BELOW LINE LANGUAGE:

In 2005, the City entered into an interest rate management agreement to refund part of its outstanding Airport System debt from fixed rate bonds to variable rate obligations utilizing auction rate securities ("ARSs"). These securities are long-term bonds, but weekly or monthly auctions are held to set the interest rate. Recently, with a lack of liquidity in the marketplace, investors became disinterested in auction rate securities which led to a week-long period where several of these auctions failed. This lack of interest requires higher interest rates in order to attract new investors, or to appropriately compensate the current investor for the new risk associated with an illiquid investment. Therefore, the issuer the Austin Airport, continues to pay interest, but at a higher interest rate. Fortunately, the documents governing this transaction allow for a mode change from auction rate securities to weekly reset variable rate demand bonds ("VRDBs"), which are not experiencing the liquidity issues adversely affecting the ARS market. VRDBs, unlike ARSs, are ultimately backed by a letter of credit and the risk of future increases in the variable rate to the City is minimized.

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The effect of the 2005 refinancing was substantial with a present value savings level of 12.48%. After payment of additional costs associated with this mode change transaction (higher interest, underwriting, and issuance costs), the expected net present value savings will be reduced to 10.9%, which still far exceeds the City's threshhold for such refunding of 5.25%.