCats USA	Call Center	980
Canutillo Independent School District	Education	808
Outreach Health Service, Inc.	Health care services	800
Toro	Thermoplastics manufacturer	800
Union Pacific	Railroad	746
Datamark	Forms processing services	650
Hoover Company	Vacuum cleaner manufacturer	615

Source: City of El Paso, Economic Development Department. Excludes retail businesses.

EMPLOYMENT STATISTICS

	City of El Paso					
	Average Annual					April
	2006	2007	2008	2009	2010	2011
Civilian Labor Force	233,236	235,128	239,349	240,630	247,099	251,675
Total Employment	15,565	13,793	14,971	21,229	23,549	24,509
Total Unemployment	6.3%	5.5%	5.9%	8.1%	8.7%	8.9%
Percentage Unemployed	El Paso County					
	Average Annual					April
	2006	2007	2008	2009	2010	2011
	Civilian Labor Force	271,201	273,840	278,689	280,310	287,846
Total Employment	19,511	17,194	18,643	27,158	30,262	31,422
Total Unemployment	6.7%	5.9%	6.3%	8.8%	9.5%	9.7%
Percentage Unemployed						

Source: Texas Workforce Commission, Labor Market Information Department.

BANKING . . . The City is the banking center for El Paso County with 52 financial institutions, as well as the El Paso Branch of the Federal Reserve Bank of Dallas.

MILITARY INSTALLATIONS . . . Military installations in and around El Paso have a significant impact on the economy of the City and El Paso County. The employment of civilian personnel is substantial, and, combined with the military payrolls, has a pronounced effect on the level and stability of business volume. Large additional expenditures for supplies and contractual services, when added to the military payrolls, place many millions of dollars annually in local commercial channels.

Fort Bliss, historically important since its establishment as a post in 1848, is now the Army's Air Defense Training Center. From its common boundary with the City, Fort Bliss extends northward to adjoin White Sands Missile Range. The combined facilities represent an uninterrupted distance in excess of 100 miles dedicated to military and scientific pursuits.

Biggs Army Base adjoins both the City and Fort Bliss. Having fulfilled a variety of missions during its history, the base, which once was a major installation of the Strategic Air Command, has now been transferred to the Army. The Army Air Materiel Command, the Defense Language Institute and the Army Aviation Laboratory utilize the facilities of the base.

William Beaumont Army Medical Center, the Army's hospital in El Paso, is a 12-story facility with 432 beds and is a fully accredited, permanent teaching and specialized-treatment hospital. With a complement of approximately 2,200 military and civilian personnel, the hospital's contribution to the El Paso economy is substantial.

White Sands Missile Range in New Mexico has long played an important role in weapons testing. With increasing technology involved in modern weapons, the facility's activities continue to take on increased importance. It is the largest all-land missile range in the Western Hemisphere.

Holloman Air Development Center, near Alamogordo, New Mexico, specializes in the testing and evaluation of new weapons for the Air Force. More than 25 electronic and aircraft companies operate at the Center.

McGregor Range is a testing and experimental area for missiles, rockets and anti-aircraft weapons. Like its neighbors, the impact of both construction and expansion programs, and operations requirements, make the Range an important economic factor in the region.

BASE REALIGNMENT AND CLOSURE...Base Realignment and Closure ("BRAC") is a process of the United States federal government directed at the administration and operation of the Armed Forces, used by the United States Department of Defense (the "DoD") and Congress to close excess military installations and realign the total asset inventory in order to save money on operations and maintenance, aimed at achieving maximum efficiency in line with Congressional and DoD objectives. The most recent round of BRAC was completed in the fall of 2005 and with the BRAC Commission's recommendations became law in November 2005. Fort Bliss was positively impacted by the most recent round of BRAC hearings.

As a result of the BRAC process completed in 2005, it is anticipated that over 20,000 new troops and 30,000 accompanying family members will become part of the City population during the next seven years. In 2007, 3,800 soldiers assigned to Fort Bliss, Texas, returned to El Paso from Iraq and an additional 948 soldiers joined them in late 2007.

In 2007, the City received word that an additional 7,000 soldiers will arrive in El Paso in 2013. The increases in population should spur demand driven growth in all portions of the service and retail sectors of the economy.

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APPENDIX B

EXCERPTS FROM THE
PUBLIC SERVICE BOARD - CITY OF EL PASO, TEXAS
ANNUAL FINANCIAL REPORT

For the Year Ended February 28, 2011

The information contained in this Appendix consists of excerpts from the Public Service Board - City of El Paso, Texas Annual Financial Report for the Year Ended February 28, 2011, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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INDEPENDENT AUDITOR'S REPORT

Public Service Board - El Paso Water Utilities,
a component unit of the City of El Paso

We have audited the accompanying financial statements of the business-type activities and each major fund of the Public Service Board - El Paso Water Utilities, a component unit of the City of El Paso, as of and for the years ended February 28, 2011 and 2010, which collectively comprise the Public Service Board - El Paso Water Utilities' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Public Service Board - El Paso Water Utilities' management. Our responsibility is to express opinions on these financial statements based on our audit.

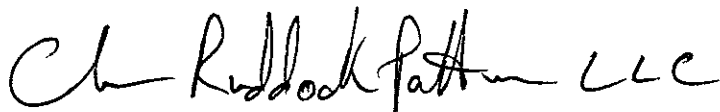
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 each major fund of the Public Service Board - El Paso Water Utilities, a component unit of the City of El Paso, as of February 28, 2011 and 2010, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2011 on our consideration of the Public Service Board - El Paso Water Utilities', a component unit of the City of El Paso, 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*, and is important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other post employment benefits plan schedules on pages 13 through 23 and 87 to 88 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Public Service Board - El Paso Water Utilities', a component unit of the City of El Paso, financial statements as a whole. The introductory section, supplementary schedules, and statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The supplementary schedules listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



El Paso, Texas
June 28, 2011

Public Service Board - El Paso Water Utilities

Management's Discussion and Analysis

As management of the Public Service Board - El Paso Water Utilities (EPWU), we offer readers of the financial statements this narrative overview and analysis of the financial activities for the fiscal year ended February 28, 2011. EPWU consists of two funds, the Water and Wastewater Utility fund and the Municipal Drainage Utility fund. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-6 of this report.

Financial Highlights

The assets of EPWU exceeded its liabilities at the close of the most recent fiscal year by \$750.68 million (*net assets*).

EPWU's total assets of \$1.39 billion increased by \$38.39 million, which includes \$18.36 million from water and wastewater utility capital contributions related to grants and TXDOT received for infrastructure projects, and contributions from developers for new development.

EPWU's total liabilities increased by \$8.93 million during the fiscal year mainly due to the issuance of \$10 million of commercial paper for the Water and Wastewater Utility.

The debt service coverage for the Water and Wastewater Utility of 1.86 times is above the required 1.5 times debt service coverage as per its bond ordinance. The Municipal Drainage Utility's debt service coverage of 3.73 times is above the required 1.25 times as per its bond ordinance.

El Paso Service Area and Customer Growth

Over the last ten years, average annual customer growth has been a steady 2.0%. The following tables show water, wastewater and drainage customer growth for the past three years:

Water Customers	FY 2011	FY 2010	FY 2009
Metered water customers, beginning of year	185,673	182,659	179,715
Additions, net	3,437	3,014	2,944
Metered water customers, end of year	189,110	185,673	182,659
Wastewater Customers	FY 2011	FY 2010	FY 2009
Wastewater customers, beginning of year	176,755	173,489	170,623
Additions, net	3,449	3,266	2,866
Wastewater customers, end of year	180,204	176,755	173,489
Drainage Customers	FY 2011	FY 2010	FY 2009
Drainage customers, beginning of year	176,317	174,099	-
Additions, net	3,274	2,218	174,099
Drainage customers, end of year	179,591	176,317	174,099

Outside the city limits, EPWU provides wholesale water service and wastewater service to the Lower

Valley Water District, Gaslight Square MHE, Paseo Del Este and Fort Bliss; wholesale water service to the County of El Paso, Haciendas del Norte and Ponderosa/Western Village Water Supply Corporation; retail water and wastewater service to Westway, Canutillo and retail water service to Homestead, unincorporated areas and the Village of Vinton, an incorporated area. Drainage service is only provided for customers within the city limits of El Paso.

Wholesale Customers	FY 2011	FY 2010	FY 2009
Lower Valley Water District Authority			
<i>Water Customers</i>	14,961	14,249	13,903
<i>Wastewater Customers</i>	11,675	11,148	10,946
County of El Paso - East Montana - <i>Water Customers</i>	1,667	1,647	1,606
Haciendas del Norte - <i>Water Customers</i>	345	345	345
Ponderosa/Western Village - <i>Water Customers</i>	294	295	292
Gaslight Square Mobile Home/RV Park - <i>Water and Wastewater Customers</i>	<i>Varies</i>	<i>Varies</i>	<i>Varies</i>
Paseo Del Este MUD - <i>Water and Wastewater Customers</i>	1,451	1,289	1,045

The table below shows the average monthly water, wastewater and drainage bill for a residential customer for fiscal years 2011, 2010 and 2009:

Average Residential Bill			
	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2009</u>
Water (includes water supply replacement charge)	\$27.98	\$27.47	\$26.79
Wastewater	\$15.11	\$15.65	\$15.35
Drainage	\$3.03	\$3.03	\$2.99
Total Bill	\$46.12	\$46.15	\$45.13

In addition, the Public Service Board (PSB) has established outside city retail water and wastewater rates at 115% of inside city rates. El Paso's water and wastewater rates remain among the lowest in the Southwest and are extremely competitive with neighboring utilities.

With the creation of the Municipal Drainage Utility, a dedicated funding source is available to meet the drainage system needs of the city. Drainage functions are funded by a fee that appears on the monthly water and wastewater bill. This user fee is calculated for every parcel with an active water meter within the city, except those exempted by state law, based on the impervious area of the property. The Board has a working five-year financial plan for all utilities that allows them to more proactively manage its financial resources and plan for potential rate adjustments as required.

Water consumption increased as compared to the previous year due to an unusually warm and dry winter.

	FY 2011	FY 2010	FY 2009
Water Pumped (billion gallons)	37.55	36.89	35.37
Water Billed (billion gallons)	34.88	33.93	32.74

El Paso's Water, Wastewater and Drainage System

Water System – In 1991, EPWU adopted its first comprehensive Water Resource Management Plan, which was then used as a basis for the Region E plan and is subsequently updated when the Region E plan is updated. EPWU recognizes it exists to serve a large population situated in an arid climate and has been aggressively planning for the future to ensure an adequate long-term water supply. Major steps taken include passing a stringent water conservation ordinance, new and innovative water conservation programs, establishing a rate structure designed to encourage conservation, and the adoption of a Drought and Water Emergency Management Plan while continuing to increase utilization of reclaimed water. EPWU operates wellhead desalination units and a large scale desalination plant, and continues to evaluate additional long-term water supply projects including importation of water and development of additional surface water supplies to decrease demand on existing ground water aquifers.

EPWU operates 170 wells, 73 reservoirs, 52 booster stations, 205 boosters, two surface water treatment plants, one groundwater treatment plant, one desalination plant, three arsenic removal plants and over 2,500 miles of pipelines. EPWU also operates 9 reservoirs, 10 pump stations and 48 miles of pipelines comprising the reclaimed water system.

The Franklin Mountains divide the City, but fortunately, water supplies are geographically spread throughout. Historically, 60 percent of the annual usage has been from the Hueco Bolson aquifer, which extends from Southern New Mexico, through east El Paso and into Mexico, although this has changed in recent years due to the increased use of surface water. About 20 percent of the historical annual usage has been from the renewable Mesilla Bolson aquifer west of the mountains.

EPWU's 40 million gallons per day (MGD) **Robertson/Umbenhauer Water Treatment Plant**, a surface water treatment plant originally built in 1943, is centrally located in the city. The filtration systems in this outstanding plant were upgraded starting in 1999 to meet anticipated future drinking water regulations.

The second surface water plant, the **Jonathan W. Rogers Water Treatment Plant (JRWTP)**, with an initial capacity of 40 MGD, started production in early 1993. It is located further downstream to serve the City's eastside and expanding lower valley area. The JRWTP was expanded in May 2002 to increase capacity to 60 MGD. This expansion increased total surface water supply capability to 100 MGD, which represents more than 50 percent of the total annual demand.

In 2005, EPWU began operating four treatment plants specifically designed to achieve compliance with EPA's new maximum contaminant level (MCL) for arsenic, which was effective January 23, 2006. These plants have a combined treatment capacity of 41 MGD. The largest of the four plants is the 30 MGD **Upper Valley Water Treatment Plant**, which uses conventional flocculation/sedimentation/filtration to remove arsenic. The three other plants have a combined capacity of 11MGD and use a granular iron media to absorb arsenic.

EPWU, in partnership with Fort Bliss, constructed a 27.5 MGD desalination plant which it owns and operates on Fort Bliss property in east El Paso. The **Kay Bailey Hutchison (KBH) Desalination Plant** started production in July 2007. This plant is the largest inland desalination plant in the world and the largest desalination plant of any type in the United States. The plant has won numerous awards, including the 2008 Membrane Facility Award from the American Membrane Technology Association, the American Academy of Environmental Engineers 2008 Superior Achievement Award and the Texas Council of Engineering Companies 2008 Eminent Conceptor Award.

As a result of our increased surface water use, continued water conservation and water reclamation, withdrawals from the Hueco Bolson were only 29 percent of the water supply in 2010. Both surface water treatment plants operate during the seven-month irrigation season when Rio Grande Project water is available. The water system each year consistently receives a Superior Water System ranking by the Texas Commission of Environmental Quality (TCEQ).

Water demand was at 201 gallons per person per day (gpcd) in 1989 prior to the institution of an aggressive water conservation program, but has been declining rapidly since. The current demand is 133 gpcd and has exceeded EPWU's goal of reducing usage to 140 gpcd by the year 2010. The PSB set a new goal to achieve overall per capita water consumption of 130 gpcd by 2020. Peak day demand has also declined significantly from 195.0 MGD in 1990 to 158.5 MGD in 2010. This highlights not only the significant changes in water use by El Pasoans, but also has allowed for the deferral of spending significant dollars on capital projects to meet higher water demands.

The State Legislature designated EPWU as the Regional Planner for El Paso County in 1995, which has resulted in a coordinated approach in developing water resources for this region. EPWU also has conducted joint water resources planning with New Mexico and Mexico. This unique regional cooperative effort will help to ensure that there is a reliable water supply to protect the economy, environment and quality of life for the residents in the region bordering the Rio Grande River.

Wastewater System – The United States Environmental Protection Agency (EPA) and the TCEQ issue permits that require discharges of treated wastewater to meet certain standards in accordance with the Clean Water Act. To meet these high standards, EPWU is committed to providing the best available technology and most cost effective treatment processes to ensure proper and sufficient treatment of wastewater collected from the city. The Wastewater Division has been a member of the TCEQ Clean Texas Program since 2003, and has been awarded the National Association of Clean Water Agencies (NACWA) Excellence in Management Recognition in 2003, 2006, and 2009.

The **Roberto R. Bustamante Wastewater Treatment Plant** began serving the east, southeast and lower valley parts of the city in 1991 and has a treatment capacity of 39 MGD. The plant also has the capability to provide reclaimed water. Since the plant's inception, it has received seventeen NACWA Peak Performance Gold Awards and two NACWA Silver Awards. In 1994, the plant placed second in the nation in the EPA Operations and Maintenance Excellence Awards, Large-Secondary Treatment category, representing the State of Texas and EPA Region VI. The plant also received NACWA's Platinum Peak Performance Award for five consecutive years of complete compliance in 2002. The Water Environment Association of Texas also judged this plant the Municipal Wastewater Treatment Plant of the Year for 2005.

The **Northwest Wastewater Treatment Plant** can treat 17.5 MGD of wastewater from the west and

northwest part of the city. Since the initial start-up of the plant in 1984 and expansion to its present capacity in 1994, the plant has been nominated for six EPA Operations and Maintenance Excellence Awards and has received thirteen NACWA Gold Awards and six NACWA Silver Awards. In 1992, the plant and its personnel were also recognized for their commitment to safety by being awarded the Water Environment Federation's George W. Burke Award for Safety. This plant received the NACWA's Platinum Peak Performance Award for five consecutive years of complete compliance in 2003. It also received the NACWA 2007 Platinum Award for being the recipient of the Gold Award for eight consecutive years. Also in 2008, it received 1st Place in the National Clean Water Act Recognition Awards for Operations and Maintenance Excellence in the Large Advanced Plant Category. In 2009, the plant received the Platinum Eleven Award for eleven consecutive years of perfect permit compliance. The plant was the Texas State, Regional and National winner of the Clean Water Act O&M Awards Program in the Large Advanced Category. This plant also provides reclaimed water to several large irrigation customers.

The **Haskell R. Street Wastewater Treatment Plant** was initially constructed in 1923. The plant serves the central part of the city and has treatment capacity of 27.7 MGD. The plant has undergone several expansions and modifications in an effort to meet ever-changing environmental regulations and to enhance the reliability of the treatment processes. In 1994 it was selected to represent the State of Texas and EPA Region VI for the nationally recognized EPA Operations and Maintenance Excellence Award, Large-Advanced Treatment category. In 1999 a \$25 million upgrade and renovation was completed. The plant was also upgraded in 2003 to provide reclaimed water to local parks, schools, industries and golf courses. The plant has received eleven NACWA Gold Awards and seven NACWA Silver Awards. It also received the NACWA Platinum Award in 2004 for being the recipient of the Gold Award for five consecutive years. It also received the NACWA Platinum Award in 2007 for being the recipient of the Gold Award for eight consecutive years. This plant also provides reclaimed water to several large irrigation customers.

The **Fred Hervey Water Reclamation Plant** constructed in 1984, can treat 10 MGD of wastewater from the northeast part of the city. This unique plant was one of the first in the nation to take raw sewage and treat it to drinking water standards. This reclaimed water is then used to recharge the Hueco Bolson, to irrigate a local golf course and to provide the El Paso Electric Co. with cooling tower water for electric power generation. The plant is currently in the last phase of a multi-year multi phased program to renovate and upgrade the plant for new permit requirements and upgrade the plant from 10 MGD to 12 MGD. This plant has also received numerous awards, including: the 1994 AMSA Public Information and Education Award; second place in the national 1994 EPA Operations and Maintenance Excellence Award, No Discharge category; and the 1998 American Water Works Association's Conservation and Reuse Award. In 1999 the plant received special recognition by the El Paso del Norte Region Mission Possible-Survival Strategies in the category "Protection and Preservation of the Environment". Beginning in 2006, the Fred Hervey Plant became eligible for the NACWA awards and has now received three Gold Awards.

The Wastewater Collection System Maintenance Section of EPWU received the 2007 Medal for Heroism from the Water Environment Association of Texas for their great efforts in helping the City during the Storm 2006. EPWU also received the 2007 George Burke Award from the Water Environment Association of Texas for a perfect safety record in the area of lift station operations.

EPWU is committed to addressing the infrastructure needs and acquiring future water resources for

its customers. Short and long-term planning is a vital part of meeting the current and future needs of this community. For these efforts, EPWU was recognized by NACWA with its third Excellence in Management Award in 2010. This award, which is only given every three years, recognizes agencies that have used competitive business strategies to meet the expectations of drinking water consumers and municipal government leaders over a sustained period of time.

EPWU was one of only seven public drinking water systems that received the Platinum Award for Utility Excellence from the Association of Metropolitan Water Agencies (AMWA) in 2010. This award recognizes the outstanding achievements in implementing the nationally recognized Attributes of Effectively Managed Water Sector Utilities. EPWU was recognized for performance in areas of product quality, employee and leadership development, customer satisfaction, and community sustainability.

Drainage System – Following the storms in 2006, an evaluation identified extensive damage to the drainage system. The City of El Paso has repaired the most severely damaged items. The Municipal Drainage Utility is responsible for the remaining projects, as well as the operation and maintenance of the system and the construction projects needed to reach an adequate level of service. EPWU developed the first ever stormwater master plan for the city and subsequently developed a ten year capital improvement plan to address the drainage system’s deficiencies.

The drainage system currently consists of 17 storm water pump stations, 904 acres of ponds, 2,430 acres of dams, 74 miles of channels, 43 miles of agricultural drains, 146 miles of storm drains and thousands of storm water drop inlets.

Fiscal Year 2011 Financial Information

The following are the Enterprise Funds Balance Sheets for the activities for the Water & Wastewater Utility and the Municipal Drainage Utility after elimination of interfund payables and receivables.

Enterprise Funds Balance Sheets			
	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2009</u>
Current Assets	\$ 226,522,996	\$ 211,997,667	\$ 154,168,098
Noncurrent Assets	6,482,938	6,495,559	6,398,730
Capital Assets (Net)	1,158,024,141	1,134,148,048	1,132,159,475
Total Assets	\$ 1,391,030,075	\$ 1,352,641,274	\$ 1,292,726,303
Current Liabilities	64,198,435	58,637,204	60,014,017
Noncurrent Liabilities	576,156,051	572,784,599	526,064,110
Total Liabilities	640,354,486	631,421,803	586,078,127
Net Assets:			
Restricted	77,736,345	68,284,183	59,598,270
Invested in Capital Assets, Net of Related Debt	651,543,461	632,903,513	629,341,448
Unrestricted	21,395,783	20,031,775	17,708,458
Total Net Assets	750,675,589	721,219,471	706,648,176
Total Liabilities and Net Assets	\$ 1,391,030,075	\$ 1,352,641,274	\$ 1,292,726,303

Enterprise Funds Balance Sheets and Statements of Revenues, Expenses and Changes in Net Assets

Total assets increased by \$38.39 million as compared to the previous fiscal year. Current assets increased by \$14.53 million due to an increase in cash as a result of increased revenues and cost savings. Noncurrent assets decreased by \$12,621 due to the amortization of bond issue expense related to the issuance of bonds. Total capital assets, net of accumulated depreciation, increased \$23.88 million, which consists of an increase in water, wastewater and drainage infrastructure placed into service. Total liabilities increased by \$8.93 million mainly due to the issuance of commercial paper during the fiscal year. Total net assets of \$750.68 million increased due to an excess of net revenues over expenses of \$29.46 million. This excess of net revenues over expenses is due to capital contributions of \$18.87 million along with income before contributions of \$10.59 million. Income before contributions consists of operating income of \$35.51 million, interest earnings of \$814,550, a \$617,131 gain on the sale of land, the \$1.14 million tax credit from the IRS for the Build America Bonds issued, and offset by interest expense on bonds of \$27.70 million. Net assets for the Water and Wastewater Utility increased \$23.59 million this fiscal year, along with the Municipal Drainage Utility net asset increase of \$5.87 million.

The following are the Enterprise Funds Statements of Revenues, Expenses and Changes in Net Assets for EPWU, which include the Water and Wastewater Utility and the Municipal Drainage Utility after elimination of interfund activities.

Enterprise Funds Statements of Revenues, Expenses, and Changes in Net Assets			
	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2009</u>
Operating Revenues:			
Water	\$ 86,939,248	\$ 81,834,683	\$ 79,844,029
Water supply replacement charge	17,152,706	16,876,029	16,709,642
Reclaimed Water	2,376,387	2,376,661	2,300,400
Wastewater	51,563,606	51,567,727	50,233,301
Drainage fees	14,741,435	14,555,527	17,229,863
Other operating revenue	9,803,654	8,456,741	10,592,654
Total Operating Revenues	<u>182,577,036</u>	<u>175,667,368</u>	<u>176,909,889</u>
Operating Expenses:			
O&M – Water and Reclaimed Water	39,352,272	40,026,411	39,583,553
O&M – Wastewater	21,510,582	22,947,588	21,622,733
General, Administrative and Engineering	19,088,194	20,364,097	19,242,497
O&M – Drainage	5,339,381	5,785,896	6,191,757
Other Operating Expenses	1,843,985	1,825,429	1,996,392
Other Post-Employment Benefits Expense	938,379	898,501	1,366,925
Depreciation and Amortization	49,061,885	48,095,349	47,068,949
Payment to City of El Paso per Bond Covenants	9,930,669	9,613,832	9,301,374
Total Operating Expenses	<u>147,065,347</u>	<u>149,557,103</u>	<u>146,374,180</u>
Operating Income	\$ 35,511,689	\$ 26,110,265	\$ 30,535,709
Nonoperating Revenues (Expenses):			

Enterprise Funds Statements of Revenues, Expenses, and Changes in Net Assets

	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2009</u>
Interest Earnings	\$ 814,550	\$ 654,239	\$ 1,737,211
Net Gain on Forfeited Earnest Money	-	-	3,255,012
Gain on Land Assets Converted by Sale	617,131	3,733,469	2,120,869
Gain on Sale of Miscellaneous Assets	204,578	86,812	109,539
IRS tax credit for Build America Bonds	1,135,868	421,374	-
Interest on Long-Term Debt	(27,696,886)	(24,976,644)	(22,039,037)
Total Nonoperating Expenses	(24,924,759)	(20,080,750)	(14,816,406)
Income Before Contributions	10,586,930	6,029,515	15,719,303
Federal Grant Contributions	1,191,004	446,945	28,816
Capital Contributions	17,678,184	8,094,835	39,528,144
Increase in Net Assets	29,456,118	14,571,295	55,276,263
Total Net Assets – Beginning	721,219,471	706,648,176	651,371,913
Total Net Assets – Ending	\$750,675,589	\$721,219,471	\$706,648,176

Water and Wastewater Utility Fund

Total operating revenues increased \$6.74 million from last fiscal year mainly due to increased water revenue of \$5.1 million and an increase in customer connection fees of \$1.31 million. Water revenues increased due to increased water consumption.

Total operating expenses of the Water and Wastewater Utility of \$138.88 million is a decrease of \$1.96 million as compared to fiscal year 2010. Chemical costs were \$657,000 less this fiscal year due to the stabilization of pricing. Electricity expense decreased \$2.43 million due to the fuel refunds received during the year. Depreciation and amortization expense of \$47.54 million increased by \$1.10 million from the previous year and continues to increase as water and wastewater infrastructure is placed into service to serve our customers. Finally, payment to the City of \$9.93 million is 10% of water sales and 5% of the net proceeds from land sales, increased this fiscal year due to higher water revenues.

Net nonoperating expenses of \$23.29 million increased \$3.93 million due to a decrease in revenues generated from land sales of \$3.12 million, and an increase in interest expense of \$1.07 million.

Income before contributions had a net increase of \$4.78 million for the following reasons: an increase in operating income of \$8.70 million due to an increase in operating revenues of \$6.74 million and decrease of operating expenses of \$1.96 million, offset by an increase in bond interest expense of \$1.07 million and a decrease in revenues from the sale of land of \$3.12 million.

Capital contributions of \$18.36 million are \$10.42 million more than the previous fiscal year and consist of \$17.17 million of capital contributions by TXDOT, developers and non-federal grant contributions, and \$1.19 million in federal grant contributions. Contributions may vary greatly from

year to year based on grant awards and the cyclical nature of housing, commercial and industrial development in the city.

EPWU spent \$13.45 million for water system capital improvements in fiscal year 2011. Major water expenditures included \$1.39 million in new distribution lines and pumping equipment, and \$5.49 million for water system rehabilitation. EPWU spent \$24.87 million for wastewater and reclaimed water system capital improvements in fiscal year 2011. Major expenditures included \$9.32 million for collection system, \$12.20 million for rehabilitation of the wastewater system, including the Fred Hervey Water Reclamation Plant project, and \$2.97 million on reclaimed water facilities.

Financial Indicators for the Water & Wastewater Utility			
	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2009</u>
Current Assets/Current Liabilities	2.82	2.58	2.51
Restricted Assets/Restricted Liabilities	2.91	2.61	2.77
Debt Service Coverage	1.86 times	1.58 times	1.95 times
Debt to Total Assets	0.40	0.41	0.42

Municipal Drainage Utility Fund

Total operating revenues increased \$160,993 from last fiscal year due to normal growth in customers.

Operating expenses for the Drainage Utility were \$8.29 million this fiscal year, a decrease of \$538,322. This decrease is mainly due to a one-time FEMA reimbursement for expenses related to the Storm 2006 repairs. Depreciation and amortization expense for the drainage assets was \$1.52 million, a decrease of \$131,997.

Capital contributions of \$508,814 consisted of \$171,314 in non-federal grant contributions and \$337,500 of contributions from the City of El Paso.

EPWU also spent \$13.16 million in capital improvements for the Municipal Drainage Utility system. \$4.96 million was spent for conveyance infrastructure, \$1.36 million for storage infrastructure, and \$4.77 million for rehabilitation of the drainage system. Total assets are summarized in Note 9 of the financial statements.

Financial Indicators for the Municipal Drainage Utility			
	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2009</u>
Current Assets/Current Liabilities	11.43	32.03	5.40
Operating Ratio	0.44	0.47	0.43
Total Liabilities to Total Assets	0.57	0.60	0.03
Debt Service Coverage	3.73	N/A	N/A

Overall, EPWU met all its financial obligations including operating expenses, debt service and the rehabilitation and addition of new water, wastewater and drainage infrastructure to meet the needs of

a growing community.

Capital Assets

EPWU’s investment in water, wastewater and drainage capital assets as of February 28, 2011 is \$1.158 billion (net of accumulated depreciation). This is a net increase of 2% from 2010. The following table reflects the changes within each classification of capital assets net of depreciation. The increase in capital assets was primarily due to the addition of wastewater system assets, land and right-of-way assets, and an increase in construction work in progress for drainage projects. The capital asset information is detailed in Note 9. The commitments related to construction work in progress are discussed in Note 24.

Capital Assets (Net of Accumulated Depreciation)			
	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2009</u>
Land and Right-of-Way	\$10,567,576	\$6,169,109	\$5,395,078
Land Not in Service	58,205,730	57,942,084	57,967,334
Irrigation Water Rights Contracts	8,262,482	8,155,267	8,085,071
Buildings and Shops	7,244,517	7,581,940	8,028,953
Vehicles	3,204,873	3,783,415	5,086,278
Equipment and Tools	3,177,635	2,750,849	2,231,590
Water System	614,331,687	613,969,839	623,103,554
Wastewater System	377,350,675	365,059,854	377,140,674
Drainage Implementation Costs	287,139	395,960	421,810
Drainage System	23,563,638	22,475,730	22,947,232
Construction Work In Progress	51,828,189	45,864,003	21,751,901
Total	<u>1,158,024,141</u>	<u>1,134,148,048</u>	<u>\$1,132,159,475</u>

Debt Administration

EPWU had two bond issues this fiscal year. EPWU issued \$15 million in Water & Sewer Revenue Bonds, Taxable Series 2010 (Direct Subsidy Build America Bonds) through the North American Development Bank (NADB) for the Paisano Valley 48” Transmission Main Replacement project. EPWU also issued \$42.58 million of Water & Sewer Revenue Refunding Bonds, Series 2010A to refund prior bond issues and take advantage of low interest rates. The resulting increase in debt service cost from last fiscal year’s bond issue and this year’s bond issues is seen this year in the Enterprise Funds Statements of Revenues, Expenses, and Changes in Net Assets. Total long-term liabilities are summarized in Note 10 of the financial statements and the bonds in Note 11.

In October 1997, the Public Service Board implemented a commercial paper program. The original authorization of \$50 million for the commercial paper program was reduced in February 2009 to \$40 million and is being used for interim financing of certain water and wastewater projects. This program allows for reduced interest costs and increased flexibility in funding capital projects. EPWU issued \$10 million in commercial paper during fiscal year 2011. The commercial paper program

information is detailed in Note 13.

Summary of Significant Outstanding Debt			
	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2009</u>
Water & Sewer Revenue Bonds	\$497,720,000	\$504,971,000	\$519,273,000
Municipal Drainage System Bonds	55,163,000	55,163,000	-
Water & Sewer Commercial Paper	19,000,000	9,000,000	9,000,000
Deferred Premium Net of Loss on Refunding Bond Issues	15,723,687	12,548,195	12,093,376
Land Notes Payable	6,346,083	7,007,635	7,683,093
Total	<u>\$593,952,770</u>	<u>\$588,689,830</u>	<u>\$548,049,469</u>

Bond and Commercial Paper Ratings			
	<u>Standard & Poor's</u>	<u>Fitch</u>	<u>Moody's</u>
Water & Sewer Revenue Bonds	AA	AA+	-
Municipal Drainage System Bonds	-	AA+	-
Water & Sewer Commercial Paper	A-1	-	P-1

Economic Factors and Next Year's Budget and Rates

- In 2010, the El Paso MSA home sales increased by 3.2% with median sales prices increasing by 1.3% according to the Texas A&M Real Estate Center. The number of months Single-Family Housing remained in inventory declined by 26% during the same period.
- EPWU has included in the budget for fiscal year 2012 two new bond issues for the Water & Wastewater Utility; one for the possible solar power project at the KBH Desalination Plant and one that will take long commercial paper notes. There were no new bond issues in the FY 2012 Municipal Drainage Utility budget.
- Due to the 2005 BRAC realignment, Fort Bliss, TX, will add an additional 28,000 troops and 37,000 family members by 2013.
- EPWU has planned and prepared to meet growth and will partially finance growth projects with the new water and wastewater impact fees that were adopted by the City Council in May 2009.

All of these factors were taken into consideration in preparing EPWU's budget for fiscal year 2011-12. Although costs have increased in some areas, the Utility was able to adopt a budget that did not increase rates by continuing to look for efficiencies, refinancing debt and cutting costs when able to.

Request for Information

The financial report is designed to provide a general overview of the El Paso Water Utilities' finances and for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Chief Financial Officer, 1154 Hawkins, 79925 or email mnavarrete@epwu.org.

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

ENTERPRISE FUNDS

BALANCE SHEET

February 28, 2011

	Water & Wastewater Utility Fund	Municipal Drainage Utility Fund	Eliminations	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 16,183,481	\$ 2,110,122	\$ -	\$ 18,293,603
Investments	3,000,424	-	-	3,000,424
Accounts receivable - customers	16,106,496	1,202,499	-	17,308,995
Accounts receivable - other	731,889	3,040	-	734,929
Accrued interest receivable	162,962	101,622	-	264,584
Due from Municipal Drainage Utility	69,613	-	(69,613)	-
Inventory - materials and supplies	2,170,297	-	-	2,170,297
Other current assets	106,080	-	-	106,080
Prepaid expenses	1,901,731	-	-	1,901,731
Restricted current assets:				
Restricted for bond requirements:				
Cash and cash equivalents	34,691,845	3,574,580	-	38,266,425
Investments	24,586,719	901,683	-	25,488,402
Unamortized bond issue expense	538,168	22,677	-	560,845
Restricted for construction and improvements:				
Cash and cash equivalents	55,515,378	28,241,107	-	83,756,485
Investments	9,010,580	24,046,424	-	33,057,004
ARRA funds receivable	-	160,000	-	160,000
Accounts receivable government grants	1,304,007	21,689	-	1,325,696
Notes receivable	127,496	-	-	127,496
Total current assets	<u>166,207,166</u>	<u>60,385,443</u>	<u>(69,613)</u>	<u>226,522,996</u>
Noncurrent assets:				
Unamortized bond issue expense	<u>6,097,431</u>	<u>385,507</u>	<u>-</u>	<u>6,482,938</u>
Capital assets:				
Water and Wastewater Utility capital assets	1,677,203,813	-	-	1,677,203,813
Municipal Drainage Utility capital assets	-	30,556,836	-	30,556,836
Land and right of way	64,904,992	3,868,314	-	68,773,306
Construction work in progress	38,959,047	12,869,142	-	51,828,189
Less accumulated depreciation	<u>(665,720,094)</u>	<u>(4,617,909)</u>	<u>-</u>	<u>(670,338,003)</u>
Total capital assets (net of accumulated depreciation)	<u>1,115,347,758</u>	<u>42,676,383</u>	<u>-</u>	<u>1,158,024,141</u>
Total noncurrent assets	<u>1,121,445,189</u>	<u>43,061,890</u>	<u>-</u>	<u>1,164,507,079</u>
Total assets	<u>\$ 1,287,652,355</u>	<u>\$ 103,447,333</u>	<u>\$ (69,613)</u>	<u>\$ 1,391,030,075</u>

	Water & Wastewater Utility	Municipal Drainage Utility	Eliminations	Total
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 3,742,892	\$ 384,169	\$ -	\$ 4,127,061
Contributions and Solid Waste Management collections due to City of El Paso	4,482,800	-	-	4,482,800
Customer deposits	4,731,154	-	-	4,731,154
Accrued vacation payable	1,539,115	42,194	-	1,581,309
Due to Water and Wastewater Utility	-	69,613	(69,613)	-
Unearned revenue on land leases	546,248	-	-	546,248
Other current liabilities	325,107	-	-	325,107
Self insurance worker's compensation and health claims	314,844	-	-	314,844
Other governments payable - current	112,678	-	-	112,678
Current liabilities payable from restricted assets:				
Revenue bonds payable	23,715,000	1,645,000	-	25,360,000
Accrued interest on revenue bonds and commercial paper	10,950,079	1,425,700	-	12,375,779
Accounts payable	5,168,539	1,468,897	-	6,637,436
Land notes payable	694,186	-	-	694,186
Land notes interest payable	160,642	-	-	160,642
Deferred premiums net of losses on refunding bond issues	1,020,784	-	-	1,020,784
Customer advances for construction	161,894	-	-	161,894
Retainage payable on construction contracts	1,320,628	245,885	-	1,566,513
Total current liabilities	<u>58,986,590</u>	<u>5,281,458</u>	<u>(69,613)</u>	<u>64,198,435</u>
Noncurrent liabilities:				
Revenue bonds payable	474,005,000	53,518,000	-	527,523,000
Deferred premiums net of losses on refunding bond issues	14,702,903	-	-	14,702,903
Land notes payable	5,651,897	-	-	5,651,897
Other governments payable	3,001,914	-	-	3,001,914
Commercial paper notes	19,000,000	-	-	19,000,000
Other Post-Employment Benefits	4,428,302	69,488	-	4,497,790
Accrued vacation payable	982,605	49,991	-	1,032,596
Self insurance worker's compensation claims	745,951	-	-	745,951
Total noncurrent liabilities	<u>522,518,572</u>	<u>53,637,479</u>	<u>-</u>	<u>576,156,051</u>
Total liabilities	<u>581,505,162</u>	<u>58,918,937</u>	<u>(69,613)</u>	<u>640,354,486</u>
NET ASSETS				
Restricted:				
Restricted for debt service	54,964,084	3,458,747	-	58,422,831
Restricted for construction and improvements	17,594,200	1,719,314	-	19,313,514
Total restricted	<u>72,558,284</u>	<u>5,178,061</u>	<u>-</u>	<u>77,736,345</u>
Invested in capital assets, net of related debt	614,994,954	36,548,507	-	651,543,461
Unrestricted	18,593,955	2,801,828	-	21,395,783
Total net assets	<u>706,147,193</u>	<u>44,528,396</u>	<u>-</u>	<u>750,675,589</u>
Total liabilities and net assets	<u>\$ 1,287,652,355</u>	<u>\$ 103,447,333</u>	<u>\$ (69,613)</u>	<u>\$ 1,391,030,075</u>

The notes to the financial statements are an integral part of this statement.

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES

A COMPONENT UNIT OF THE CITY OF EL PASO

ENTERPRISE FUNDS

BALANCE SHEET

February 28, 2010

	<u>Water & Wastewater Utility Fund</u>	<u>Municipal Drainage Utility Fund</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 12,128,433	\$ 2,572,769	\$ -	\$ 14,701,202
Investments	2,000,000	-	-	2,000,000
Accounts receivable - customers	15,398,182	1,504,931	-	16,903,113
Accounts receivable - other	855,337	10,403	-	865,740
Accrued interest receivable	140,248	25,581	-	165,829
Due from Municipal Drainage Utility	275,884	-	(275,884)	-
Inventory - materials and supplies	2,188,530	-	-	2,188,530
Other current assets	147,924	-	-	147,924
Prepaid expenses	1,919,741	-	-	1,919,741
Restricted current assets:				
Restricted for bond requirements:				
Cash and cash equivalents	33,586,565	1,626,261	-	35,212,826
Investments	23,188,314	249,747	-	23,438,061
Unamortized bond issue expense	379,140	22,677	-	401,817
Restricted for construction and improvements:				
Cash and cash equivalents	53,816,936	37,338,269	-	91,155,205
Investments	500,000	19,039,157	-	19,539,157
ARRA funds receivable	-	2,113,000	-	2,113,000
Accounts receivable government grants	416,059	768,382	-	1,184,441
Notes receivable	61,081	-	-	61,081
Total current assets	<u>147,002,374</u>	<u>65,271,177</u>	<u>(275,884)</u>	<u>211,997,667</u>
Noncurrent assets:				
Unamortized bond issue expense	<u>6,087,376</u>	<u>408,183</u>	<u>-</u>	<u>6,495,559</u>
Capital assets:				
Water and Wastewater Utility capital assets	1,619,459,725	-	-	1,619,459,725
Municipal Drainage Utility capital assets	-	28,701,650	-	28,701,650
Land and right of way	64,111,193	-	-	64,111,193
Construction work in progress	41,219,040	4,644,963	-	45,864,003
Less accumulated depreciation	<u>(620,866,384)</u>	<u>(3,122,139)</u>	<u>-</u>	<u>(623,988,523)</u>
Total capital assets (net of accumulated depreciation)	<u>1,103,923,574</u>	<u>30,224,474</u>	<u>-</u>	<u>1,134,148,048</u>
Total noncurrent assets	<u>1,110,010,950</u>	<u>30,632,657</u>	<u>-</u>	<u>1,140,643,607</u>
 Total assets	 <u>\$ 1,257,013,324</u>	 <u>\$ 95,903,834</u>	 <u>\$ (275,884)</u>	 <u>\$ 1,352,641,274</u>

	Water & Wastewater Utility	Municipal Drainage Utility	Eliminations	Total
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 2,068,337	\$ 165,222	\$ -	\$ 2,233,559
Contributions and Solid Waste Management collections due to City of El Paso	3,808,386	-	-	3,808,386
Customer deposits	4,764,110	-	-	4,764,110
Accrued vacation payable	1,975,382	38,315	-	2,013,697
Due to Water and Wastewater Utility	-	275,884	(275,884)	-
Unearned revenue on land leases	292,704	-	-	292,704
Other current liabilities	347,082	-	-	347,082
Self insurance worker's compensation and health claims	630,518	-	-	630,518
Other governments payable - current	107,729	-	-	107,729
Current liabilities payable from restricted assets:				
Revenue bonds payable	22,031,000	-	-	22,031,000
Accrued interest on revenue bonds and commercial paper	11,154,338	1,203,924	-	12,358,262
Accounts payable	7,333,197	351,094	-	7,684,291
Land notes payable	661,552	-	-	661,552
Land notes interest payable	177,794	-	-	177,794
Deferred premiums net of losses on refunding bond issues	746,426	-	-	746,426
Customer advances for construction	81,150	-	-	81,150
Retainage payable on construction contracts	695,363	3,581	-	698,944
Total current liabilities	<u>56,875,068</u>	<u>2,038,020</u>	<u>(275,884)</u>	<u>58,637,204</u>
Noncurrent liabilities:				
Revenue bonds payable	482,940,000	55,163,000	-	538,103,000
Deferred premiums net of losses on refunding bond issues	11,801,769	-	-	11,801,769
Land notes payable	6,346,083	-	-	6,346,083
Other governments payable	3,114,591	-	-	3,114,591
Commercial paper notes	9,000,000	-	-	9,000,000
Other Post-Employment Benefits	3,559,411	-	-	3,559,411
Accrued vacation payable	301,770	42,804	-	344,574
Self insurance worker's compensation claims	515,171	-	-	515,171
Total noncurrent liabilities	<u>517,578,795</u>	<u>55,205,804</u>	<u>-</u>	<u>572,784,599</u>
Total liabilities	<u>574,453,863</u>	<u>57,243,824</u>	<u>(275,884)</u>	<u>631,421,803</u>
NET ASSETS				
Restricted:				
Restricted for debt service	52,087,056	1,102,944	-	53,190,000
Restricted for construction and improvements	8,489,955	6,604,228	-	15,094,183
Total restricted	<u>60,577,011</u>	<u>7,707,172</u>	<u>-</u>	<u>68,284,183</u>
Invested in capital assets, net of related debt	605,191,040	27,712,473	-	632,903,513
Unrestricted	16,791,410	3,240,365	-	20,031,775
Total net assets	<u>682,559,461</u>	<u>38,660,010</u>	<u>-</u>	<u>721,219,471</u>
Total liabilities and net assets	<u>\$ 1,257,013,324</u>	<u>\$ 95,903,834</u>	<u>\$ (275,884)</u>	<u>\$ 1,352,641,274</u>

The notes to the financial statements are an integral part of this statement.

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

ENTERPRISE FUNDS

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS**

For the Year Ended February 28, 2011

	Water & Wastewater Utility Fund	Municipal Drainage Utility Fund	Eliminations	Total
Operating revenues:				
Water	\$ 86,939,248	\$ -	\$ -	\$ 86,939,248
Water supply replacement charge	17,152,706	-	-	17,152,706
Reclaimed water	2,376,387	-	-	2,376,387
Wastewater	51,563,606	-	-	51,563,606
Drainage fees	-	14,852,037	(110,602)	14,741,435
Customer connection fees	4,958,237	-	-	4,958,237
Billing fees - City Solid Waste Management	581,176	249,075	-	830,251
Rent revenue	2,254,510	-	-	2,254,510
Other operating revenue	1,571,694	188,962	-	1,760,656
Total operating revenues	<u>167,397,564</u>	<u>15,290,074</u>	<u>(110,602)</u>	<u>182,577,036</u>
Operating expenses:				
Operations and maintenance - water & reclaimed water	39,390,294	-	(38,022)	39,352,272
Operations and maintenance - wastewater	21,568,553	-	(57,971)	21,510,582
General, administrative and engineering expenses	17,737,705	-	1,350,489	19,088,194
Operations and maintenance - drainage	-	5,341,479	(2,098)	5,339,381
Indirect cost allocation	-	1,363,000	(1,363,000)	-
Other operating expenses	1,843,985	-	-	1,843,985
Other Post-Employment Benefits expense	868,891	69,488	-	938,379
Depreciation and amortization	47,541,368	1,520,517	-	49,061,885
Payment to City of El Paso per bond covenants	9,930,669	-	-	9,930,669
Total operating expenses	<u>138,881,465</u>	<u>8,294,484</u>	<u>(110,602)</u>	<u>147,065,347</u>
Operating income	<u>28,516,099</u>	<u>6,995,590</u>	<u>-</u>	<u>35,511,689</u>
Nonoperating revenues (expenses):				
Interest earnings and net change in fair value of investments	597,158	217,392	-	814,550
IRS tax credit for Build America Bonds	137,878	997,990	-	1,135,868
Gain on land assets converted by sale	617,131	-	-	617,131
Gain on sale of miscellaneous assets	204,578	-	-	204,578
Interest on long term debt	(24,845,486)	(2,851,400)	-	(27,696,886)
Total nonoperating expenses	<u>(23,288,741)</u>	<u>(1,636,018)</u>	<u>-</u>	<u>(24,924,759)</u>
Income before contributions	<u>5,227,358</u>	<u>5,359,572</u>	<u>-</u>	<u>10,586,930</u>
Federal grant contributions	1,191,004	-	-	1,191,004
Capital contributions	17,169,370	508,814	-	17,678,184
Total contributions	<u>18,360,374</u>	<u>508,814</u>	<u>-</u>	<u>18,869,188</u>
Increase in net assets	23,587,732	5,868,386	-	29,456,118
Total net assets - beginning	682,559,461	38,660,010	-	721,219,471
Total net assets - ending	<u>\$ 706,147,193</u>	<u>\$ 44,528,396</u>	<u>\$ -</u>	<u>\$ 750,675,589</u>

The notes to the financial statements are an integral part of this statement.

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

ENTERPRISE FUNDS

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS

For the Year Ended February 28, 2010

	Water & Wastewater Utility Fund	Municipal Drainage Utility Fund	Eliminations	Total
Operating revenues:				
Water	\$ 81,834,683	\$ -	\$ -	\$ 81,834,683
Water supply replacement charge	16,876,029	-	-	16,876,029
Reclaimed water	2,376,661	-	-	2,376,661
Wastewater	51,567,727	-	-	51,567,727
Drainage fees	-	14,672,604	(117,077)	14,555,527
Customer connection fees	3,649,993	-	-	3,649,993
Billing fees - City Solid Waste Management	623,311	267,133	-	890,444
Rent revenue	2,196,050	-	-	2,196,050
Other operating revenue	1,530,850	189,404	-	1,720,254
Total operating revenues	<u>160,655,304</u>	<u>15,129,141</u>	<u>(117,077)</u>	<u>175,667,368</u>
Operating expenses:				
Operations and maintenance - water & reclaimed water	40,059,350	-	(32,939)	40,026,411
Operations and maintenance - wastewater	23,008,449	-	(60,861)	22,947,588
General, administrative and engineering expenses	18,992,978	-	1,371,119	20,364,097
Operations and maintenance - drainage	-	5,788,192	(2,296)	5,785,896
Indirect cost allocation	-	1,392,100	(1,392,100)	-
Other operating expenses	1,825,429	-	-	1,825,429
Other Post-Employment Benefits expense	898,501	-	-	898,501
Depreciation and amortization	46,442,835	1,652,514	-	48,095,349
Payment to City of El Paso per bond covenants	9,613,832	-	-	9,613,832
Total operating expenses	<u>140,841,374</u>	<u>8,832,806</u>	<u>(117,077)</u>	<u>149,557,103</u>
Operating income	<u>19,813,930</u>	<u>6,296,335</u>	<u>-</u>	<u>26,110,265</u>
Nonoperating revenues (expenses):				
Interest earnings and net change in fair value of investments	589,012	65,227	-	654,239
IRS tax credit for Build America Bonds	-	421,374	-	421,374
Gain on land assets converted by sale	3,733,469	-	-	3,733,469
Gain on sale of miscellaneous assets	86,812	-	-	86,812
Interest on long term debt	(23,772,720)	(1,203,924)	-	(24,976,644)
Total nonoperating expenses	<u>(19,363,427)</u>	<u>(717,323)</u>	<u>-</u>	<u>(20,080,750)</u>
Income before contributions	<u>450,503</u>	<u>5,579,012</u>	<u>-</u>	<u>6,029,515</u>
Federal grant contributions	-	446,945	-	446,945
Capital contributions	7,943,164	151,671	-	8,094,835
Total contributions	<u>7,943,164</u>	<u>598,616</u>	<u>-</u>	<u>8,541,780</u>
Increase in net assets	8,393,667	6,177,628	-	14,571,295
Total net assets - beginning	674,165,794	32,482,382	-	706,648,176
Total net assets - ending	<u>\$ 682,559,461</u>	<u>\$ 38,660,010</u>	<u>\$ -</u>	<u>\$ 721,219,471</u>

The notes to the financial statements are an integral part of this statement.

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

ENTERPRISE FUNDS

STATEMENT OF CASH FLOWS

For the Year Ended February 28, 2011

	Water & Wastewater Utility Fund	Municipal Drainage Utility Fund	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 166,966,871	\$ 15,489,266	\$ -	\$ 182,456,137
Cash received from Municipal Drainage Utility	1,571,369	-	(1,571,369)	-
Cash received from Water and Wastewater Utility	-	110,602	(110,602)	-
Solid Waste Management fees collected for the City of El Paso	44,402,400	-	-	44,402,400
Cash payments to suppliers for goods and services	(46,526,255)	(4,400,134)	-	(50,926,389)
Cash payments to employees for services	(33,378,032)	(709,234)	-	(34,087,266)
Solid Waste Management fees paid to the City of El Paso	(43,932,334)	-	-	(43,932,334)
Payments to City of El Paso per bond covenants	(9,726,321)	-	-	(9,726,321)
Cash payments to Municipal Drainage Utility	(110,602)	-	110,602	-
Cash payments to Water and Wastewater Utility	-	(1,571,369)	1,571,369	-
Net cash provided by operating activities	<u>79,267,096</u>	<u>8,919,131</u>	<u>-</u>	<u>88,186,227</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from:				
Revenue bonds	57,580,000	1,953,000	-	59,533,000
Premiums received on revenue bonds	4,010,151	-	-	4,010,151
Commercial paper	10,000,000	-	-	10,000,000
Cash receipts from grants	372,455	1,148,888	-	1,521,343
Acquisition and construction from capital grants	(1,260,403)	(402,195)	-	(1,662,598)
Acquisition and construction of capital assets net of disposals	(41,738,454)	(12,080,828)	-	(53,819,282)
Refunding revenue bonds	(42,800,000)	-	-	(42,800,000)
Principal payments on revenue bonds	(22,031,000)	-	-	(22,031,000)
Interest and fees on revenue bonds and commercial paper	(26,123,805)	(2,629,624)	-	(28,753,429)
IRS tax credit on Build America Bonds	137,878	997,990	-	1,135,868
Principal payments on land notes payable	(661,552)	-	-	(661,552)
Interest payments on notes and other long term debt	(380,341)	-	-	(380,341)
Proceeds from sale of assets net of related expenses	821,710	-	-	821,710
Net cash used by capital and related financing activities	<u>(62,073,361)</u>	<u>(11,012,769)</u>	<u>-</u>	<u>(73,086,130)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from the sale and maturities of				
investment securities	55,371,981	16,824,805	-	72,196,786
Purchase of investment securities	(66,080,553)	(22,479,303)	-	(88,559,856)
Interest received on investment securities	373,607	136,646	-	510,253
Net cash used by investing activities	<u>(10,334,965)</u>	<u>(5,517,852)</u>	<u>-</u>	<u>(15,852,817)</u>
Net increase (decrease) in cash and cash equivalents	6,858,770	(7,611,490)	-	(752,720)
Cash and cash equivalents:				
Beginning of year	99,531,934	41,537,299	-	141,069,233
End of year	<u>\$ 106,390,704</u>	<u>\$ 33,925,809</u>	<u>\$ -</u>	<u>\$ 140,316,513</u>

The notes to the financial statements are an integral part of this statement.

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

ENTERPRISE FUNDS

STATEMENT OF CASH FLOWS

For the Year Ended February 28, 2011

	Water & Wastewater Utility Fund	Municipal Drainage Utility Fund	Eliminations	Total
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 28,516,099	\$ 6,995,590	\$ -	\$ 35,511,689
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	47,108,267	1,497,840	-	48,606,107
Amortization	433,101	22,677	-	455,778
(Increase) decrease in assets:				
Accounts receivable	(651,280)	309,794	-	(341,486)
Due from Municipal Drainage Utility	206,271	-	(206,271)	-
Inventory	18,233	-	-	18,233
Prepaid expenses	18,010	-	-	18,010
Other current assets	41,844	-	-	41,844
Increase (decrease) in liabilities:				
Accounts payable	1,674,555	218,947	-	1,893,502
Other current liabilities	888,541	-	-	888,541
Due to Water and Wastewater Utility	-	(206,271)	206,271	-
Accrued vacation payable	244,568	11,066	-	255,634
Land earnest money deposit	(15,110)	-	-	(15,110)
Other Post-Employment Benefits	868,891	69,488	-	938,379
Self insurance claims	(84,894)	-	-	(84,894)
Net cash provided by operating activities	<u>\$ 79,267,096</u>	<u>\$ 8,919,131</u>	<u>\$ -</u>	<u>\$ 88,186,227</u>
Noncash investing, capital, and financing activities:				
Contribution in aid of construction	\$ 17,089,972	\$ 337,500	\$ -	\$ 17,427,472
Change in fair value of investments	(200,837)	(4,705)	-	(205,542)
	<u>\$ 16,889,135</u>	<u>\$ 332,795</u>	<u>\$ -</u>	<u>\$ 17,221,930</u>

The notes to the financial statements are an integral part of this statement.

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

ENTERPRISE FUNDS

STATEMENT OF CASH FLOWS

For the Year Ended February 28, 2010

	Water & Wastewater Utility Fund	Municipal Drainage Utility Fund	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 164,009,803	\$ 14,794,083	\$ -	\$ 178,803,886
Cash received from Municipal Drainage Utility	1,118,512	-	(1,118,512)	-
Cash received from Water and Wastewater Utility	-	285,523	(285,523)	-
Solid Waste Management fees collected for the City of El Paso	40,085,911	-	-	40,085,911
Cash payments to suppliers for goods and services	(56,352,456)	(5,919,977)	-	(62,272,433)
Cash payments to employees for services	(32,526,662)	(785,081)	-	(33,311,743)
Solid Waste Management fees paid to the City of El Paso	(39,848,361)	-	-	(39,848,361)
Payments to City of El Paso per bond covenants	(9,822,213)	-	-	(9,822,213)
Cash payments to Municipal Drainage Utility	(285,523)	-	285,523	-
Cash payments to Water and Wastewater Utility	-	(1,118,512)	1,118,512	-
Net cash provided by operating activities	<u>66,379,011</u>	<u>7,256,036</u>	<u>-</u>	<u>73,635,047</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from:				
Revenue bonds	22,115,000	53,050,000	-	75,165,000
Premiums received on revenue bonds	661,757	-	-	661,757
Commercial paper	10,000,000	-	-	10,000,000
Cash receipts from grants	98,862	-	-	98,862
Acquisition and construction from capital grants	(500,856)	(768,382)	-	(1,269,238)
Acquisition and construction of capital assets net of disposals	(29,687,898)	(3,268,670)	-	(32,956,568)
Refunding revenue bonds	(12,477,000)	-	-	(12,477,000)
Refunding commercial paper	(10,000,000)	-	-	(10,000,000)
Principal payments on revenue bonds	(23,940,000)	-	-	(23,940,000)
Interest and fees on revenue bonds and commercial paper	(24,035,443)	(439,179)	-	(24,474,622)
IRS tax credit on Build America Bonds	-	421,374	-	421,374
Principal payments on land notes payable	(630,458)	-	-	(630,458)
Interest payments on notes and other long term debt	(443,448)	-	-	(443,448)
Proceeds from sale of assets net of related expenses	3,820,281	-	-	3,820,281
Net cash provided (used) by capital and related financing activities	<u>(65,019,203)</u>	<u>48,995,143</u>	<u>-</u>	<u>(16,024,060)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from the sale and maturities of investment securities	73,700,795	-	-	73,700,795
Purchase of investment securities	(72,630,181)	(19,291,819)	-	(91,922,000)
Interest received on investment securities	500,860	42,561	-	543,421
Net cash provided (used) by investing activities	<u>1,571,474</u>	<u>(19,249,258)</u>	<u>-</u>	<u>(17,677,784)</u>
Net increase in cash and cash equivalents	2,931,282	37,001,921	-	39,933,203
Cash and cash equivalents:				
Beginning of year	96,600,652	4,535,378	-	101,136,030
End of year	<u>\$ 99,531,934</u>	<u>\$ 41,537,299</u>	<u>\$ -</u>	<u>\$ 141,069,233</u>

The notes to the financial statements are an integral part of this statement.

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

ENTERPRISE FUNDS

STATEMENT OF CASH FLOWS

For the Year Ended February 28, 2010

	Water & Wastewater Utility Fund	Municipal Drainage Utility Fund	Eliminations	Total
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 19,813,930	\$ 6,296,335	\$ -	\$ 26,110,265
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	45,760,368	1,644,195	-	47,404,563
Amortization	682,467	8,319	-	690,786
(Increase) decrease in assets:				
Accounts receivable	3,451,540	(217,981)	-	3,233,559
Due from Municipal Drainage Utility	(275,884)	-	275,884	-
Due from Water and Wastewater Utility	-	168,446	(168,446)	-
Inventory	607,988	-	-	607,988
Prepaid expenses	(149,123)	-	-	(149,123)
Other current assets	(25,125)	-	-	(25,125)
Increase (decrease) in liabilities:				
Accounts payable	(3,665,257)	(888,918)	-	(4,554,175)
Other current liabilities	(242,435)	-	-	(242,435)
Due to Municipal Drainage Utility	(168,446)	-	168,446	-
Due to Water and Wastewater Utility	-	275,884	(275,884)	-
Accrued vacation payable	64,070	4,880	-	68,950
Retainage payable on operating contracts	-	(35,124)	-	(35,124)
Land earnest money deposit	15,110	-	-	15,110
Other Post-Employment Benefits	898,501	-	-	898,501
Self insurance claims	(388,693)	-	-	(388,693)
Net cash provided by operating activities	<u>\$ 66,379,011</u>	<u>\$ 7,256,036</u>	<u>\$ -</u>	<u>\$ 73,635,047</u>
Noncash investing, capital, and financing activities:				
Contribution in aid of construction	\$ 7,428,243	\$ -	\$ -	\$ 7,428,243
Asset acquired through financing	3,300,000	-	-	3,300,000
Change in fair value of investments	(8,465)	2,915	-	(5,550)
	<u>\$ 10,719,778</u>	<u>\$ 2,915</u>	<u>\$ -</u>	<u>\$ 10,722,693</u>

The notes to the financial statements are an integral part of this statement.

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - El Paso City Ordinance No. 752, adopted May 22, 1952, established a five member board of trustees known as the "Public Service Board" (PSB) which was given the complete management and control of the city's Water and Wastewater Utility System, and as such a separate entity known as Public Service Board - El Paso Water Utilities (EPWU) was created. Ordinance No. 017167 adopted August 11, 2009 increased the number of board members from five to seven. The PSB consists of the Mayor of the City of El Paso and six residents of El Paso County, Texas. With the exception of the Mayor, all other trustees are appointed by the City Council and serve staggered four-year terms.

EPWU prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants; and it complies with the requirements of contracts and grants of agencies from which it receives funds. EPWU's basic financial statements include the accounts of all EPWU's operations. The criteria for including organizations within EPWU's reporting entity, as set forth in GASB No. 14, "The Financial Reporting Entity", is financial accountability. EPWU's Financial Accountability is defined as appointment of a voting majority of the component unit's board and either the ability to impose will by the primary government or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. There are no component units as defined in GASB No. 14 which are included in EPWU's reporting entity; however, it was determined that EPWU was a component unit of the City of El Paso based upon the selection of the governing authority.

The Enterprise Funds Balance Sheets and Statements of Revenues, Expenses, and Changes in Net Assets are the financial statements for EPWU as a whole. They report information on both of EPWU's funds after elimination of the interfund activities, payables and receivables. The two funds of EPWU are the Water and Wastewater Utility Fund and the Municipal Drainage Utility Fund.

Nature of Activities - EPWU provides water, wastewater, and drainage services for the El Paso area residents. In addition to the water, wastewater, and drainage system revenue, EPWU receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities.

During the year ended February 28, 2006, EPWU acquired a municipal golf course and has contracted a managing agent to operate the facility. The assets, liabilities, and results of operations are included in these financial statements as part of the Water and Wastewater Utility.

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO**

NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting - Public Service Board - El Paso Water Utilities is comprised of two funds, the Water and Wastewater Utility and the Municipal Drainage Utility. The funds are accounted for as enterprise funds, which are proprietary funds. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. All activities necessary to provide such services are accounted for in these funds, including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing and collection.

EPWU reports the following major enterprise funds:

- Water and Wastewater Utility - This fund is used to account for the activity related to providing water and wastewater services to El Paso area residents.
- Municipal Drainage Utility - This fund is used to account for the activity related to the management and collection of storm water runoff.

City Ordinance No. 752 established certain "funds" for the Water and Wastewater Utility Fund. These "funds" are mandatory asset segregation and not funds in the sense of governmental fiscal and accounting entities with self-balancing sets of accounts. These "funds" are more fully explained in Note 2.

Annual Budget - EPWU prepares, prior to the beginning of each fiscal year, separate detailed comprehensive annual budgets for the Water and Wastewater Utility and Municipal Drainage Utility reflecting estimates of revenues and expenses and other requirements for the ensuing fiscal year in sufficient detail to indicate the probable gross revenues and pledged revenues for such fiscal year. The budgets are prepared using the accrual basis of accounting.

Basis of Accounting - The financial statements are prepared using the accrual basis of accounting. Revenue is recognized as it is earned and expenses are recognized when goods or services are delivered.

EPWU has elected to apply all applicable Governmental Accounting Standards Board pronouncements as well as Financial Accounting Standards Board pronouncements and Accounting Principals Board Opinions, issued on or before November 30, 1989, unless those pronouncements conflict with, or contradict, Governmental Accounting Standards Board pronouncements.

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO**

NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of EPWU are charges to customers for sales and services. EPWU also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. In addition, EPWU acts as a billing and collecting agent on behalf of the City of El Paso for solid waste collection, and an administrative fee is recognized as operating revenue for this service. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets as well as payments to the City of El Paso in lieu of taxes which are based upon a percent of water sales. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is EPWU's policy to use restricted resources first, then unrestricted resources as they are needed.

Use of Estimates - Preparation of these financial statements in conformity with generally accepted accounting principles requires the use of management's estimates and assumptions that affect the reported amounts of 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.

Cash Flows Statement - For purposes of the statement of cash flows, EPWU considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments - All investments with an original maturity greater than one year from date of purchase are stated at fair value based on quoted market prices as of year end. Investments with an original maturity of less than one year are reported at amortized cost. Premiums and discounts on investments are amortized or accreted using the straight-line method, which approximates the interest method, over the terms of the related securities.

Realized gains or losses resulting from the sale of investments are determined by the specific cost of the securities sold.

Inventory - Materials and Supplies - EPWU reports inventories of supplies at the lower of cost (average cost) or market. Supplies are recorded as expenses when they are consumed.

Restricted Assets - Based upon certain bond covenants and other requirements, EPWU is required to establish and maintain prescribed amounts of resources (consisting of cash and temporary investments) that can be used only to service outstanding debt and other activities specifically restricted (construction, improvements and customer deposits).

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO**

NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets - Capital assets includes assets with an individual cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets in service are recorded at cost plus capitalized interest. Assets acquired through contributions, such as from land developers, are capitalized and recorded at estimated fair market value as of the date of donation. It is the policy of EPWU to capitalize infrastructure assets.

EPWU records depreciation of capital assets in service on the straight-line method at amounts estimated to amortize costs of assets over their estimated useful lives. At the time of retirement of capital assets, the allowance for depreciation is charged with the original cost of the asset and the cost of removal.

The following estimated useful lives are used in providing for depreciation of capital assets:

Building and shops	25 - 33 years
Vehicles and heavy equipment	5 years
Equipment and tools	3 - 33 years
Water plant	10 - 50 years
Wastewater plant	5 - 50 years
Water rights contract	75 years
Drainage system	50 - 100 years

Vacation and Sick Pay - Full time, permanent Public Service Board - El Paso Water Utilities employees earn vacation leave as follows:

<u>Years Employed</u>	<u>Vacation Leave</u>
1 - 5	12 days/year
6- 15	17 days/year
Over 15	20 days/year

Permanent EPWU employees who work 40 hours per week can accumulate a total of 400 vacation leave hours. As of February 28, 2011 and 2010, EPWU's total vacation leave liability was \$2,613,905 and \$2,358,271, respectively.

Vacation payable for the Water and Wastewater Utility is as follows:

	<u>2011</u>	<u>2010</u>
Total payable, beginning of year	\$ 2,277,152	\$ 2,213,082
Vacation earned	1,753,651	1,666,695
Vacation used	<u>(1,509,083)</u>	<u>(1,602,625)</u>
Total payable, end of year	<u>\$ 2,521,720</u>	<u>\$ 2,277,152</u>

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO**

NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Vacation payable for the Municipal Drainage Utility is as follows:

	2011	2010
Total payable, beginning of year	\$ 81,119	\$ 76,239
Vacation earned	62,043	46,209
Vacation used	(50,977)	(41,329)
Total payable, end of year	\$ 92,185	\$ 81,119

Sick leave is earned at a rate of 15 days per year for permanent, full time EPWU employees, with an unlimited accumulation of days. EPWU does not record any liability for sick pay as employees are not reimbursed upon termination.

Vacation is recorded as an expense and related liability in the year earned. Sick pay is recorded as an expense in the year incurred.

2. CITY ORDINANCE NO. 752

On May 22, 1952, City Ordinance No. 752 created the Public Service Board - El Paso Water Utilities for the purpose of providing water and wastewater services that are reported in the Water and Wastewater Utility Fund. This ordinance authorized the issuance of a series of Revenue Bonds entitled "City of El Paso, Texas, Water and Sewer Revenue Bonds Series 1952 (the Series 1952 Bonds)," and the City reserved the right and option in the 1952 resolution to issue, under certain conditions, additional bonds on a parity as to lien and right with the Series 1952 Bonds. This bond ordinance has been amended as a result of subsequent bond issues, but still contains the following key covenants.

Ordinance No. 752, as amended, requires that gross revenues of the System be applied in sequence to: (a) current expenses of maintenance and operations; (b) debt service and reserve requirements; (c) capital expenditures, or unexpected or extraordinary repairs or replacements, or for any other lawful purpose. The following funds have been established to account for the application of the gross revenues: (i) Water and Sewer Revenue Bonds Waterworks and Sewage Fund; (ii) Water and Sewer Revenue Bonds Interest and Sinking Fund; (iii) Water and Sewer Revenue Bonds Reserve Fund; and (iv) Water and Sewer Improvement Fund. All revenues of every nature received through operations of the System shall be paid into the Waterworks and Sewage Fund. The Bond Funds are required to contain an amount of money and investments equal to the principal and interest requirements during the fiscal year.

Ordinance No. 752 also requires that EPWU maintain rates sufficient to produce or yield revenues to produce in each fiscal year an amount adequate to pay all expenses incurred for the operations and maintenance of the System as such expenses shall accrue during the year and to produce an additional amount equal to 150% of the aggregate amount required to be paid in such year for principal and interest and redemption premiums on bonds payable from the Bond Funds.

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO**

NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

2. CITY ORDINANCE NO. 752 (Continued)

Ordinance No. 752 also provides that EPWU will permit no free water or services to be supplied to the City or to any other user. However, the ordinance requires that 10% of the total amounts received by EPWU from the sale of water be paid to the City Treasurer. The money so received by the City Treasurer may be expended by the City under the direction of the City Council for any purpose for which revenues of the System may legally be used under the laws of the State of Texas.

3. CITY ORDINANCE NO. 016668 ESTABLISHMENT OF A MUNICIPAL DRAINAGE UTILITY SYSTEM

On June 19, 2007, the City of El Paso adopted Ordinance #016668 establishing a Municipal Drainage Utility System. The ordinance states that the Public Service Board - El Paso Water Utilities shall have complete authority and control of the management and operation of the Municipal Drainage Utility on behalf of the City. The Municipal Drainage Utility is necessary and essential to ensure that the management and control of the storm water runoff adequately protects the health, safety, and welfare of the citizens of the City. EPWU assumed full responsibility and control of the Municipal Drainage Utility as of March 1, 2008. City personnel, equipment, and all assets of the Drainage System including infrastructure and land were transferred to EPWU. EPWU began billing drainage fees to fund the operating and capital expenses of the Municipal Drainage Utility as of March 1, 2008.

The Ordinance further states that the Board shall prepare a Master Stormwater Management Plan which shall be approved by the City Council. In developing the Stormwater Plan, the Board shall take into account the use of open space as natural drainage and to the extent reasonably possible preserve the City's open spaces, greenways, arroyos and wilderness areas in their natural state. The Board shall allocate an amount equal to 10% of the System's annual drainage utility fee revenues for Green Projects which have the potential dual purposes of stormwater management and preservation of the City's open spaces, greenways, arroyos and wilderness areas. Since March 1, 2008, \$4,689,794 has been set aside for the 10% for Green Projects and as of February 28, 2011, \$2,865,235 has been spent including the purchase of 202.658 acres for \$2,465,000 on March 31, 2010.

The Ordinance also requires that a drainage utility fee be imposed on each improved parcel within the City for services and facilities provided by the System, except as to exemptions provided for by law or by the ordinance. At least once a year beginning with the City's Fiscal Year ending August 31, 2009, the Board shall present to the City Council a report on the status of the system.

Ordinance #016668 also requires that the revenues collected from drainage utility fees must be segregated and completely identifiable from other City or Board accounts. The Board has adopted a debt service coverage ratio of 1.25 times for all Municipal Drainage Utility bonds which is included in the bond ordinances for such bonds.

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO**

NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

4. CASH, CASH EQUIVALENTS AND INVESTMENTS

The cash, cash equivalents, and investments of EPWU must be deposited and invested under the terms of a contract, contents of which are set out in the depository contract. EPWU accepts as collateral to secure its deposited funds, to the extent not insured by the Federal Deposit Insurance Corporation ("FDIC"), allowable pledged book-entry securities (Eligible Securities) of any type permitted by the provisions of the Public Funds Collateral Act, Title 10, Chapter 2257 of the Texas Government Code, which are eligible to be held in a Securities Account at a Federal Reserve Bank under Federal Reserve Bank Operating Circular 7. The depository bank places these allowable government securities as collateral for safekeeping and trust with EPWU's agent bank in an amount sufficient to protect EPWU deposits on a day-to-day basis during the period of the contract.

The carrying amount of cash for the Water and Wastewater Utility at February 28, 2011 and 2010, was \$2,541,620 and \$3,077,827, respectively, and the bank balances totaled \$2,589,518 and \$5,022,872, respectively. The carrying amount of cash for the Municipal Drainage Utility at February 28, 2011 and 2010 was \$(88,818) and \$62,020, respectively, and the bank balances totaled \$194,429 and \$125,335, respectively. The FDIC made changes to the standard maximum deposit insurance amount. The \$250,000 for interest bearing account is permanent. Effective January 1, 2011 through December 31, 2012, all funds in non-interest bearing accounts will be fully insured. As of February 28, 2011, \$250,000 of the bank balances were covered by FDIC and secured by government securities with a fair market value of \$6,922,477. As of February 28, 2010, \$250,000 of the bank balances were covered by FDIC and secured by government securities with a fair market value of \$5,647,886.

Cash, cash equivalents and investments for the Water and Wastewater Utility consists of the following at:

	February 28, 2011			
	Cash and Cash Equivalents			Investments
	Cash	Cash Equivalents	Total	
Unrestricted assets	\$ 2,269,664	\$ 13,913,817	\$ 16,183,481	\$ 3,000,424
Restricted assets				
Bond requirements	-	34,691,845	34,691,845	24,586,719
Construction and improvements	271,956	55,243,422	55,515,378	9,010,580
Total restricted assets	271,956	89,935,267	90,207,223	33,597,299
Total	\$ 2,541,620	\$103,849,084	\$ 106,390,704	\$ 36,597,723

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO**

NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

	February 28, 2010			
	Cash and Cash Equivalents			Investments
	Cash	Cash Equivalents	Total	
Unrestricted assets	\$ 3,043,974	\$ 9,084,459	\$ 12,128,433	\$ 2,000,000
Restricted assets				
Bond requirements	-	33,586,565	33,586,565	23,188,314
Construction and improvements	33,853	53,783,083	53,816,936	500,000
Total restricted assets	33,853	87,369,648	87,403,501	23,688,314
Total	\$ 3,077,827	\$ 96,454,107	\$ 99,531,934	\$ 25,688,314

Cash, cash equivalents and investments for the Municipal Drainage Utility consists of the following:

	February 28, 2011			
	Cash and Cash Equivalents			Investments
	Cash	Cash Equivalents	Total	
Unrestricted assets	\$ (102,133)	\$ 2,212,255	\$ 2,110,122	\$ -
Restricted assets				
Bond requirements	-	3,574,580	3,574,580	901,683
Construction and improvements	13,315	28,227,792	28,241,107	24,046,424
Total restricted assets	13,315	31,802,372	31,815,687	24,948,107
Total	\$ (88,818)	\$ 34,014,627	\$ 33,925,809	\$ 24,948,107

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

	February 28, 2010			
	Cash and Cash Equivalents			Investments
	Cash	Cash Equivalents	Total	
Unrestricted assets	\$ 9,521	\$ 2,563,248	\$ 2,572,769	\$ -
Restricted assets				
Bond requirements	-	1,626,261	1,626,261	249,747
Construction and improvements	52,499	37,285,770	37,338,269	19,039,157
Total restricted assets	52,499	38,912,031	38,964,530	19,288,904
Total	\$ 62,020	\$ 41,475,279	\$ 41,537,299	\$ 19,288,904

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires EPWU 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, (9) and bid solicitation preferences for certificates of deposit.

Texas statutes and ordinances of the City of El Paso authorize EPWU to expend funds for the operation of EPWU, including the purchase of investments. EPWU is permitted to invest available funds in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market mutual funds, (5) investment pools, (6) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States; obligations of states, agencies, counties, cities, and other political subdivisions of any state having a rating of not less than A or its equivalent, and (7) fully collateralized repurchase agreements having a defined termination date and secured by obligations of the United States or its agencies and instrumentalities.

The Act also requires EPWU to have independent auditors perform test procedures related to investment practices as provided by the Act. EPWU is in substantial compliance with the requirements of the Act and with local policies.

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**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

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4. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

EPWU participates in TEXPOOL, which is a government investment pool in the State of Texas. The State Comptroller of Public Accounts maintains oversight responsibility for TEXPOOL. This responsibility includes the ability to influence operations, designation of management and accountability for fiscal matters. Federated Investors manage the daily operations of the pool under a contract with the Comptroller. Although TEXPOOL is not registered with the SEC as investment companies, it operates in a manner consistent with the SEC's Rule 2(a)7 of the Investment Company Act of 1940. GASB Statement 31 allows 2(a)7-like pools to use amortized cost (which excludes unrealized gains and losses) rather than fair value to report net assets to compute share price. The fair value of EPWU's position in TEXPOOL is the same as the value of TEXPOOL shares.

EPWU also participates in TexSTAR which is an investment service created by local governments for local governments. TexSTAR was organized in conformity with the interlocal cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These acts provide for the creation of public funds investment pools such as TexSTAR and authorize eligible governmental entities to invest their public funds in investment pools.

State statutes permit EPWU to enter into certain repurchase agreements. That is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. All sales of investments under reverse repurchase agreements must be for fixed terms. In investing the proceeds of reverse repurchase agreements, the term to maturity of the investments is the same as the term of reverse repurchase agreement. During fiscal years 2011 and 2010, EPWU did not enter into any reverse repurchase agreements.

Credit Risk

Credit risk is the risk of loss due to failure of an issuer not fulfilling its obligations.

EPWU minimizes credit risk by limiting investments to the safest types of securities as authorized by its investment policy and described on page 42, and by pre-qualifying the financial institutions and broker/dealers with which EPWU will do business with.

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PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

The Water and Wastewater Utility investments at February 28, 2011 and 2010 are categorized as summarized below:

February 28, 2011						
Investment Type	Fair Value	Maturities		Weighted Avg. Maturity (days)	Credit Rating Standard & Poor's	Percent of Grand Total
		Less than 1 year	1-5 years			
Government Investment Pools and Safekeeping						
Account						
TexPool	\$ 34,085,695	\$ 34,085,695	\$ -	1	AAAm	24.27%
TexSTAR	12,011,032	12,011,032	-	1	AAAm	8.55%
Total Pools and Safekeeping	<u>46,096,727</u>	<u>46,096,727</u>	<u>-</u>			<u>32.82%</u>
Mutual Funds						
Fidelity Treasury Money Market Funds	34,691,845	34,691,845	-	1	AAAm	24.70%
Government Money Market Fund	23,060,512	23,060,512	-	1	AAAm	16.42%
Total Mutual Funds	<u>57,752,357</u>	<u>57,752,357</u>	<u>-</u>			<u>41.12%</u>
Securities						
Federal Agency Discounts						
Federal Home Loan Banks	3,070,117	3,070,117	-	27	AAA	2.19%
Federal National Mortgage Corp	4,245,889	4,245,889	-	23	AAA	3.02%
Federal Farm Credit Bank	121,885	121,885	-	1	AAA	0.09%
Federal Agency Coupons						
Federal Farm Credit Bank	7,125,694	2,975,129	4,150,565	109	AAA	5.07%
Federal Home Loan Bank	15,021,948	4,963,309	10,058,639	212	AAA	10.70%
Federal Home Loan Mortgage Corp	2,012,190	2,012,190	-	16	AAA	1.43%
Certificate of Deposit	5,000,000	3,000,000	2,000,000	53	AAA	3.56%
Total Securities	<u>36,597,723</u>	<u>20,388,519</u>	<u>16,209,204</u>			<u>26.06%</u>
Portfolio Total	<u>\$ 140,446,807</u>	<u>\$ 124,237,603</u>	<u>\$ 16,209,204</u>			<u>100.00%</u>

(Continued)

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

February 28, 2010						
Investment Type	Fair Value	Maturities		Weighted Avg. Maturity (days)	Credit Rating Standard & Poor's	Percent of Grand Total
		Less than 1 year	1-5 years			
Government Investment Pools and Safekeeping						
Account						
TexPool	\$ 34,135,795	\$ 34,135,795	\$ -	1	AAAm	27.95%
TexSTAR	5,813,956	5,813,956	-	1	AAAm	4.76%
Total Pools and Safekeeping	39,949,751	39,949,751	-			32.71%
Mutual Funds						
Fidelity Treasury Money Market Funds	33,586,566	33,586,566	-	1	AAAm	27.50%
Government Money Market Fund	22,917,790	22,917,790	-	1	AAAm	18.76%
Total Mutual Funds	56,504,356	56,504,356	-			46.26%
Securities						
Federal Agency Discounts						
Federal Home Loan Bank	12,388,360	4,144,045	8,244,316	513	AAA	10.14%
Federal National Mortgage Assn	5,711,626	5,711,626		88	AAA	4.68%
Federal Farm Credit Bank	980,640	-	980,640	687	AAA	0.80%
Federal National Mortgage Assn Callable	4,107,688	-	4,107,688	424	AAA	3.36%
Certificate of Deposit	2,500,000	2,500,000	-	22	AAA	2.05%
Total Securities	25,688,314	12,355,671	13,332,644			21.03%
Portfolio Total	\$ 122,142,421	\$ 108,809,778	\$ 13,332,644			100.00%

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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February 28, 2011 and 2010

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

The Municipal Drainage Utility investments at February 28, 2011 and 2010 are categorized as summarized below:

February 28, 2011						
Investment Type	Fair Value	Maturities		Weighted Avg. Maturity (days)	Credit Rating Standard & Poor's	Percent of Grand Total
		Less than 1 year	1-5 years			
Government Investment Pools and Safekeeping						
Account						
TexPool	\$ 19,404,073	\$ 19,404,073	\$ -	1	AAAm	32.91%
TexStar	11,035,974	11,035,974	-	1	AAAm	18.72%
Total Pools and Safekeeping	<u>30,440,047</u>	<u>30,440,047</u>	<u>-</u>			<u>51.63%</u>
Mutual Funds						
Advantage Fd #008	3,075,565	3,075,565	-	1	AAAm	5.22%
Government Money Market Fund	499,015	499,015	-	1	AAAm	0.85%
Total Mutual Funds	<u>3,574,580</u>	<u>3,574,580</u>	<u>-</u>			<u>6.07%</u>
Securities						
Federal Agency Discounts						
Federal Home Loan Banks	366,428	366,428	-	4	AAA	0.62%
Federal Farm Credit Bank	106,899	106,899	-	1	AAA	0.18%
Federal Agency Coupons						
Federal Farm Credit Bank	1,431,749	1,251,884	179,865	14	AAA	2.43%
Federal Home Loan Bank	4,009,812	4,009,812	-	54	AAA	6.80%
Federal Home Loan Mortgage Corp	1,006,095	1,006,095	-	12	AAA	1.70%
Certificate of Deposit	18,027,124	18,027,124	-	84	AAA	30.57%
Total Securities	<u>24,948,107</u>	<u>24,768,242</u>	<u>179,865</u>			<u>42.30%</u>
Portfolio Total	<u>\$ 58,962,734</u>	<u>\$ 58,782,869</u>	<u>\$ 179,865</u>			<u>100.00%</u>

(Continued)

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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

February 28, 2010						
Investment Type	Fair Value	Maturities		Weighted Avg. Maturity (days)	Credit Rating Standard & Poor's	Percent of Grand Total
		Less than 1 year	1-5 years			
Government Investment Pools and Safekeeping						
Account						
TexPool	\$ 22,836,088	\$ 22,836,088	\$ -	1	AAAm	37.59%
TexStar	17,012,930	17,012,930	-	1	AAAm	28.00%
Total Pools and Safekeeping	<u>39,849,018</u>	<u>39,849,018</u>	<u>-</u>			<u>65.59%</u>
Mutual Funds						
Advantage Fd #008	1,204,887	1,204,887	-	1	AAAm	1.98%
Government Money Market Fund	421,374	421,374	-	1	AAAm	0.69%
Total Mutual Funds	<u>1,626,261</u>	<u>1,626,261</u>	<u>-</u>			<u>2.67%</u>
Securities						
Federal Agency Coupons						
Federal Farm Credit Bank	8,283,107	7,009,608	1,273,497	371	AAA	13.63%
Certificate of Deposit	11,005,797	7,002,269	4,003,529	323	AAA	18.11%
Total Securities	<u>19,288,904</u>	<u>14,011,877</u>	<u>5,277,027</u>			<u>31.74%</u>
Portfolio Total	<u>\$ 60,764,183</u>	<u>\$ 55,487,156</u>	<u>\$ 5,277,027</u>			<u>100.00%</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

EPWU minimizes concentration of credit risk by diversifying the investment portfolio so that potential losses on individual securities will be minimized. In addition, they also invest in securities with varying maturities, and are continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs) and money market funds.

Diversification by investment type shall be established by the following maximum percentages of investment type to the total EPWU portfolio:

U.S. Government Securities	100%
State, Agencies, Counties, Cities, and other	50%
Certificates of Deposit	50%
Money Market Mutual Funds	80%
Eligible Investment Pools	100%

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, EPWU will not be able to recover deposits or collateral securities that are in the possession of an outside party. For investments, the custodial credit risk, is the risk that, in the event of the failure of the counterparty to a transaction, EPWU will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

EPWU minimizes depository custodial credit risk by depositing and investing under the terms of a contract, contents of which are set out in the depository contract. The depository bank places approved pledged securities for safekeeping and trust with EPWU's agent bank in an amount sufficient to protect EPWU funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

EPWU minimizes investment custodial credit risk by requiring that all collateral securities be held by a third party institution. EPWU requires full collateralization of all EPWU investments, other than investments which are obligations of the U.S. government and its agencies and instrumentalities, or by the Federal Reserve Bank, except the collateral for certificates of deposits in banks. The collateral for certificates of deposits in banks will be registered in EPWU's name in the bank's trust department or, alternatively, in a Federal Reserve Bank account in EPWU's name.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of investments.

EPWU minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. It is also minimized by investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. The operating funds portfolio should have a weighted average maturity less than 270 days with a maximum of two years.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

EPWU does not directly invest in foreign securities; however, the escrow accounts money market fund might invest a minimal amount of the fund's portfolio in foreign securities.

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**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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February 28, 2011 and 2010

5. RECEIVABLES

No reserve has been provided for doubtful accounts as EPWU charges directly to income those accounts determined to be uncollectible. The accounts written off for the Water and Wastewater Utility during the years ended February 28, 2011 and 2010, totaled \$638,431 and \$663,209, respectively. The write-off for the Municipal Drainage Utility for fiscal year ending February 28, 2011 and 2010, totaled \$71,628, and \$55,764, respectively. Management is of the opinion that any additional losses resulting from the collection of notes and accounts receivable will not be material.

The Public Service Board - El Paso Water Utilities uses the cycle method of billing customers for services. Under this method, customer billings are made by specified cycles established for the service area and each cycle billed on a specific day each month. For financial reporting purposes, billings made in March which relate to services provided for the month of February are included in customer accounts receivable as unbilled charges. These amounts are summarized as follows for the fiscal years included in the accompanying financial statements:

	2011	2010
Water and Wastewater Utility		
Water	\$ 2,165,006	\$ 1,939,216
Wastewater	1,917,138	1,961,306
Total unbilled accounts receivable	\$ 4,082,144	\$ 3,900,522

6. INTERFUND BALANCES AND CHARGES

Interfund Balances - The following interfund balances are the result of normal operations and are periodically cleared out. Management intends to pay these balances within one year.

	February 28, 2011	
	Due From Other Funds	Due to Other Funds
Water and Wastewater Utility	\$ 69,613	\$ -
Municipal Drainage Utility	-	69,613
Total	\$ 69,613	\$ 69,613

(Continued)

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

6. INTERFUND BALANCES AND CHARGES (Continued)

	February 28, 2010	
	Due From Other Funds	Due to Other Funds
Water and Wastewater Utility	\$ 275,884	\$ -
Municipal Drainage Utility	-	275,884
Total	\$ 275,884	\$ 275,884

Interfund Charges - The following eliminations were done in order to eliminate duplicate transactions at the overall entity level for revenue and expenses between the two funds.

	February 28, 2011	
	Water and Wastewater Utility	Municipal Drainage Utility
Drainage fee revenue	\$ -	\$ 110,602
Operations and maintenance - drainage	-	(2,098)
Operations and maintenance - water and reclaimed water	38,022	-
Operations and maintenance - wastewater	57,971	-
General, administrative and engineering	(1,350,489)	-
Indirect cost allocation	-	(1,363,000)
Total	\$ (1,254,496)	\$ (1,254,496)

	February 28, 2010	
	Water and Wastewater Utility	Municipal Drainage Utility
Drainage fee revenue	\$ -	\$ 117,077
Operations and maintenance - drainage	-	(2,296)
Operations and maintenance - water and reclaimed water	32,939	-
Operations and maintenance - wastewater	60,861	-
General, administrative and engineering	(1,371,119)	-
Indirect cost allocation	-	(1,392,100)
Total	\$ (1,277,319)	\$ (1,277,319)

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

6. INTERFUND BALANCES AND CHARGES (Continued)

Indirect Cost Allocation - The indirect cost allocation from the Water and Wastewater Utility to the Municipal Drainage Utility is to pay for indirect costs that the Water and Wastewater Utility incurs related to the general and administrative functions to manage the Municipal Drainage Utility. The Water and Wastewater Utility added forty six positions during fiscal year 2009 to assist and manage engineering, customer service, billing, information services, and accounting relating to Drainage. For fiscal year 2011 and 2010, the revised budgeted and actual indirect cost was \$1,363,000 and \$1,392,100, respectively. During the budget process the indirect cost allocation will be adjusted based on estimated indirect costs.

7. MUNICIPAL DRAINAGE UTILITY ARRA FUNDS RECEIVABLE

The Municipal Drainage Utility was awarded \$2,163,000 in funding from the Texas Development Board through the American Recovery and Reinvestment Act (ARRA) of 2009 in the form of Texas, Municipal Drainage Utility System Revenue Bonds, Series 2009A issued February, 5 2010. These funds were used for capital improvements at Featherlake II, Basin G, and RV Channel. The Municipal Drainage Utility received \$50,000 in installments during fiscal year ending February 28, 2010, and has received an additional \$1,953,000 for fiscal year ending February 28, 2011. For fiscal year 2011 and 2010 the ARRA funds receivable was \$160,000 and \$2,113,000, respectively.

	2011	2010
ARRA Funds Receivable, beginning of year	\$ 2,113,000	\$ 2,163,000
Total Installments received	(1,953,000)	(50,000)
ARRA Funds receivable, end of year	\$ 160,000	\$ 2,113,000

8. MUNICIPAL DRAINAGE UTILITY GOVERNMENT GRANTS RECEIVABLE

The Municipal Drainage Utility had \$21,689 and \$768,382 in government grants receivable for years ended February 28, 2011 and 2010. The Federal portion of the grants receivable totals \$0 and \$616,711 from FEMA for the years ended February 28, 2011 and 2010, respectively. The 2010 grant receivable was based on 75% of eligible expenses to restore damaged stormwater infrastructure resulting from Floods of 2006 to its pre-existing condition. A total of \$21,689 and \$151,671 of the government receivable for years ended February 28, 2011 and 2010 is for Stormwater Master planning for selected watersheds in El Paso County and will be reimbursed from Texas Water Development Board and the County of El Paso 50/50 for eligible expenses.

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PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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February 28, 2011 and 2010

9. CAPITAL ASSETS

Components of the capital assets for the Water and Wastewater Utility are summarized as follows:

	2010	Additions	Deletions/ Reclassifications	2011
Utility plant, not being depreciated:				
Land and right-of-way	\$ 6,169,109	\$ 530,153	\$ -	\$ 6,699,262
Land not in service	57,942,084	471,476	207,830	58,205,730
Construction work in progress	41,219,040	34,230,967	36,490,960	38,959,047
Total utility plant, not being depreciated:	<u>105,330,233</u>	<u>35,232,596</u>	<u>36,698,790</u>	<u>103,864,039</u>
Utility plant, and irrigation water rights being depreciated:				
Irrigation water rights contracts	8,676,289	224,100	-	8,900,389
Buildings and shops	13,861,012	251,007	-	14,112,019
Vehicles	13,480,664	804,145	42,173	14,242,636
Equipment and tools	30,438,618	1,356,141	399,836	31,394,923
Water system	913,917,825	26,930,313	1,655,251	939,192,887
Wastewater system	639,085,317	30,432,939	157,297	669,360,959
Total utility plant, being depreciated:	<u>1,619,459,725</u>	<u>59,998,645</u>	<u>2,254,557</u>	<u>1,677,203,813</u>
Less accumulated depreciation for:				
Irrigation water rights contracts	(521,022)	(116,885)	-	(637,907)
Buildings and shops	(6,326,823)	(632,577)	-	(6,959,400)
Vehicles	(11,880,551)	(824,361)	(42,173)	(12,662,739)
Equipment and tools	(28,164,540)	(823,860)	(399,836)	(28,588,564)
Water system	(299,947,986)	(26,568,465)	(1,655,251)	(324,861,200)
Wastewater system	(274,025,462)	(18,142,119)	(157,297)	(292,010,284)
Total accumulated depreciation	<u>(620,866,384)</u>	<u>(47,108,267)</u>	<u>(2,254,557)</u>	<u>(665,720,094)</u>
Total capital assets, being depreciated, net	<u>998,593,341</u>	<u>12,890,378</u>	<u>-</u>	<u>1,011,483,719</u>
Capital assets	<u>\$ 1,103,923,574</u>	<u>\$ 48,122,974</u>	<u>\$ 36,698,790</u>	<u>\$ 1,115,347,758</u>

Total depreciation charged to operations for the years ended February 28, 2011 and 2010 was \$47,108,267 and \$45,760,368, respectively.

(Continued)

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

9. CAPITAL ASSETS (Continued)

Components of the capital assets for the Municipal Drainage Utility are summarized as follows:

	2010	Additions	Deletions/ Reclassifications	2011
Drainage Work in Progress, not being depreciated:				
Land and right of way	\$ -	\$ 3,868,314	\$ -	\$ 3,868,314
Construction work in progress	4,644,963	13,542,567	5,318,388	12,869,142
Total drainage Work in Progress, not being depreciated:	4,644,963	17,410,881	5,318,388	16,737,456
Drainage System, being depreciated:				
Drainage implementation costs	544,106	-	-	544,106
Buildings and shops	50,796	47,124	-	97,920
Vehicles	3,824,542	73,840	-	3,898,382
Equipment and tools	863,472	160,213	2,070	1,021,615
Drainage system	23,418,734	1,576,079	-	24,994,813
Total Drainage system, being depreciated:	28,701,650	1,857,256	2,070	30,556,836
Less accumulated depreciation for:				
Drainage implementation costs	(148,146)	(108,821)	-	(256,967)
Buildings and shops	(3,048)	(2,974)	-	(6,022)
Vehicles	(1,641,240)	(632,166)	-	(2,273,406)
Equipment and tools	(386,701)	(265,708)	(2,070)	(650,339)
Drainage system	(943,004)	(488,171)	-	(1,431,175)
Total accumulated depreciation	(3,122,139)	(1,497,840)	(2,070)	(4,617,909)
Total capital assets, being depreciated, net	25,579,511	359,416	-	25,938,927
Capital assets	\$ 30,224,474	\$ 17,770,297	\$ 5,318,388	\$ 42,676,383

Total depreciation charged to operations for the year ended February 28, 2011 and 2010 was \$1,497,840 and \$1,644,195, respectively.

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

9. CAPITAL ASSETS (Continued)

Land not in service is essentially unimproved land that EPWU has purchased for its surface and ground water rights. EPWU owns a total of 102,112.51 acres of land which includes 27,962.18 acres in El Paso County, 73,281.88 acres in Hudspeth, Presidio, Jeff Davis, and Culberson County, and 868.45 acres in New Mexico.

Included in capital assets of the Water and Wastewater Utility are assets for the Desalination Plant and related activities and the TechH2O Center which are owned and operated by EPWU and are located on Fort Bliss land for which EPWU has a long term land lease. These assets are currently being depreciated over the economic life.

Water and Wastewater Utility construction work in progress at February 28, 2011 and 2010, composed of the following:

	February 28, 2011	
	Estimated Cost	Cost Incurred To Date
<u>Water Projects</u>		
Paisano Waterline Replacement Project - Construction	\$ 14,820,000	\$ 53,916
Tierra Del Este Water Transmission Mains	4,720,919	2,708,143
Eastside Planned Service Area Extension of Water Lines at Paseo Del Este	3,515,566	-
Mesa Street 24" Water Line Replacement - Construction	2,250,000	-
Eastside Planned Service Area Reservation	1,032,278	-
Well Rehabilitation Operations	1,024,802	387,406
South Desert 16" Water Distribution Main - Construction	1,000,000	-
Other Water Projects Under \$1,000,000	19,324,635	5,365,497
Subtotal - Water Projects	47,688,200	8,514,962
<u>Wastewater Projects</u>		
Fred Hervey 3 rd Train Addition - Construction	16,796,000	15,451,704
Eastside Interceptor Phase 5 - Construction	14,478,300	-
Boone Street Interceptor Relief Line - Construction	12,300,000	4,467,461
Mesa Drain Interceptor Phase 2 - Construction	5,997,221	-
Doniphan 24 Collector Rehabilitation Reach 3 - Construction	4,598,150	-
Love Road Sewer Line Replacement - Construction	2,000,000	-
Robert Bustamante Wastewater Treatment Plant Digester Gas	1,899,580	207,750
Haskell Street Wastewater Treatment Plan Digester Gas	1,849,580	101,796
Mowad Interceptor Line - Construction	1,752,918	1,192,470
Grouse Street Force Main Phase 2 - Construction	1,736,588	1,212,163
Eastside Interceptor Phase 5 - Engineering	1,650,264	-
Fred Hervey Plant Digester Gas	1,499,340	63,742
Other Sanitary Sewer Interceptors at Tierra Del Este Area 8 - Construction	1,162,388	-
Other Wastewater Projects Under \$1,000,000	14,946,356	4,730,083
Subtotal-Wastewater Projects	82,666,685	27,427,169

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

9. CAPITAL ASSETS (Continued)

	February 28, 2011	
	Estimated Cost	Cost Incurred To Date
<u>Reclaimed Water Projects</u>		
Haskell North Central Reclaim Water System	12,040,712	2,714,094
Northwest Reclaimed Water Facilities Phase I D - Construction	2,542,000	-
Other Reclaimed Waster Projects Under \$1,000,000	769,759	302,822
Subtotal - Reclaimed Water Projects	15,352,471	3,016,916
Totals	\$ 145,707,356	\$ 38,959,047
	February 28, 2010	
	Estimated Cost	Cost Incurred To Date
<u>Water Projects</u>		
Tierra Del Este Water Transmission Mains	\$ 8,665,567	\$ 3,837,932
Yarborough-Montana to Montwood Water Main	3,146,700	286,878
Eastside Annexed Area/Montana North Reservoir and Water Dist. Lines	2,185,824	1,896,739
Artercraft #2 Pump Station - Construction	1,925,500	1,768,843
Vinton Road Distribution Main and Storage Reservoir	1,814,645	-
Mesa Street 24" Water Line Replacement - Construction	1,200,000	-
Paisano Waterline Replacement Project - Engineering	1,145,471	115,604
Central Business District Phase III	1,012,940	828,146
Other Water Projects Under \$1,000,000	17,381,993	4,033,211
Subtotal - Water Projects	38,478,640	12,767,353
<u>Wastewater Projects</u>		
Fred Hervey 3 rd Train Addition - Construction	16,796,000	7,894,951
Eastside Interceptor Phase 4B - Construction	15,863,648	2,855,242
Boone Street Interceptor Relief Line - Construction	12,300,000	3,588
Mesa Drain Phase 1C, 1D and Lower Valley Relief Interceptors - Construction	10,422,000	295
Mesa Drain Interceptor Phase II - Construction	6,799,964	-
Sanitary Sewer Interceptor Tierra Del Este Development	6,162,388	4,581,038
Eastside Interceptor Phase 4A, #3 - Construction	4,283,836	4,345,661
Doniphan 24 Collector Rehabilitation Reach 3 - Construction	4,098,150	-
Fred Hervey Process Contract Improvements	3,998,827	3,174,564
2007 In-House Improvements	2,493,287	-
Grouse Street Force Main Phase II - Construction	1,736,588	6,528
Eastside Interceptor Phase 4B - Engineering	1,409,612	996,386

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**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

9. CAPITAL ASSETS (Continued)

	February 28, 2010	
	Estimated Cost	Cost Incurred To Date
Northeast Interceptor System Northeast Master Plan - Engineering	1,300,000	339,401
Miscellaneous Plant Emergency and Small Upgrades	1,145,371	1,163,434
Other Wastewater Projects Under \$1,000,000	11,112,869	3,064,464
Subtotal-Wastewater Projects	99,922,540	28,425,552
<u>Reclaimed Water Projects</u>		
Haskell Wastewater Treatment Plant North Central Reclaim Water System Facilities - Phase I	8,441,144	26,135
Northwest Reclaimed Water Facilities Phase I D - Construction	2,542,000	-
Other Reclaimed Waster Projects Under \$1,000,000	866,705	-
Subtotal - Reclaimed Water Projects	11,849,849	26,135
Totals	\$ 150,251,029	\$ 41,219,040

Municipal Drainage Utility construction work in progress as of February 28, 2011 and 2010 composed of the following:

	February 28, 2011	
	Estimated Cost	Cost Incurred To Date
<u>Drainage Projects</u>		
Cebada - Piedras/Magnolia - Force Main - Construction	\$ 13,850,000	\$ 952,195
Cebada - Piedras/Magnolia - Pump Station - Construction	7,520,000	-
Doniphan Ditch Improvements - Construction	6,950,000	-
Basin G Excavation System Improvements - Construction	5,672,000	1,840,569
Northeast Channel 2 Improvements - Construction	4,657,385	-
Cebada Outfall Conduit Clearance - Construction	4,640,000	93,560
Featherlake II Basin - Construction	3,585,000	1,046,392
Mesa Drain Improvements - Construction	3,500,000	12,044
Lee Trevino Conveyance Improvements - Phase I - Construction	2,600,000	1,463,066
Lee Trevino System Basin - Construction	1,900,000	-
RV Channel Improvements - Construction	1,645,000	847,844
Lee Trevino System Basin - Engineering	1,500,000	1,144,341
Electric Ditch Improvements - Construction	1,119,450	1,093,696
Copia Street Pond and Discharge Conduit - Construction	1,050,000	-
Other Drainage Projects Under \$1,000,000	8,044,406	4,375,435
	\$ 68,233,241	\$ 12,869,142

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**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

9. CAPITAL ASSETS (Continued)

	February 28, 2010	
	Estimated Cost	Cost Incurred To Date
<u>Drainage Projects</u>		
Cebada - Piedras/Magnolia - Force Main - Construction	\$ 13,700,000	\$ 526,603
Cebada - Piedras/Magnolia - Pump Station - Construction	7,520,000	-
Doniphan Ditch Improvements - Construction	6,950,000	-
Basin G Excavation System Improvements - Construction	5,672,000	-
Northeast Channel 2 Improvements - Construction	5,578,000	-
Cebada Outfall Conduit Clearance - Construction	4,640,000	-
Mesa Drain Improvements - Construction	4,200,000	-
Featherlake II Basin - Construction	3,585,000	53,600
Storm Open Space and Park Pond Projects	3,137,316	21,370
Lee Trevino Conveyance Improvements - Phase I - Construction	2,600,000	-
Storm Ponds and Dams Rehabilitation Construction	2,546,000	-
Government Hills System Improvements - Construction	2,450,000	1,273
Lee Trevino System Basin - Construction	1,900,000	-
RV Channel Improvements - Construction	1,645,000	19,370
Copia Street Pond and Discharge Conduit - Construction	1,050,000	-
Various Localized Flooding - Construction	1,000,000	546,396
Other Drainage Projects Under \$1,000,000	6,851,500	3,476,351
	\$ 75,024,816	\$ 4,644,963

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PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

10. LONG-TERM LIABILITIES

Long-term activity for the Water and Wastewater Utility for the year ended February 28, 2011 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Long-term Portion
Water and Wastewater Utility:						
Water and Sewer Revenue Bonds	\$ 504,971,000	\$ 57,580,000	\$ 64,831,000	\$ 497,720,000	\$ 23,715,000	\$ 474,005,000
Deferred premium net of loss on refunding bond issues	12,548,195	4,010,151	834,659	15,723,687	1,020,784	14,702,903
Land notes payable	7,007,635	-	661,552	6,346,083	694,186	5,651,897
Commercial Paper payable	9,000,000	10,000,000	-	19,000,000	-	19,000,000
Other governments payable	3,222,320	-	107,728	3,114,592	112,678	3,001,914
Other Post Employment Benefits	3,559,411	868,891	-	4,428,302	-	4,428,302
Self insurance claims	1,145,689	4,320,768	4,405,662	1,060,795	314,844	745,951
Accrued vacation	2,277,152	1,753,651	1,509,083	2,521,720	1,539,115	982,605
Total Long-term liabilities						
Water and Wastewater Utility	<u>\$ 543,731,402</u>	<u>\$ 78,533,461</u>	<u>\$ 72,349,684</u>	<u>\$ 549,915,179</u>	<u>\$ 27,396,607</u>	<u>\$ 522,518,572</u>

Long-term activity for the Municipal Drainage Utility for the year ended February 28, 2011 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Long-term Portion
Municipal Drainage Utility:						
Drainage Revenue Bonds	\$ 55,163,000	\$ -	\$ -	\$ 55,163,000	\$ 1,645,000	\$ 53,518,000
Accrued vacation	81,119	62,043	50,977	92,185	42,194	49,991
Other Post Employment Benefits	-	69,488	-	69,488	-	69,488
Total Long-term liabilities						
Municipal Drainage Utility	<u>\$ 55,244,119</u>	<u>\$ 131,531</u>	<u>\$ 50,977</u>	<u>\$ 55,324,673</u>	<u>\$ 1,687,194</u>	<u>\$ 53,637,479</u>

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PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

11. REVENUE BONDS

Water and Wastewater Utility

Water and Sewer Revenue Bonds payable for the Water and Wastewater Utility Fund, in the amount of \$497,720,000 and \$504,971,000, as of February 28, 2011 and 2010, respectively, are equally and ratably secured by and payable from an irrevocable first lien on and pledge of the net revenue of the Water and Wastewater Utility Fund which is presented in Note 15. The pledge of net revenue is in effect until the bonds are extinguished. The Revenue Bonds payable as of February 28, 2011 and 2010 include the following individual issues:

	Amounts Outstanding 2/28/10	Issued	Retired/ Refunded	Amounts Outstanding 2/28/11	Due Within One Year
\$8,000,000 1990B Series due in annual installments of \$1,600,000 beginning in 2013, with interest at 0%. Final payment due in 2017.	\$ 8,000,000	\$ -	\$ -	\$ 8,000,000	\$ -
\$211,000 1999A Series due in annual installments of \$7,000 to \$17,000 with interest due at 5.24% to 5.89%. Refunded \$127,000 with the 2010 bonds. Final payment paid March 1, 2010.	11,000	-	11,000	-	-
\$106,000 1999B Series due in annual installments of \$3,000 to \$9,000 with interest due at 5.24% to 5.89%. Refunded \$65,000 with the 2010 bonds. Final payment paid March 1, 2010.	5,000	-	5,000	-	-
\$15,480,000 1999C Series due in annual installments of \$495,000 to \$1,280,000 with interest due at 4.9% to 5.35%. Final payment paid March 1, 2010.	770,000	-	770,000	-	-
\$15,190,000 1999D Series due in annual installments of \$320,000 to \$730,000 with interest due at 3.65% to 4.7%. Refunded \$9,625,000 with the 2010 bonds. Final payment paid March 1, 2010.	705,000	-	705,000	-	-
\$13,210,000 2000 Series due in annual installments of \$375,000 to \$1,050,000 with interest due at 4.88% to 5.75%. Refunded \$1,950,000 with the 2010 bonds. Final payment paid March 1, 2010.	585,000	-	585,000	-	-

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**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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February 28, 2011 and 2010

11. REVENUE BONDS (Continued)

	Amounts Outstanding 2/28/10	Issued	Retired/ Refunded	Amounts Outstanding 2/28/11	Due Within One Year
\$16,265,000 2001 Series due in annual installments of \$740,000 to \$770,000 with interest due at 3.8% to 3.9%. Refunded \$9,695,000 with the 2010A Bonds. Final payment due in 2012.	11,920,000	-	10,410,000	1,510,000	740,000
\$88,780,000 2001A Series due in annual installments of \$160,000 to \$3,055,000 with interest due at 5.25% to 6%. Refunded \$33,105,000 with the 2010A Bonds. Final payment due in 2027.	45,780,000	-	35,840,000	9,940,000	2,890,000
\$7,520,000 2002 Series due in annual installments of \$350,000 to \$490,000 with interest due at 2.6% to 3.35%. Final payment due 2022.	5,310,000	-	340,000	4,970,000	350,000
\$89,745,000 2003 Series due in annual installments of \$2,155,000 to \$5,600,000 with interest due at 4% to 5.25%. Final payment due 2028.	67,120,000	-	5,305,000	61,815,000	5,600,000
\$1,000,000 2003A Series due in annual installments of \$50,000 with interest at 0%. Final payment due 2024.	750,000	-	50,000	700,000	50,000
\$10,000,000 2003B Series due in annual installments of \$5,000 to \$1,405,000 with interest due at 2.84% to 4.19%. Final payment due 2024.	9,980,000	-	5,000	9,975,000	5,000
\$36,070,000 2004 Series due in annual installments of \$1,135,000 to \$2,955,000 with interest due at 5%. Final payment due 2024.	31,690,000	-	1,070,000	30,620,000	1,135,000
\$14,360,000 2004A Series due in annual installments of \$545,000 to \$1,110,000 with interest due at 5% to 5.25%. Final payment due in 2025.	12,420,000	-	525,000	11,895,000	545,000
\$45,660,000 2005A Series due in annual installments of \$400,000 to \$4,035,000 with interest due at 4.5% to 5%. Final payment due in 2031.	44,605,000	-	385,000	44,220,000	400,000

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**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

11. REVENUE BONDS (Continued)

	Amounts Outstanding 2/28/10	Issued	Retired/ Refunded	Amounts Outstanding 2/28/11	Due Within One Year
\$36,515,000 2005B Series due in annual installments of \$930,000 to \$6,625,000 with interest due at 4% to 5.25%. Final payment due in 2021.	36,515,000	-	-	36,515,000	930,000
\$10,000,000 2005C Series due in annual installments of \$415,000 to \$675,000 with interest due at 2.6% to 3.8%. Final payment due in 2026.	8,840,000	-	405,000	8,435,000	415,000
\$37,745,000 2006 Series due in annual installments of \$750,000 to \$2,810,000 with interest due at 2.6% to 5%. Final payment due in 2030.	27,280,000	-	3,160,000	24,120,000	2,810,000
\$45,200,000 2006A Series due in annual installments of \$1,290,000 to \$3,690,000 with interest due at 4% to 5%. Final payment due in 2026.	38,840,000	-	2,630,000	36,210,000	2,760,000
\$35,500,000 2007 Series due in annual installments of \$1,510,000 to \$3,120,000 with interest due at 4% to 5%. Final payment due 2027.	35,500,000	-	-	35,500,000	-
\$30,520,000 2008 Series due in annual installments of \$430,000 to \$3,855,000 with interest due at 3.5% to 5%. Final payment due 2033.	25,230,000	-	2,620,000	22,610,000	3,855,000
\$14,000,000 2008A Series due in annual installments of \$5,000 to \$1,175,000 with interest due at 1.8% to 3.95%. Final payment due 2029.	14,000,000	-	5,000	13,995,000	5,000
\$22,000,000 2008B Series due in annual installments of \$5,000 to \$1,850,000 with interest due at 1.8% to 3.95%. Final payment due 2029.	22,000,000	-	5,000	21,995,000	5,000
\$35,000,000 2008C Series due in annual installments of \$1,470,000 to \$3,120,000 with interest due at 2.38% to 5.50%. Final payment due 2029.	35,000,000	-	-	35,000,000	-

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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

11. REVENUE BONDS (Continued)

	Amounts Outstanding 2/28/10	Issued	Retired/ Refunded	Amounts Outstanding 2/28/11	Due Within One Year
\$22,115,000 2010 Series due in annual installments of \$555,000 to \$2,120,000 with interest due at 2.00% to 4.50%. Final payment due 2030.	22,115,000	-	-	22,115,000	1,220,000
\$15,000,000 2010 Taxable Series due in annual installments of \$540,000 to \$1,205,000 with interest due at 4.75%. Final payment due in 2030.	-	15,000,000	-	15,000,000	-
\$42,580,000 2010A Series due in annual installments of \$935,000 to \$5,855,000 with interest due at 3% to 5%. Final payment due in 2027.	-	42,580,000	-	42,580,000	-
Total bonds outstanding	504,971,000	<u>\$ 57,580,000</u>	<u>\$ 64,831,000</u>	497,720,000	<u>\$ 23,715,000</u>
Less current maturities	<u>22,031,000</u>			<u>23,715,000</u>	
Total long term liabilities				<u>\$ 474,005,000</u>	

Interest costs incurred on revenue bonds totaled \$25,332,484 in 2011 of which \$554,750 was capitalized and \$22,906,923 in 2010 of which \$77,103 was capitalized.

Water and Wastewater Utility Fund Annual Revenue Bond Debt Service Requirements

Year Ending February	Principal	Interest	Total
2012	\$ 23,715,000	\$ 21,369,529	\$ 45,084,529
2013	22,935,000	20,642,130	43,577,130
2014	23,595,000	19,714,939	43,309,939
2015	24,050,000	18,758,965	42,808,965
2016	26,635,000	17,680,508	44,315,508
2017 - 2021	142,415,000	70,091,594	212,506,594
2022 - 2026	138,275,000	37,949,148	176,224,148
2027 - 2031	89,300,000	9,933,266	99,233,266
2032 - 2034	6,800,000	302,913	7,102,913
	<u>\$ 497,720,000</u>	<u>\$ 216,442,992</u>	<u>\$ 714,162,992</u>

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PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

11. REVENUE BONDS (Continued)

On April 1, 2005, the Public Service Board - El Paso Water Utilities issued \$36,515,000 in Water and Sewer Revenue Refunding Bonds, Series 2005B with an average interest rate of 5.22% to advance refund \$19,750,000 of 2001A Water and Sewer Revenue Refunding and Improvement Bonds with an average interest rate of 6.04%, 9,265,000 of 1999C Water and Sewer Revenue Refunding Bonds with an average interest rate of 5.69%, and \$7,005,000 of outstanding 2000 Water and Sewer Revenue Refunding Bonds with an average interest rate of 5.40%. The liability associated with these bonds was removed from the revenue bonds payable. As of February 28, 2011 and 2010, \$19,750,000 and \$36,020,000 of these defeased bonds remained outstanding, with related escrow balances as of February 28, 2011 and 2010 of \$20,241,509 and \$36,937,150, respectively. The 2005B advance refunding resulted in a net loss of \$3,452,756 which will be amortized over a total of sixteen years. The 2005B advance refunding resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$1,316,391.

On March 1, 2006, the Homestead Municipal Utility District (MUD) was dissolved and the Public Service Board - El Paso Water Utilities assumed the liabilities of Homestead MUD. The 1995 Homestead MUD Revenue Bonds with an average interest rate of 6.61% and the 1995A Homestead MUD Revenue Bonds with an average interest rate of 5.25% were assumed by the Public Service Board - El Paso Water Utilities. During the year ending February 28, 2010, these bonds were refunded by the 2010 bond issue. There were no amounts outstanding as of February 28, 2010.

On February 19, 2010, the Public Service Board - El Paso Water Utilities issued \$22,115,000 in Water and Sewer Revenue Refunding Bonds, Series 2010 with an average interest rate of 3.92% to refund \$10,000,000 of Water and Sewer Commercial Paper Notes with an average interest rate of .25% and to advance refund the following outstanding bonds:

Series	Amount	Average Coupon	Refunding Date
1995 Homestead Bonds	\$ 555,000	6.75%	2/24/10
1995A Homestead Bonds	155,000	5.25%	2/24/10
1999A	127,000	5.84%	2/24/10
1999B	65,000	5.84%	2/24/10
1999D	9,625,000	4.60%	3/1/10
2000	1,950,000	5.04%	3/1/10

The liability associated with the Commercial Paper Notes and bonds were removed from the related payables. As of February 28, 2011, no bonds remained outstanding, and as of February 28, 2010 \$11,575,000 of bonds remained outstanding with an estimated related escrow balance of \$11,811,211. The 2010 refunding resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$1,012,972.

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PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

11. REVENUE BONDS (Continued)

On August 12, 2010, the Public Service Board - El Paso Water Utilities issued \$15,000,000 in Water and Sewer Revenue Bonds, Taxable Series 2010 (Direct-Subsidy - Build America Bonds) with an average interest rate of 3.09%. The NADBank bond funds will be used for the construction of the Paisano (Racetrack to Sunset) water line replacement project.

On November 2, 2010, the Public Service Board - El Paso Water Utilities issued \$42,580,000 in Water and Sewer Revenue Refunding Bonds, Series 2010A with an average interest rate of 4.43% to advance refund the following outstanding bonds:

Series	Amount	Average Coupon
2001	\$ 9,695,000	4.40%
2001A	33,105,000	5.29%

The liabilities associated with these bonds were removed from the related payables. As of February 28, 2011, \$42,580,000 of bonds remained outstanding with an estimated related escrow balance of \$45,941,476. The 2010A refunding resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$3,257,169.

Municipal Drainage Utility

Municipal Drainage Revenue Bonds payable for the Municipal Drainage Utility Fund in the amount of \$55,163,000 as of February 28, 2011 and 2010 are equally and ratably secured by and payable from an irrevocable first lien on and pledge of the net revenue of the Municipal Drainage Utility Fund which is presented in Note 15. The pledge of net revenue is in effect until the bonds are extinguished. The Revenue Bonds payable as of February 28, 2011 include the following individual issues:

	Amounts Outstanding 2/28/10	Issued	Retired/ Refunded	Amounts Outstanding 2/28/11	Due Within One Year
\$53,000,000 2009 Series due in annual installments of \$1,645,000 to \$4,335,000 with interest due at 5.38%. Final payment due 2029.	\$ 53,000,000	-	-	\$ 53,000,000	\$ 1,645,000
\$2,163,000 2009A Series due in annual installments of \$107,000 to \$110,000 with interest at 0%. Final payment due 2032.	2,163,000	-	-	2,163,000	-
Total bonds outstanding	\$ 55,163,000	-	-	\$ 55,163,000	\$ 1,645,000

Interest costs incurred on revenue bonds totaled \$2,851,400 in 2011 of which none was capitalized, and \$1,203,924 in 2010 of which none was capitalized.

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

11. REVENUE BONDS (Continued)

Municipal Drainage Utility Fund Annual Revenue Bond Debt Service Requirements

Year Ending February	Principal	Interest	Total
2012	\$ 1,645,000	\$ 1,824,648	\$ 3,469,648
2013	1,740,000	1,765,461	3,505,461
2014	1,945,000	1,702,952	3,647,952
2015	2,044,000	1,637,033	3,681,033
2016	2,149,000	1,567,530	3,716,530
2017 - 2021	12,575,000	6,652,516	19,227,516
2022 - 2026	16,286,000	4,238,452	20,524,452
2027 - 2031	16,565,000	1,158,732	17,723,732
2032 - 2033	214,000	-	214,000
	<u>\$ 55,163,000</u>	<u>\$ 20,547,324</u>	<u>\$ 75,710,324</u>

On September 29, 2009, the Public Service Board - El Paso Water Utilities issued \$53,000,000 in Municipal Drainage Utility System Revenue Bonds, Series 2009 (Department of the Treasury Direct-Subsidy Build America Bonds) with an average interest rate of 5.38% to finance drainage projects and improvements throughout the City of El Paso.

On February 4, 2010, the Public Service Board - El Paso Water Utilities issued \$2,163,000 in Municipal Drainage Utility System Revenue Bonds, Series 2009A (TWDB Clear Water State Revolving Fund with American Recovery and Reinvestment Act funding) with a zero average interest rate to finance drainage projects and improvements throughout the City of El Paso.

12. LAND NOTES PAYABLE

During the fiscal year ending February 29, 2004, EPWU purchased two parcels of land totaling 8,865.15 acres that were financed through note instruments. The first note was for a total of \$401,692 with an interest rate of 3.95% for a period of ten years and payments of \$49,402 due in March of each year. The second note was for a total of \$9,971,186 with an interest rate of 5% for the first year and adjusted by the change in rate of a 10 year U.S. Treasury Bill on September 1st of each year thereafter. This note is for a period of 15 years with payments due in September in the amount of \$960,648. The \$9,971,186 purchase also included a lease back of the property for a period of 15 years and an annual lease payment of \$400,000. The following is a list of the principal and interest payments due for these notes payable:

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

12. LAND NOTES PAYABLE (Continued)

Year Ending February	Principal	Interest	Total
2012	\$ 694,186	\$ 315,863	\$ 1,010,049
2013	728,434	281,616	1,010,050
2014	764,375	245,674	1,010,049
2015	752,694	207,954	960,648
2016	790,328	170,320	960,648
2017 - 2019	2,616,066	265,859	2,881,925
	<u>\$ 6,346,083</u>	<u>\$ 1,487,286</u>	<u>\$ 7,833,369</u>

13. COMMERCIAL PAPER

In October 1997, EPWU through the City of El Paso approved a Commercial Paper Program in the amount of \$50,000,000. The purpose of the Commercial Paper Program is to provide funds for the interim financing of a portion of the costs of capital improvements to the system.

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.

EPWU through the City of El Paso and JP Morgan Chase Bank (the "Bank") entered into a new revolving credit agreement (the "Credit Agreement") in February 2009 pursuant to which the Bank is obligated under the Credit Agreement to loan to the City amounts not to exceed \$40,000,000 for the purpose of paying amounts due on the Commercial Paper Program. On February 1, 2011, the parties amended (the "Credit Agreement") to extend the Final Date to February 22, 2013. Any borrowing under the Credit Agreement is equally and ratably secured by and payable from the above-described sources pledged for payment of the Commercial Paper Program and from a pledge of the Net Revenues of the Water and Wastewater Utility, such pledge being subordinate to the pledge of Net Revenues securing all Senior Lien Obligations. Management intends to continue the remarketing of the tax exempt commercial paper notes as it intends to maintain a portion of its debt in variable rates.

Since the commercial paper represents activity that is the result of EPWU's long term financing plan, the amounts outstanding are presented as long term. The "paper" can be sold in \$100,000 increments and matures from one to 270 days. As of February 28, 2010 there was \$9,000,000 outstanding and as of February 28, 2011 the following amounts were outstanding:

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

13. COMMERCIAL PAPER (Continued)

	2011	Maturity Date	Coupon Rate
\$	11,000,000	04-04-2011	0.33%
	3,000,000	06-06-2011	0.30%
	<u>5,000,000</u>	07-08-2011	0.32%
<u>\$</u>	<u>19,000,000</u>		

14. OTHER GOVERNMENT PAYABLES

During the fiscal year ending February 28, 2010, EPWU entered into a wholesale contract with Fort Bliss to provide water services for a 20 year period effective June 1, 2009. EPWU is to pay Fort Bliss \$20,877 monthly including interest of 4.5% over 20 years for the engineering, environmental analysis, and test holes to evaluate the geology of the proposed injection well site in connection with the Kay Bailey Hutchison Desalination Plant. The following is a list of the principal and interest payments due to Fort Bliss as of February 28, 2011:

Year Ending February	Principal	Interest	Total
2012	\$ 112,678	\$ 137,851	\$ 250,529
2013	117,854	132,675	250,529
2014	123,268	127,261	250,529
2015	128,931	121,598	250,529
2016	134,854	115,675	250,529
2017 - 2021	773,091	479,555	1,252,646
2022 - 2026	967,752	284,894	1,252,646
2027 - 2030	756,164	58,056	814,220
	<u>\$ 3,114,592</u>	<u>\$ 1,457,565</u>	<u>\$ 4,572,157</u>

15. DEBT SERVICE COVERAGE

Water and Wastewater Utility

The bond ordinances require the EPWU Water and Wastewater Utility Fund to maintain revenues in each fiscal year, after deductions for maintenance and operation expenses, in an amount equal to at least 1.5 times the debt service requirements in such year. The computations of this ratio are summarized below for the years ended February 28, 2011 and 2010.

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**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

15. DEBT SERVICE COVERAGE (Continued)

	2011	2010
Revenues available for debt service	\$ 82,838,404	\$ 73,794,929
Debt service requirements		
Principal	22,031,000	23,940,000
Interest	22,498,378	22,781,323
Total requirements	44,529,378	46,721,323
Debt service ratio	1.86	1.58

Revenues available for debt service are determined as follows:

	2011	2010
Water and wastewater revenue	\$ 158,031,947	\$ 152,655,100
Operating revenue deductions	78,696,552	82,060,777
Net water and wastewater revenue	79,335,395	70,594,323
Other revenues available for debt service:		
Interest income	597,158	589,012
IRS Tax Credit Build America Bonds	137,878	-
Property rentals	2,254,510	2,196,050
Administration fees - City Solid Waste Management	581,176	623,311
Other miscellaneous operating revenue	1,571,694	1,530,850
Gain on sale of miscellaneous assets	204,578	86,812
Other miscellaneous operating expenses	(1,843,985)	(1,825,429)
Net other revenues available for debt service	3,503,009	3,200,606
Revenues available for debt service	\$ 82,838,404	\$ 73,794,929

Municipal Drainage Utility

The bond ordinances require the EPWU Municipal Drainage Utility Fund to maintain revenues in each fiscal year, after deductions for maintenance and operation expenses, in an amount equal to at least 1.25 times the debt service requirements in such year. The computations of this ratio are summarized below for the years ended February 28, 2011 and 2010.

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**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

15. DEBT SERVICE COVERAGE (Continued)

	2011	2010
Revenues available for debt service	\$ 9,800,977	\$ 8,435,451
Debt service requirements		
Principal	-	-
Interest	2,629,624	-
Total requirements	2,629,624	-
Debt service ratio	3.73	N/A

Revenues available for debt service are determined as follows:

	2011	2010
Municipal drainage utility revenue	\$ 14,852,037	\$ 14,672,604
Operating revenue deductions	6,704,479	7,180,291
Net municipal drainage utility revenue	8,147,558	7,492,313
Other revenues available for debt service:		
Interest income	217,392	65,227
IRS Tax Credit Build American Bonds	997,990	421,374
Other miscellaneous operating revenue	438,037	456,537
Other revenues available for debt service	1,653,419	943,138
Revenues available for debt service	\$ 9,800,977	\$ 8,435,451

There were no principal and interest payments required during fiscal year ending February 28, 2010. The first payment was due March 1, 2010.

16. RISK MANAGEMENT

EPWU 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. Additionally, the Water and Wastewater Utility and the Municipal Drainage Utility, through the City of El Paso, maintain insurance policies acquired from independent insurance carriers covering all material structural property.

EPWU, in conjunction with the City of El Paso, provides health benefits, life insurance, and worker's compensation benefits under a self-insurance plan.

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

16. RISK MANAGEMENT (Continued)

The City maintains a group health insurance plan for active and retired employees and their eligible dependents through a self-insured plan of benefits administered by Aetna. Reinsurance coverage limits the annual liability. Contributions to the fund are provided by both EPWU and participating employees. The group life insurance plan is provided by a commercial carrier. Costs are recorded in the fund from which the employees' compensation is paid.

Beginning August 1, 2008, Claims Administrative Services administered the worker's compensation self insurance program. A separate bank account is used to pay all claims for worker's compensation, and EPWU accrues estimated future liabilities for worker's compensation claims filed as of the end of the year. Management feels that the contributions made during the year for worker's compensation will offset any claims paid during the year.

For the years ended February 28, 2011, 2010 and 2009 the amount of settlements did not exceed insurance coverage and there was no significant reductions in the coverage from the prior year. The estimate for unpaid worker's compensation claims, is the discounted future payments, as actuarially determined, of case reserves plus claims incurred but not reported as of the actuarial report date of February 28, 2010. Accrued liabilities for these self insurance programs are summarized below for the years ended February 28, 2011, 2010 and 2009:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Health Insurance	\$ 192,150	\$ 277,044	\$ 557,555
Worker's Compensation	<u>868,645</u>	<u>868,645</u>	<u>976,827</u>
Total payable	<u>1,060,795</u>	<u>1,145,689</u>	<u>1,534,382</u>
Less current portion	<u>314,844</u>	<u>630,518</u>	<u>821,626</u>
Estimated Long-term portion	<u>\$ 745,951</u>	<u>\$ 515,171</u>	<u>\$ 712,756</u>

Changes in accrued liabilities for self insurance programs were as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total payable, beginning of year	\$ 1,145,689	\$ 1,534,382	\$ 1,259,250
Additional claims incurred	4,320,768	4,057,333	4,211,574
Claims paid during the year	<u>(4,405,662)</u>	<u>(4,446,026)</u>	<u>(3,936,442)</u>
Total payable, end of year	<u>\$ 1,060,795</u>	<u>\$ 1,145,689</u>	<u>\$ 1,534,382</u>

(Continued)

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

17. PENSION AND RETIREMENT PLAN

General - The Public Service Board - El Paso Water Utilities contributes to the City Employees' Pension Fund (CEPF) which is a single-employer defined benefit pension plan. It is the responsibility of the CEPF to function as an investment and administrative agent for the City of El Paso and EPWU with respect to the pension plan. Stand-alone financial statements may be obtained from the City Employees' Pension Fund administrative office at City of El Paso, Two Civic Center Plaza, El Paso, Texas 79901.

Basis of Accounting - The accounting policies for the CEPF have been established to conform to generally accepted accounting principles for state and local governments as promulgated by authoritative pronouncements issued by the Governmental Accounting Standards Board. The CEPF is accounted for on an economic resources measurement focus using the accrual basis of accounting.

The preparation of financial statements in conformity with generally accepted accounting principles requires the CEPF's management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and the reported changes in net assets during the reporting period. Actual results may differ from those estimates.

Method Used to Value Investments - Investments are stated at fair value. The fair value of marketable investments, including U.S. government securities and corporate bonds and stocks, is determined by the latest bid price or by the closing exchange price at balance sheet dates (fair value). The fair value of investments in bank collective investment, commingled and real estate investment funds are determined by the investment funds based on the market values of the underlying securities in the funds. In general, the fair value of the underlying securities held in the real estate investment funds are based upon property appraisal reports prepared by independent real estate appraisers (members of the Appraisal Institute or an equivalent organization) within a reasonable amount of time following acquisition of the real estate and no less frequently than annually thereafter. Bank collective investment funds are governed by Section 9.18 of Regulation 9 issued by the Office of Comptroller of the Currency and by other applicable regulations as defined by the Mellon Bank, N.A. Employee Benefit Collective Investment Fund Plan.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Concentration of Investments - The following table presents the fair value of investments that represent 5% or more of the CEPF's net assets available for benefits at August 31, 2010. These investments are in bank collective investment funds which consist of diversified portfolios of investments.

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**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

17. PENSION AND RETIREMENT PLAN (Continued)

	Shares	Fair Value
EB MCM Aggregate Bond Index Fund Mellon Capital Management Corporation	156,454	\$ 64,805,660
AIG Global Emerging Market Equity Fund AST Capital Trust Company	4,499,214	36,488,627
Winslow Large Growth Fund Wilmington Trust Company	3,175,092	32,703,453
EB Daily Valued Treasury Mellon Capital Management Corporation	199,438	29,836,655
EB MCM Daily Valued Large Capital Index Fund Mellon Capital Management Corporation	37,598	27,925,042
Shenkman Capital Convertible Bonds Shenkman Capital Management, Inc.	26,825,290	26,584,290

Plan Description - The CEPF covers substantially all full-time employees of the City (including EPWU). Certain contract and permanent part-time employees have the option to participate, but they must sign an irrevocable election regarding membership in the plan. Non-employer contributions are limited to participating employees. The designated purpose of the CEPF is to provide retirement, death, and disability benefits to participants or their beneficiaries.

The CEPF is administered by the CEPF Board which is comprised of two citizens designated by the Mayor who are not officers or employees of the City, four elected City employees, a retiree, and two district representatives. The CEPF Board contracts with an independent pension custodian, investment managers, a pension consultant, and an actuary to assist in managing the CEPF.

Participation is mandatory for classified employees (except permanent part-time employees). For non-classified employees, participation is mandatory for employees hired after July 1997. Classified employees include all persons who are permanent, full-time employees and are not otherwise excluded from the CEPF.

Participants who leave the plan before completion of five years of service receive a refund of their contributions. Participants leaving the plan with more than five years of service may receive a refund of their contributions plus interest at 5.5%, compounded annually, provided they are not eligible for normal retirement. Participants become vested after reaching 40 years of age and ten years of service. Normal retirement is the earlier of (i) fifty-five years of age with ten years of service, or (ii) thirty years of service regardless of age. Participants who have both completed ten years of service and attained age forty may retire but defer receiving pension payments until they reach normal retirement age. Alternatively, such vested participants may elect an early retirement which will provide an actuarially reduced pension benefit payment upon termination.

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**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

17. PENSION AND RETIREMENT PLAN (Continued)

Persons retiring and eligible to receive benefits receive monthly pension payments in the amount of 2.5% of final wages defined as the greatest of (i) 2.5% of the average monthly gross earnings received by the employee during the three years immediately prior to retirement, (ii) 2.5% of the average monthly base salary received by the employee during the year immediately prior to retirement, or (iii) 2.5% of the monthly base salary for the month immediately prior to retirement, multiplied by the number of completed years of service, plus .2083 of 1% of such average for each additional completed or fractional part of a month of service. A reduced pension benefit is available to surviving spouses and dependents. The plan includes no automatic increase in retirement benefits; however, the Board, at its discretion after consideration of a recent actuarial review of the funding status, may provide ad hoc cost of living or other increases in retirement benefits.

Membership in the above described pension plan is as follows as of August 31, 2010:

Retirees and beneficiaries receiving benefits	2,193
Terminated plan members entitled to but not yet receiving benefits	86
Active plan members	4,172
Total	6,451

Contributions - Contribution rates for the CEPF are based upon local statutes and are not actuarially determined. However, each time a new actuarial valuation is performed, contribution requirements are compared to the actuarially determined amount necessary to fund service costs and amortize the unfunded actuarial accrued liability (using entry-age-normal cost method) over 30 years. As of the most recent actuarial valuation, the contribution rate was 19.4% of annual covered payroll.

EPWU's gross payroll for the years ended February 28, 2011, 2010, and 2009 were \$29,529,694, \$29,067,130, and \$27,927,053, respectively. The portion attributable to eligible employees covered by the pension plan for the years ended February 28, 2011, 2010, and 2009 were \$29,312,297, \$28,746,984, and \$27,479,818, respectively. Covered payroll refers to all compensation paid by EPWU to active employees covered by the City PERS on which contributions to the pension are based.

Total contributions into the plan represent 19.4% of wages paid to eligible employees of which 11.65% was contributed by EPWU and 7.75% was contributed by the employees on a pre-tax basis. Total contributions for the years ended February 28, 2011, 2010, and 2009 were \$5,686,586, \$5,576,915, and \$5,331,085, respectively. EPWU contributed a total of \$3,414,881, \$3,348,800, and \$3,201,262, and employees contributed \$2,271,705, \$2,228,114, and \$2,129,823, for the years ended February 28, 2011, 2010, and 2009, respectively.

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**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

17. PENSION AND RETIREMENT PLAN (Continued)

Securities Lending - The CEPF entered into securities lending transactions with broker/dealers for which fees are paid to the CEPF. The CEPF Board may legally and contractually authorize the use of CEPF's securities for lending transactions. Parameters are established by the CEPF's investment guidelines for securities lending transactions. These guidelines require that all securities lending occur with specified broker/dealers and that securities be collateralized using U.S. issuer securities at 102% and non U.S. issuer securities at 105% of the fair value of the securities. U.S. issuer securities used as collateral are marked to market on a daily basis to ensure that the collateralization requirements of the fair value of investments is always maintained. The CEPF may not pledge or sell the collateral securities except on default of the borrower. Because of this, CEPF administration believes there is minimal credit risk associated with securities lending transactions. There is no loss indemnification provided to the CEPF by the investment managers or broker/dealers. As of August 31, 2010, the fair value of securities loaned to others, consisted of:

Corporate Stocks \$ 52,893,772

Annual Pension Cost and Net Pension Obligation - The annual pension cost and net pension obligation to CEPF for the year ended August 31, 2010 was determined as part of the September 1, 2010 actuarial valuation using the entry-age-normal cost method. Since the annual cost and obligation of the pension plan are the responsibility of the City of El Paso, these amounts are recorded in its financial statements. EPWU is a participant of the plan and contributes to the plan but does not have any liability associated with the pension plan.

Year	Annual Required Contribution (ARC)	Interest on NPO	Adjustment to ARC	Annual Pension Cost	Contributions Made	Increase (Decrease) in NPO	Net Pension Obligation
8/31/2010	16,973,946	34,577	(37,616)	16,970,907	16,973,946	(3,039)	429,175
8/31/2009	17,157,420	41,910	(45,594)	17,153,736	17,245,402	(91,666)	432,214
8/31/2008	16,236,240	62,004	(43,987)	16,254,257	16,505,427	(251,170)	523,880

The percentage of Annual Pension Cost Contributed for the above three years is 100%, 100.5%, and 101.5%, respectively.

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**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

17. PENSION AND RETIREMENT PLAN (Continued)

Schedule of Funding Progress:

Actuarial valuation date	(1) Actuarial value of assets (dollars in thousands)	(2) Actuarial accrued liability (AAL) entry age (dollars in thousands)	(3) Unfunded AAL (UAAL) (2) - (1) (dollars in thousands)	(4) Funded ratio (1) : (2)	(5) Annual Covered payroll (dollars in thousands)	(6) UAAL as a percentage of annual covered payroll (3) : (5)
9-1-2010	569,723	709,997	140,274	80.2%	143,107	98.0%
9-1-2008	552,815	631,591	78,776	87.5%	136,508	57.7%
9-1-2006	471,232	568,602	97,370	82.9%	123,982	78.5%

The information presented in the schedule of funding progress was determined as part of actuarial valuations at the date indicated. Additional information as of the latest actuarial valuation follows:

Actuarial Valuation Date	September 1, 2010
Actuarial Cost Method	Entry age Normal Cost
Method Used to Value Assets	Five-year smoothed market
Assumed Inflation Rate	4.00%
Assumed Investment Return	8.00%
Assumed Projected Salary Increases	4.5% - 7.75%
Assumed Postretirement Benefit Increases	None
Amortization Method	Level percent open
Remaining Amortization Period	30 years
Factors that significantly affect the identification of trends in the amounts reported in required schedules:	None

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. Actuarially determined amounts are subject to revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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 the employer 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.

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**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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February 28, 2011 and 2010

18. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

The City (including the Public Service Board - El Paso Water Utilities) sponsors and administers an informal single-employer defined benefit healthcare plan. Texas statute provides that retirees from a municipality with a population of 25,000 or more and that receive retirement benefits from a municipal retirement plan are entitled to purchase continued health benefits coverage for the retiree and the retiree's dependents unless the retiree is eligible for group health benefits coverage through another employer. The State of Texas has the authority to establish and amend the requirements of this statute. The City does not issue stand alone financial statements of the healthcare plan but all required information is presented in this report.

The Plan provides certain health care benefits for retired employees, their spouses, and dependents. Substantially all of EPWU's employees may become eligible for those benefits if they reach normal retirement age while working for EPWU. Retiree coverage is the same as the coverage provided to active City employees. The contribution requirements of plan members are established by City ordinance and may be amended as needed. Retirees pay premiums ranging from \$167 per month to \$1,214 per month depending on the coverage elected. The cost of retiree health care benefits is recognized as an expense as liabilities are incurred. Of 2,082 retirees eligible (including the City and EPWU), there were 923 retirees covered under this plan at August 31, 2010 and 2009. Dependent coverage was provided for 413 of the retirees, respectively. Total benefits (including the City and EPWU) paid for retirees during the year ended August 31, 2010 and 2009 was approximately \$5,473,011 and \$5,473,011, respectively.

Funding Policy

Permanent EPWU employees and retirees have the same benefits as offered by the City of El Paso. The plan premium rates are determined annually by the City's OMB Department in collaboration with an outside benefits consulting firm and are approved by the El Paso City's Council. The City's adopted budget policy maintains that retirees must pay 45% of the cost of premiums. Retirees are responsible for the full cost of coverage for their dependents who participant in the plan. The City employs a pay-as-you-go method and adjusts the rates annually as needed. EPWU self funds its benefits plan that is offered to its employees and retirees.

(Continued)

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

18. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Annual OPEB costs and Net OPEB Obligation

EPWU's annual other post-employment benefit (OPEB) cost for the plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of 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 not to exceed thirty years. The following table shows the components of the annual OPEB cost for the year ended February 28, 2011, the amount actually contributed to the plan, and changes in the net OPEB obligation.

	Water and Wastewater Utility	Municipal Drainage Utility
Annual Required Contribution	\$ 1,201,279	\$ 21,528
Interest on Net OPEB Obligation	157,979	2,194
Adjustment to Annual Required Contribution	(215,510)	(2,993)
Annual OPEB Cost	1,143,748	20,729
Less Contributions Made	(226,098)	-
Adjustment to Net OPEB Obligation	(48,759)	48,759
Increase in Net OPEB Obligation	868,891	69,488
Net OPEB Obligation - Beginning of year	3,559,411	-
Net OPEB Obligation - End of year	<u>\$ 4,428,302</u>	<u>\$ 69,488</u>

The Waster and Wastewater Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Employer Contributions	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 1,143,748	\$ 226,098	19.77%	\$ 4,428,302
2010	1,189,082	290,581	24.44%	3,559,411
2009	1,211,482	-	0.00%	2,660,910

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

18. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

The Municipal Drainage Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Employer Contributions	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 20,729	\$ -	0.00%	\$ 69,488

Management feels that the contributions made during the year to other post employment benefits will offset any claims paid during the year. Therefore, the entire liability is estimated to be long term and recorded as such.

Funded Status and Funding Progress

As of March 1, 2010, the most recent actuarial valuation date, the plan was not funded as shown in the table below:

	Water and Wastewater Utility	Municipal Drainage Utility
Actuarial Accrued Liability (AAL)	\$ 11,973,164	\$ 161,368
Actuarial Value of Plan Assets	-	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 11,973,164</u>	<u>\$ 161,368</u>
Funded ratio (actuarial value of plan assets/AAL)	0%	0%
Covered payroll	\$ 28,099,784	\$ 1,415,325
Unfunded actuarial accrued liability as a percentage of covered payroll	42.61%	11.40%

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. 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 to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

18. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan understood by the employer and 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 the employer and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant method and assumptions used for this fiscal year valuation were as follows:

Actuarial Valuation Date	March 1, 2010
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level dollar, open
Remaining Amortization Period	30 years
Asset Valuation Method	Market Value

Actuarial Assumptions:

Investment Rate of Return	4.5%
Projected Salary Increases	N/A
Healthcare Inflation Rate	10% initial 5% ultimate

19. DEFERRED COMPENSATION

The EPWU through the City of El Paso offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457.

The plan, available to all EPWU employees, permits them to defer a portion of their salaries until future years. EPWU does not make any contributions to the plan. The deferred compensation is not available to employees until termination, retirement, or unforeseeable emergency. Deferred compensation is available to employees' beneficiaries in case of death. The investments are managed by an outside administrator and investment options are made by participants.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are solely the property and rights of the participants.

In management's opinion, EPWU has no liability for losses under the Plan. However, the City of El Paso and EPWU does have the duty of due care that would be required of an ordinary, prudent fiduciary.

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

20. LEASING ARRANGEMENTS WITH EPWU AS LESSOR

EPWU leases real properties under various long-term lease agreements under the operating method of accounting for leases. Minimum future rentals to be received on non-cancelable leases as of February 28, 2011, for each of the next five years and in the aggregate are:

Water and Wastewater Utility

<u>Year ended February</u>	<u>Amount</u>
2012	\$ 1,920,813
2013	1,754,756
2014	1,677,501
2015	1,644,012
2016	1,577,720
2017 - 2021	6,426,113
2022 - 2026	4,758,947
2027 - 2031	2,168,726
2032 - 2036	1,046,243
2037	<u>8,080</u>
Total minimum future rentals	<u><u>\$ 22,982,911</u></u>

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

21. LEASING ARRANGEMENTS WITH EPWU AS LESSEE

EPWU leases buildings, land, computer equipment, and copiers for the Water and Wastewater Utility and the Municipal Drainage Utility under various long-term lease agreements which are recognized using the operating method of accounting for leases. Minimum future payments as of February 28, 2011 are as follows:

Water and Wastewater Utility

<u>Year ended February</u>	<u>Amount</u>
2012	\$ 1,015,875
2013	653,257
2014	639,827
2015	599,712
2016	477,160
2017 - 2021	2,048,258
2022 - 2026	2,047,500
2027 - 2031	2,047,500
2032 - 2036	2,047,500
2037 - 2041	2,047,500
2042 - 2046	2,047,500
2047 - 2051	2,047,500
2052 - 2056	2,047,500
2057 - 2059	921,375
	<u>\$ 20,687,964</u>

Rental expense for the years ended February 28, 2011 and 2010 was \$1,112,169 and \$1,117,696, respectively.

Municipal Drainage Utility:

<u>Year ended February</u>	<u>Amount</u>
2012	\$ 18,051
2013	3,882
2014	3,882
2015	3,882
2016	3,882
	<u>\$ 33,579</u>

Rental expense for the years ended February 28, 2011 and 2010 was \$91,780 and \$86,521, respectively.

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**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

22. WHOLESALE WATER SUPPLY AND WASTEWATER TREATMENT CONTRACTS

EPWU has entered into various wholesale water supply and wastewater treatment contracts to supply water and provide wastewater treatment to several Municipal Utility Districts and other entities who provide retail service to their customers. The contracts vary in length from 5 years to 20 years with renewal options available with the consent of both parties. The wholesale rates are updated annually based on cost of service including specific cost credits or offsets to specific entities due to grant proceeds related to specific water and wastewater service areas.

The following is a summary of wholesale water and wastewater rates to each entity served by EPWU:

Name of Entity	Water Rate	Wastewater Rate
Lower Valley Water District	\$0.87 per ccf	\$0.79 per ccf
County - East Montana	\$1.00 per ccf	N/A
Haciendas Del Norte MUD	\$1.37 per ccf	N/A
Ponderosa/Western Village	\$1.61 per ccf	N/A
Gaslight MHE	\$1.68 per ccf	\$1.41 per ccf
Paseo del Este MUD	\$1.79 per ccf	\$1.70 per ccf
(includes fixed base differential rate of \$.26 for water and \$.33 for wastewater)		
Fort Bliss	\$0.73 per ccf	\$1.27 per ccf

Transactions with these entities are summarized below:

	<u>2011</u>	<u>2010</u>
Water Sales	<u>\$ 3,364,894</u>	<u>\$ 2,613,841</u>
Wastewater Services	<u>\$ 3,156,053</u>	<u>\$ 2,987,112</u>

23. SURFACE WATER CONTRACTS

The EPWU purchases all its Rio Grande Project surface water from the El Paso County Water Improvement District #1 (District) through various contracts, briefly described below, among the United States Department of Interior-Bureau of Reclamation, the Lower Valley Water District (LVWD), and the City of El Paso, through EPWU.

(Continued)

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

23. SURFACE WATER CONTRACTS (Continued)

In a full allocation year, EPWU is currently entitled to receive approximately 28,233 acre feet (AF) of District water under two contracts titled the "1941 Contract" and the "1962 Contract". The 1941 Contract authorizes EPWU to purchase up to 2,000 acres of water rights land and to receive the water appurtenant to such land. The 1962 Contract authorizes EPWU to lease the water rights from residential land tracts inside the city limits and to receive the annual water allotment up to a maximum of 3.50 AF per acre. Under these two contracts, EPWU currently receives water based on its full land purchase authorization of 2,000 acres and 6,067 acres of leased water rights, whose terms range from 25 years to 75 years. During calendar year 2010, the cost of the water purchased from the District for the water associated with the land owned was composed of two parts; a land assessment fee of \$20 per acre, plus a water assessment fee of \$4 per AF. These two charges plus an account service charge of \$12 per lease also applies to the water acquired through leases. EPWU also receives water rights associated with land owned and leases on 3,533 acres obtained within the LVWD. During a full allocation year, these LVWD water rights are equivalent to 14,133 AF worth of raw surface water.

In April of 2001, EPWU executed a contract titled "2001 Implementing Third Party Contract" (TPC) which allows EPWU to purchase up to 28,116 AF of District water, and as little as zero AF, based on the District's annual water allotment. EPWU, currently owns a total 3,228 acres of water rights land. Under the terms of the TPC, EPWU pays \$15 per AF in the initial year of the contract for water allotted to EPWU owned acreage in excess of 2,000 acres, up to a 1,000 acre maximum. This price is adjusted annually by the "Consumer Price Index-All Urban Consumers, All Items". For all other water made available by the District under this contract, EPWU pays \$193.50 per AF for the calendar year commencing January 1, 2001, escalating to \$260 per AF for the calendar year commencing January 1, 2010. In March of 2010, the PSB and the District executed a First Amendment to the TPC in which the parties agreed to increase said price by the CPI starting on January 1, 2013, with the price for the 2011 and 2012 calendar years set a \$260 per AF. This amendment also increased the quantity of water allotted pursuant to PSB owned acreage in excess of 2,000 acres to 1,250 acres.

Also under the terms of the TPC, in any year when the Directors of the District determine that the annual water allotment is two AF or greater, then for each AF of usable sewage effluent discharged by EPWU from the Haskell Street Wastewater Treatment Plant into the American Canal, the District allows the City a credit against any charges of the District equal to the current year's price per AF multiplied by one-half. The maximum allowable credit for usable sewage effluent for any given year is 15,000 AF.

In addition to the price of District water, EPWU pays the federal revenue component on all District water delivered to EPWU. This federal revenue component is \$5 per AF or 5% of current year's contract price of the water, whichever is greater. In fiscal year 2010, EPWU received a full allotment of surface water and treated 58,218 AF of this water for distribution to its customers.

This note is intended to summarize major components of the contracts; however, it is recommended that the contracts be reviewed, in their entirety, by interested parties.

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**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

24. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Through the ordinary course of its operations, EPWU becomes subject to various claims and litigation. As of the date of these financial statements, EPWU was named in various legal actions with aggregate estimated possible damages not expected to exceed \$120,000. To the extent the outcome of such litigation is determined to result in probable loss to the EPWU, such loss is accrued in the financial statements. However, as of February 28, 2011, no amounts have been accrued because legal counsel has not determined that the litigation will result in a probable loss to EPWU since the outcome cannot be determined at this time. Management and legal counsel are of the opinion that settlement of these claims and pending litigation will not have a materially adverse effect on EPWU's financial statements.

EPWU has received federal and state financial assistance for specific purposes that are subject to review and audit by the grantor agencies. Although management believes compliance with grant guidelines is adhered to, grantor audits could result in requests for reimbursement of expenditures determined to be disallowed. Management believes such disallowances, if any, will be immaterial.

EPWU has ongoing construction projects under non-cancelable contracts. At February 28, 2011, the Water and Wastewater Utility had appropriations and estimated commitments for services yet to be performed that totaled \$106,748,309. At February 28, 2010, the Municipal Drainage Utility had appropriations and estimated commitments for services yet to be performed totaling \$55,364,099.

25. RELATED PARTY TRANSACTIONS

The Public Service Board - El Paso Water Utilities makes payments to the City of El Paso in lieu of taxes, based upon a percentage of water sales. In addition, EPWU acts as a billing and collecting agent for solid waste for the City. The following is a summary of those transactions:

	2011	2010
Revenues from City:		
Water and Wastewater Sales	\$ 3,255,501	\$ 3,145,640
Billing and Collecting Agent fees	830,251	890,444
Public Fire Protection	474,973	474,973
Drainage Fees	280,887	272,836
Expenses to City:		
Payment in lieu of taxes	9,915,678	9,429,371
5% on gain on sale of land	14,991	184,461
Receivable:		
Accounts Receivable from City	36,770	138
Payable:		
Garbage collections fees payable to City	3,927,378	3,457,312
Contributions in lieu of taxes payable to City	555,422	351,074
Property and health insurance payable to City	198,272	423,309
City projects and other expenses payable to City	155,994	192,237

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2011 and 2010

26. RESTRICTED NET ASSETS

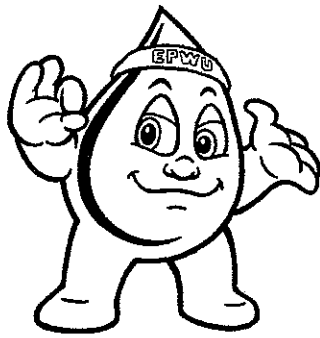
Amounts have been restricted for construction projects and for payment of bonded debt.

27. RECLASSIFICATIONS

Certain amounts in 2010 have been reclassified to conform with the 2011 presentation.

28. SUBSEQUENT EVENTS

On March 9, 2011, the United States Court Appeals for the Fifth Circuit filed the opinion regarding the El Paso Apartment Association (Plaintiffs) vs. the City of El Paso; Edmund G. Archuleta, in his official capacity as President and Chief Executive Officer of the El Paso Water Utilities Public Service Board (Defendants). The plaintiffs owners and managers of apartment complexes in El Paso, Texas, challenged the stormwater drainage fee assessed on their properties, arguing that the fee violated the Equal Protection Clause of the Fourteenth Amendment and that it is unconstitutional occupation tax under Texas Law. The district court granted summary judgment to Defendants, and the Court of Appeals for the Fifth Circuit affirmed the judgment.



APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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[Closing Date]

IN REGARD to the authorization and issuance of the “City of El Paso, Texas, Water and Sewer Revenue Refunding Bonds, Series 2011”, dated July 15, 2011, in the principal amount of \$14,680,000 (the “Bonds”), we have examined into their issuance by the City of El Paso, Texas (the “City”) solely to express legal opinions as to the validity of the Bonds and the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the City, the disclosure of any financial or statistical information or data pertaining to the City and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

THE BONDS are issued in fully registered form only and in denominations of \$5,000 or any integral multiple thereof (within a maturity). The Bonds mature on March 1 in each of the years specified in the pricing certificate (the “Pricing Certificate”) executed pursuant to an ordinance authorizing the issuance of the Bonds adopted by the City Council of the City (the “Bond Ordinance” and, jointly with the Pricing Certificate, the “Ordinance”), unless redeemed prior to maturity in accordance with the terms stated on the Bonds. The Bonds accrue interest from the date, at the rates, and in the manner and is payable on the dates, all as provided in the Ordinance.

IN RENDERING THE OPINIONS herein we have examined and rely upon (i) original or certified copies of the proceedings had in connection with the issuance of the Bonds, including the Ordinance, and an examination of the initial Bond executed and delivered by the City (which we found to be in due form and properly executed); (ii) certifications of officers of the City relating to the expected use and investment of proceeds of the sale of the Bonds and certain other funds of the City and (iii) other documentation and such matters of law as we deem relevant. In the examination of the proceedings relating to the issuance of the Bonds, 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 contained in such documents and certifications.

BASED ON OUR EXAMINATIONS, IT IS OUR OPINION that, under the applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds have been duly authorized by the City, and the Bonds issued in compliance with the provisions of the Ordinance are valid and legally binding special obligations of the City, in accordance with the terms thereof, payable solely from and equally and ratably secured by a lien on and pledge of the Net Revenues (as defined in the Ordinance) of the City’s Waterworks and Sewer System, 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 Ordinance provides certain conditions under which the City may issue additional obligations payable from the same source and secured in the same manner as the Bonds.

2. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance relating to sections 141 through 150 of the Code, interest on the Bonds for federal income tax purposes (a) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof, and (b) will not be included in computing the alternative minimum taxable income of individuals or, except as hereinafter described, corporations. Interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporations, other than an S corporation, a qualified mutual fund, a real estate mortgage investment conduit, a real estate investment trust, or a financial asset securitization investment trust ("FASIT"). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

WE EXPRESS NO 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 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.

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.

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