

Rating: Standard & Poor's: "___"
 (See "BOND INSURANCE" and "OTHER
 RELEVANT INFORMATION – Ratings")

REMARKETING (NOT A NEW ISSUE) – Book-Entry-Only

ON AUGUST 17, 2005, THE ORIGINAL DATE OF DELIVERY OF THE BONDS, BOND COUNSEL DELIVERED AN OPINION TO THE EFFECT THAT AS OF SUCH DATE, INTEREST ON THE BONDS WAS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW AND THE BONDS WERE NOT PRIVATE ACTIVITY BONDS. IN CONNECTION WITH THE REMARKETING OF THE BONDS, AS DESCRIBED HEREIN, BOND COUNSEL WILL DELIVER AN OPINION TO THE EFFECT THAT SUCH REMARKETING DOES NOT IN AND OF ITSELF HAVE AN ADVERSE EFFECT ON THE EXCLUSION FROM FEDERAL INCOME TAX OF THE INTEREST ON THE BONDS UNDER EXISTING LAW. SEE "TAX EXEMPTION" FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL, INCLUDING A DESCRIPTION OF ALTERNATIVE MINIMUM TAX CONSEQUENCES FOR CORPORATIONS.

\$281,300,000

CITY OF AUSTIN, TEXAS

(Travis and Williamson Counties)

Airport System Refunding Revenue Bonds, Series 2005 (AMT)

\$70,300,000 Sub-Series 2005-1
 \$70,325,000 Sub-Series 2005-2

\$70,325,000 Sub-Series 2005-3
 \$70,350,000 Sub-Series 2005-4

Dated: August 15, 2005

Due: November 15, 2025

The \$281,300,000 City of Austin, Texas Airport System Refunding Revenue Bonds, Series 2005 (the "Bonds"), are limited special obligations of the City of Austin, Texas (the "City"), issued pursuant to an ordinance adopted by the City on August 4, 2005 (the "Ordinance"). The Bonds are dated August 15, 2005, and issued in fully registered form and in Authorized Denominations of \$100,000 or any integral multiple thereof. The Bonds of each subseries will bear interest at an initial rate to be established on or about the initial remarketing dates for each subseries of Bonds, which are currently anticipated to be May 1, 2008 (Sub-Series 2005-3), May 8, 2008 (Sub-Series 2005-4), May 15, 2008 (Sub-Series 2005-1) and May 22, 2008 (Sub-Series 2005-2). Thereafter, the Bonds will bear interest at a Weekly Rate and the interest rate on the Bonds will be adjusted on each Wednesday (or the immediately preceding Business Day if Wednesday is not a Business Day) of each week by Morgan Stanley & Co. Incorporated and Morgan Keegan & Company, Inc., as the Remarketing Agents for the respective subseries of Bonds hereafter described. The Bonds will continue to bear interest at a Weekly Rate unless, at the direction of the City and subject to the satisfaction of certain conditions precedent included in the Ordinance, the interest rate on the Bonds is changed to another Mode. **This Remarketing Memorandum describes terms and provisions applicable to the Bonds only while they are in the Weekly Rate Mode. In the event of a conversion to a Mode other than a Weekly Rate Mode, the Bonds will be subject to mandatory tender and potential purchasers of the converted Bonds will be provided with separate offering materials containing descriptions of the terms of the Bonds applicable to the Mode to which the Bonds are being converted.** The Bonds are subject to optional and mandatory redemption prior to maturity and to optional and mandatory tender, all as described herein. See "DESCRIPTION OF THE BONDS" herein.

The Bonds are limited special obligations of the City payable from, and shall be equally and ratably secured by a lien on, the Net Revenues (hereinafter defined) of the Airport System (hereinafter defined) and certain funds established by the Ordinance, which lien is subordinate only to the lien on Net Revenues securing the Prior Lien Bonds (as defined herein). The City has agreed in the Ordinance that it will not issue additional Prior Lien Bonds. No mortgage of any of the physical properties forming a part of the Airport System or any lien thereon or security interest therein has been given. The Bonds are not general obligations of the City, and neither the taxing power of the City nor the State of Texas is pledged as security for the Bonds. See "SECURITY FOR THE BONDS" herein.

The City intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York ("DTC"), but reserves the right on its behalf or on the behalf of DTC to discontinue such system. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer. See "DESCRIPTION OF THE BONDS – Book-Entry-Only System" herein.



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy issued by Financial Security Assurance Inc. See "BOND INSURANCE" herein.

Price	Mandatory Redemption	First Remarketing Date	Sub-Series	Par Amount	Maturity (November 15)	Remarketing Agent	CUSIP
5/01/08	5/02/08	5/07/08	2005-3	\$70,325,000	2025	Morgan Stanley	052398
5/08/08	5/09/08	5/14/08	2005-4	\$70,350,000	2025	Morgan Stanley	052398
5/15/08	5/16/08	5/21/08	2005-1	\$70,300,000	2025	Morgan Keegan & Company, Inc.	052398
5/22/08	5/23/08	5/28/08	2005-2	\$70,325,000	2025	Morgan Keegan & Company, Inc.	052398

While in the Weekly Rate Mode, the Bonds are issuable only in fully registered form in the denomination of \$100,000 or any integral multiple of \$5,000 in excess of \$100,000, and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act initially as Securities Depository of the Bonds, and individual purchasers of the Bonds will be made in book-entry form only. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar named herein to the registered owners of the Bonds (or to Cede & Co., as long as the book-entry-only system is in effect and DTC is the Securities Depository). Subsequent disbursements of such principal and interest will be made to the individual purchasers of beneficial interests in the Bonds. Interest on the Bonds during a Weekly Rate Mode will be payable on the first day of each month (or the next succeeding Business Day if the first day is not a Business Day), commencing June 2, 2008. Principal at maturity or upon redemption will be payable upon presentation and surrender at the Minneapolis, Minnesota office (the "Designated Payment/Transfer Office") of the Paying Agent, which is Wells Fargo Bank, N.A. The purchase price of the Bonds upon optional or mandatory tender for purchase will be payable by the Tender Agent (as hereafter defined) upon presentation and surrender of the Bonds at the designated tender office in Minneapolis, Minnesota (the "Tender Office") of the Tender Agent, which is Wells Fargo Bank, N.A. Notwithstanding the foregoing during any period in which the beneficial ownership of the Bonds is determined by a book-entry at a security depository, the requirements in the Ordinance for holding, registering, delivering exchanging or transferring the Bonds are deemed modified to require the appropriate person or entity to meet the requirements of DTC (or any successor securities depository) as to holding, registering, delivering, exchanging or transferring the book-entry to produce the same effect.

Holders will (a) have the option to tender their Bonds for purchase at a price equal to the principal amount thereof, plus accrued interest, while in a Weekly Rate Mode on seven days prior notice to the Tender Agent and the Remarketing Agent and at other times and subject to the conditions described herein, (b) be required to tender their Bonds for purchase upon conversion of the interest rate on the Bonds to any other interest rate Mode that is not a Weekly Rate Mode, (c) be required to tender their Bonds for purchase upon the expiration, termination or replacement of the Credit Facility or Liquidity Facility (as defined and described herein), and (d) be required to tender their Bonds for purchase under other circumstances described herein. All tenders are required to be made to the Tender Agent. Tendered Bonds may be remarketed and remain outstanding. Bonds tendered for purchase will be paid first, from the proceeds of remarketing, if any, and second, from money furnished pursuant to a Standby Bond Purchase Agreement (the "Liquidity Facility") between the City and Dexia Credit Local, acting through its New York Branch (the "Standby Purchaser"). **The Liquidity Facility does not constitute security or credit enhancement for the Bonds, but serves solely as a source of liquidity to pay the purchase price of tendered Bonds. Under certain circumstances, the obligations of the Standby Purchaser to purchase Bonds may be terminated without notice in which case the Bonds will no longer be subject to tender for purchase. The City has no obligation to purchase tendered Bonds.** (See "STANDBY BOND PURCHASE AGREEMENT – Event of Default Permitting Immediate Suspension or Termination.")

DEXIA

In connection with the issuance of the Bonds, the City entered into an interest rate swap agreement with Morgan Stanley Capital Services Inc., an affiliate of Morgan Stanley & Co. Incorporated, to enable the City to substantially fix its interest obligation on the debt represented by the Bonds. See "THE INTEREST RATE SWAP AGREEMENT" herein.

Price: 100%

Certain legal matters will be passed on by Vinson & Elkins L.L.P., Bond Counsel and for the City by McCall, Parkhurst & Horton L.L.P. Certain legal matters will be passed on for the Remarketing Agents by their counsel, Winstead PC. It is expected that Sub-Series-3 of the Bonds will be remarketed on or about May 2, 2008.

REMARKETING AGENTS

MORGAN STANLEY
(Sub-Series 2005-3 and 2005-4)

MORGAN KEEGAN & COMPANY, INC.
(Sub-Series 2005-1 and 2005-2)

CITY OF AUSTIN, TEXAS

Elected Officials

		<u>Term Expires June 20</u>
Will Wynn	Mayor	2009
Lee Leffingwell	Councilmember Place 1	2008
Mike Martinez	Councilmember Place 2	2009
Jennifer Kim	Councilmember Place 3	2008
Betty Dunkerley, Mayor Pro Tem	Councilmember Place 4	2008
Brewster McCracken	Councilmember Place 5	2009
Sheryl Cole	Councilmember Place 6	2009

Appointed Officials

Marc Ott	City Manager
Robert Goode	Assistant City Manager
Laura Huffman	Assistant City Manager
Rudy Garza	Assistant City Manager
Mike McDonald	Assistant City Manager
Bert Lumbreras	Assistant City Manager
Leslie Browder, CPA	Chief Financial Officer
Vickie Schubert, CPA	Deputy Chief Financial Officer
Jeff Knodel, CPA	Deputy Chief Financial Officer
David Allan Smith	City Attorney
Shirley A. Gentry	City Clerk

BOND COUNSEL

Vinson & Elkins L.L.P.
Austin, Texas

SECURITIES COUNSEL FOR THE CITY

McCall, Parkhurst & Horton L.L.P.
Austin and Dallas, Texas

FINANCIAL ADVISOR

The PFM Group
Austin, Texas

AUDITORS

KPMG LLP and R. Mendoza & Company, PC
Austin, Texas

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This Remarketing Memorandum does not constitute an offer to sell the Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, salesman, or any other person has been authorized to give any information or make any representation, other than those contained herein, in connection with the offering of the Bonds, and if given or made, such information or representation must not be relied upon. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Remarketing Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE ORDINANCE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE ON EXEMPTIONS CONTAINED IN SUCH ACTS.

The Remarketing Agents have provided the following sentence for inclusion in this Remarketing Memorandum. The Remarketing Agents have reviewed the information in the Remarketing Memorandum in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agents do not guarantee the accuracy or completeness of such information.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "BOND INSURANCE" and APPENDIX E – FORM OF SPECIMEN INSURANCE POLICY" herein, none of the information in this Remarketing Memorandum has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax-exempt status of the interest on the Bonds.

This Remarketing Memorandum contains "forward-looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements to be different from future results, performance and achievements expressed or implied by such forward-looking statements. **Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements.**

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REMARKETING MEMORANDUM

relating to

\$281,300,000

CITY OF AUSTIN, TEXAS

(Travis and Williamson Counties)

Airport System Refunding Revenue Bonds, Series 2005 (AMT)

\$70,300,000 Sub-Series 2005-1

\$70,325,000 Sub-Series 2005-3

\$70,325,000 Sub-Series 2005-2

\$70,350,000 Sub-Series 2005-4

INTRODUCTION

The purpose of this Remarketing Memorandum, which includes the cover page and the appendices hereto, is to set forth information concerning the City of Austin, Texas (the "City"), the Airport System (as hereinafter defined), and the City's Airport System Refunding Revenue Bonds, Series 2005 (the "Bonds"). Unless otherwise indicated, capitalized terms used in this Remarketing Memorandum shall have the meanings established in the Ordinance. See "APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE - Selected Definitions" and "APPENDIX F - MULTI-MODAL PROVISIONS". Unless otherwise provided herein, all references to time shall refer to New York City time.

The Bonds were originally issued pursuant to Chapter 1207 and Chapter 1371, Texas Government Code, as amended, Chapter 22, Texas Transportation Code, as amended, and the ordinance of the City Council adopted on August 4, 2005 (the "Ordinance"). The Bonds currently bear interest that is determined through an auction procedure that occurs once every 28 days. The interest rate on the Bonds is being converted from the Auction Rate Mode to a Weekly Rate, in accordance with the terms of the Ordinance.

The Bonds, together with the City's Airport System Variable Rate Revenue Notes, Series A (the "Notes," and, together with the Bonds, the "Revenue Bonds"), are payable from and equally secured by a lien on and pledge of the Net Revenues of the Airport System which is junior and subordinate to the lien on and pledge of the Net Revenues securing the City's Airport System Prior Lien Revenue Bonds (the "Prior Lien Bonds"). In connection with the initial issuance of the Bonds, the City covenanted in the Ordinance that it would not issue additional Prior Lien Bonds following the issuance of the Bonds. \$52,465,000 principal amount of Prior Lien Bonds are currently outstanding. In addition, the City will continue to transfer from excess revenues of the Airport System to the City's general fund amounts required to pay general obligation bonds issued by the City for airport purposes and presently outstanding in the principal amount of approximately \$315,450 with a final maturity of September 1, 2022. Under certain circumstances, the Ordinance permits the issuance of additional bonds as Additional Revenue Bonds that will rank on a parity with the Revenue Bonds as to lien upon and security of payment from the Net Revenues. See "SECURITY FOR THE BONDS - Additional Revenue Bonds".

In connection with the initial issuance of the Bonds, the City entered into an Interest Rate Swap Agreement (the "Swap Agreement") with Morgan Stanley Capital Services, Inc., an affiliate of Morgan Stanley & Co. Incorporated (the "Counterparty"), under which the City agrees to pay the Counterparty a fixed rate and the Counterparty agrees to pay the City a variable rate, in accordance with the terms of the Swap Agreement. See "THE INTEREST RATE SWAP AGREEMENT".

DESCRIPTION OF THE BONDS

General

With respect to this Remarketing Memorandum, for a discussion of the Liquidity Facility initially delivered in connection with the Bonds, see "STANDBY BOND PURCHASE AGREEMENT" and "APPENDIX G - Standby Purchaser"

Form and Denominations

The Bonds were issued pursuant to the Ordinance, in fully registered form, are dated August 15, 2005 and have a stated maturity of November 15, 2025. Upon conversion from the Auction Rate Mode, the Bonds of each sub-series will bear

interest in a Weekly Rate Mode, from and including their respective Mode Change Date to, but excluding, the date on which the Weekly Rate Mode for the Bonds is changed to a Daily Rate Mode, an Auction Rate Mode, a Term Rate Mode or a Fixed Rate Mode, in which event the Bonds will be subject to mandatory tender for purchase on such date at the purchase price equal to the principal amount thereof. While in the Weekly Rate Mode interest on the Bonds will be adjusted on each Wednesday (or the next preceding Business Day if Wednesday is not a Business Day) with such interest to be paid on the applicable Interest Payment Date. **This Remarketing Memorandum, in general, describes the Bonds only during the Weekly Rate Mode.**

Interest at the Weekly Rate shall be calculated on the basis of a year consisting of 365 or 366 days, as the case may be, for the actual number of days elapsed.

While the Bonds bear interest at a Weekly Rate, the Bonds will be issued and available only in denominations of \$100,000 and any integral multiple of \$5,000 in excess thereof. Should the interest rate on the Bonds be converted from a Weekly Rate to a Fixed Rate, the Bonds will be issuable in minimum denominations of \$5,000 or any integral multiple thereof.

Manner of Payment

The Bonds were issued as four sub-series of fully registered bonds, in the original aggregate principal amount of the \$306,225,000 and were delivered to and registered in the name of CEDE & Co. as registered owner and nominee for DTC. The principal of and interest on the Bonds will be paid by the Paying Agent/Registrar. As long as DTC or its nominee, CEDE & Co., is the registered owner of the Bonds, such payments will be made directly to CEDE & Co. See "Book-Entry System" herein.

Interest Payment Dates and Record Dates for Payments

Weekly Rate Bonds. Upon conversion of the interest rate on Bonds of a subseries to a Weekly Rate Mode, interest on Weekly Rate Bonds will be payable on each Interest Payment Date applicable thereto and at maturity, any mode change date or upon redemption. The Interest Payment Dates for the Bonds bearing interest at the Weekly Rate shall be payable the first Business Day of each month, beginning on June 2, 2008.

Record Date. The Record Date for Bonds bearing interest at the Weekly Rate shall be the Business Day immediately preceding an Interest Payment Date; provided, however, that in the event of nonpayment of interest on a scheduled Interest 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. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "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 books of the Paying Agent/Registrar at the close of business on the last Business Day preceding the date of mailing such notice.

Determination of Interest Rates

Weekly Rates. The Bonds shall bear interest at the Weekly Rate determined as described below, unless converted to another Mode. The interest rate for Bonds of a subseries in a Weekly Rate Mode for each such Interest Period (as defined herein) shall be the rate of interest per annum determined by the Remarketing Agents by 5:00 p.m. on and as of the applicable Rate Determination Date as the minimum rate of interest that, in the opinion of the Remarketing Agent, would, under then existing market conditions, result in the sale of such Bonds at a price equal to the principal amount thereof, plus accrued interest, if any. The determination of each interest rate by the Remarketing Agents shall be conclusive and binding, in the absence of manifest error, upon the Remarketing Agents, the Tender Agents, the Paying Agent/Registrar, the Liquidity Facility Issuer, the Credit Facility Issuer, the City and the Owners.

With respect to Bonds of a subseries in the Weekly Rate Mode, the Interest Period shall be the period from and including the Mode Change Date (the date one Mode terminates and another Mode begins) that they began to bear interest at the Weekly Rate to and including the following Wednesday and thereafter commencing on each Thursday to and including the earlier of the Wednesday of the following week or the day preceding any Mandatory Purchase Date (Mandatory Purchase Date means any (i) Mode Change Date, (ii) the Interest Non-Reinstatement Tender Date (as defined herein below) (iii) the Substitution Date (as defined herein below); (iv) the Expiration Tender Date (as defined herein below), (v) the Termination Tender Date (as defined herein below) and (vi) the Purchase Date of Bonds of a subseries in the Term Rate Mode) or the maturity date.

Maximum Rate. No Bond of a subseries may bear interest at an interest rate higher than the Maximum Rate. The Maximum Rate is (i) twelve percent (12%) per annum or such higher rate as determined by the City with the consent of the Insurer, which consent shall not be unreasonably withheld or (ii) with respect to Bonds of a subseries that are Bank Bonds, the per annum rate as determined by the City and consented to by the Liquidity Facility Issuer and set forth in the Liquidity Facility, but in no event higher than Maximum Rate; provided, however, that in no event shall the Maximum Rate exceed the maximum rate permitted by applicable law, including Chapter 1204 of the Texas Government Code.

Failure or Inability to Determine Weekly Rate. In the event (i) the Remarketing Agents fail to determine the interest rate(s) or Interest Periods with respect to any Bonds, or (ii) the method of determining the interest rate(s) or Interest Periods with respect to any Bonds shall be held to be unenforceable by a court of law of competent jurisdiction, such Bonds, shall thereupon, in the case of Bonds in the Weekly Rate Mode, bear interest at the Alternate Rate for subsequent Interest Periods until such time as the Remarketing Agents again make such determination or until there is delivered to the City a Favorable Opinion of Bond Counsel. The Alternate Rate shall be, on any Rate Determination Date, the BMA Index or if the BMA Index is no longer published, an index or a rate selected or determined by the City with the consent of the Bond Insurer, which consent shall not be unreasonably withheld.

Fixed Rates. In the event (i) the Remarketing Agent fails to determine the interest rate(s) or Interest Periods with respect to the Bonds of a subseries, or (ii) the method of determining the interest rate(s) or Interest Periods with respect to the Bonds of a subseries shall be held to be unenforceable by a court of law of competent jurisdiction, the Bonds of a subseries, shall thereupon, in the case of Bonds in the Weekly Rate Mode, bear interest at the Alternate Rate for subsequent Interest Periods until such time as the Remarketing Agent again makes such determination or until there is delivered to the City a Favorable Opinion of Bond Counsel. The Alternate Rate shall be, on any Rate Determination Date, the BMA Index or if the BMA Index is no longer published, an index or a rate selected or determined by the City with the consent of the Insurer, which consent shall not be unreasonably withheld.

Changes in Mode

Any Mode, other than a Fixed Rate Mode, may be changed to any other Mode at the times and in the manner hereinafter provided. Subsequent to such change in Mode, the Bonds may again be changed to a different Mode at the times and in the manner hereinafter provided. Any Bonds converted to a Fixed Rate Mode shall not be changed to any other Mode.

The City, shall give written notice (the "Mode Change Notice") to the Notice Parties of its intention to effect a change in the Mode with respect to any Bond from the Mode then prevailing (the "Current Mode") to another Mode (the "New Mode") specified in such written notice, together with the proposed Mode Change Date. Such notice shall be given at least twenty (20) days prior to the Mode Change Date.

The Mode Change Date must be a Business Day. Additionally, the Mode Change Date from a Term Rate Mode shall be the Purchase Date of the current Interest Period. On or prior to the date the City provides, the notice to the Notice Parties, the City shall have received a letter from counsel acceptable to the City and addressed to the City and the other Notice Parties to the effect that it expects to be able to deliver a Favorable Opinion of Bond Counsel on the Mode Change Date. No change in Mode will become effective unless all conditions precedent thereto have been met and the following items shall have been delivered to the City by 11:00 a.m., or such later time as is acceptable to the Authorized Officer, on behalf of the City, and the City, on the Mode Change Date: (1) except for certain circumstances described in the Ordinance, in the case of a change in Mode, a Favorable Opinion of Bond Counsel dated the Mode Change Date; (2) except in the case of a change to Fixed Rate Mode, a Liquidity Facility providing for the purchase of Bonds upon optional and mandatory tender for purchase thereof; (3) if required, unless a Tender Agency Agreement and Remarketing Agreement is then effective, an executed copy of such Tender Agency Agreement and Remarketing Agreement; (4) a certificate of an authorized officer of the Tender Agent to the effect that all of the Bonds of a subseries tendered or deemed tendered, unless otherwise redeemed, have been purchased at a price at least equal to the Purchase Price thereof; and (5) written consent of the Bond Insurer. If all conditions to the Mode change are met, the Interest Period(s) for the New Mode shall commence on the Mode Change Date and the interest rate(s) shall be determined by the Remarketing Agents in the manner provided in the Ordinance. With respect to a change in the Mode from any Mode (other than a change from Auction Rate Mode) to any other Mode, in the event the foregoing conditions have not been satisfied by the Mode Change Date, the New Mode shall not take effect and the Bonds of the Series that are the subject of the Mode Change Notice will be changed to Bonds in the Weekly Rate Mode on the Mode Change Date.

Subject to certain limitations in the Ordinance, the City may, in the notice given in connection with any change of Bonds to the Term Rate Mode or Fixed Rate Mode, provide that all or some of such Bonds shall be serial or term Bonds.

Less than all of the Bonds of a subseries then subject to a particular Mode may be converted to another Mode pursuant to the Ordinance; provided, however, that in such event such subseries shall be re-designated into two or more subseries for each separate Mode with a new CUSIP number for each subseries.

If less than all of the Bonds of a subseries then subject to a particular Mode are converted to another Mode pursuant to the Ordinance, the particular Bonds of a subseries or portions thereof which are to be converted to a New Mode shall be selected by the City in its discretion subject to the provisions of the Ordinance.

Mandatory Tenders

Except for Bank Bonds, the Bonds of a subseries to be changed to any Mode from any other Mode are subject to mandatory tender for purchase on the Mode Change Date at the amount equal to the principal amount of any Bond of a subseries purchased on the Mandatory Purchase Date plus accrued interest (the "Purchase Price"). Except for Bank Bonds, the Bonds of a subseries shall be subject to mandatory tender for purchase on: (a) the second Business Day preceding the Expiration Date of a Credit Facility or Liquidity Facility, which second Business Day is hereinafter referred to as an "Expiration Tender Date"; (b) the fifth calendar day (or if such day is not a Business Day, the preceding Business Day) preceding the Termination Date of a Credit Facility or a Liquidity Facility, which fifth calendar day is hereinafter referred to as a "Termination Tender Date", if the Liquidity Facility permits a draw thereon on the Termination Tender Date; (c) the fifth calendar day (or if such day is not a Business Day, the preceding Business Day) following the receipt by the City of a written notice from the issuer of a Credit Facility that such Credit Facility will not be reinstated (in respect of interest) to an amount equal to the interest component of the Liquidity and Credit Amount required with respect to the Bonds of such subseries, which fifth calendar day is hereinafter referred to as an "Interest Non-Reinstatement Tender Date"; and (d) the Substitution Date for a Credit Facility or a Liquidity Facility. Except for Bank Bonds, the Bonds of a subseries in the Term Rate Mode are subject to mandatory tender for purchase on each Purchase Date at the Purchase Price.

Notice. The Paying Agent/Registrar shall, at least fifteen (15) days prior to the Expiration Tender Date with respect to Bonds of a subseries, give notice of the mandatory tender of the Bonds of such subseries on such Expiration Tender Date if it has not theretofore received confirmation that the Expiration Date has been extended.

Upon receipt of a written notice from the Credit Facility Issuer, the Liquidity Facility Issuer or the City that the Credit Facility or the Liquidity Facility, as the case may be, will terminate or the obligation of the Credit Facility Issuer or Liquidity Facility Issuer, as the case may be, to provide a loan thereunder will terminate prior to its Expiration Date, the Paying Agent/Registrar shall within one (1) Business Day give notice of the mandatory tender of the Bonds of such subseries that is to occur on such Termination Tender Date if it has not theretofore received from the Credit Facility Issuer, the Liquidity Facility Issuer or the City, as the case may be, a notice stating that the event which resulted in the Credit Facility Issuer, the Liquidity Facility Issuer or the City giving a notice of the Termination Date has been cured and that the Credit Facility Issuer, the Liquidity Facility Issuer or the City has rescinded its election to terminate the Credit Facility or Liquidity Facility, as the case may be. Notwithstanding anything to the contrary below, such notice shall be given by Electronic Means capable of creating a written notice. Any notice given substantially as provided herein shall be conclusively presumed to have been duly given, whether or not actually received by each Owner.

Upon receipt of a written notice from the issuer of a Credit Facility that such Credit Facility will not be reinstated (in respect of interest) to an amount equal to the interest component of the Liquidity and Credit Amount required with respect to the Bonds of such subseries, the Paying Agent/Registrar shall within one (1) Business Day give notice of the mandatory tender of the Bonds of such subseries on such Interest Non-Reinstatement Tender Date if it has not theretofore received from the issuer of the Credit Facility a notice stating that the Direct-Pay Credit Facility has been reinstated to an amount equal to the interest component of the Liquidity and Credit Amount. Notwithstanding anything to the contrary herein below, such notice shall be given by Electronic Means capable of creating a written notice. Any notice given substantially as provided herein shall be conclusively presumed to have been duly given, whether or not actually received by each Owner.

The Paying Agent/Registrar shall, at least fifteen (15) days prior to any Substitution Date with respect to a Liquidity Facility relating to any Bonds, give notice of the mandatory tender of such Bonds that is to occur on such Substitution Date.

The Paying Agent/Registrar shall, at least fifteen (15) days prior to (i) any Mode Change Date or (ii) the end of an Interest

Period with respect to Bonds of a subseries in the Term Rate Mode, give notice of the mandatory tender for purchase of such Bonds that is to occur on such date.

Notice of any mandatory tender of Bonds of a subseries shall state that such Bonds are to be purchased pursuant to the Ordinance, and shall be provided by the Paying Agent/Registrar or caused to be provided by the Paying Agent/Registrar by mailing a copy of the notice of mandatory tender by first-class mail to each Owner of Bonds of the Series at the respective addresses shown on the registry books. Each notice of mandatory tender for purchase shall identify the reason for the mandatory tender for purchase, and specify the CUSIP number, Mandatory Purchase Date, the Purchase Price, the place and manner of payment, that the Owner has no right to retain such Bonds and that no further interest will accrue from and after the Mandatory Purchase Date to such Owner. Each notice of mandatory tender for purchase caused by a change in the Mode applicable to the Bonds of a subseries shall in addition specify the conditions that have to be satisfied pursuant to the Ordinance in order for the new Mode to become effective and the consequences that the failure to satisfy any of such conditions would have. In the event a mandatory tender of Bonds of a subseries shall occur at or prior to the same date on which an optional tender for purchase is scheduled to occur, the terms and conditions of the applicable mandatory tender for purchase shall control. Any notice mailed as provided in this Section shall be conclusively presumed to have been duly given, whether or not the Owner of any Bond receives the notice, and the failure of such Owner to receive any such notice shall not affect the validity of the action described in such notice. Failure by the Paying Agent/Registrar to give such notice shall not affect the obligation of the Tender Agent to purchase the Bonds of a subseries subject to mandatory tender for purchase on the Mandatory Purchase Date.

Optional Tender of Bonds in Weekly Rate Mode

The Owners of Bonds of a subseries in a Weekly Rate Mode that are not Bank Bonds may elect to have such Bonds (or portions thereof in Authorized Denominations) purchased at a price equal to the Purchase Price upon delivery of an irrevocable written notice of tender to the Tender Agent and Remarketing Agents, at their respective principal offices, not later than 4:00 p.m. on a Business Day not less than seven (7) days before the Purchase Date specified by the Owner. Such notice shall (i) state the number and the principal amount of such Bond being tendered and (ii) state that such Bond shall be purchased on the Purchase Date so specified by the Owner. The Tender Agent shall notify the City by the close of business on the next succeeding Business Day of the receipt of any notice pursuant to this paragraph.

Notwithstanding anything herein to the contrary, during any period that the Bonds of a subseries are issued registered in the name of DTC or a nominee thereof pursuant to the Ordinance, (i) any notice of tender delivered shall identify the DTC participant through whom the beneficial owner will direct transfer, (ii) on or before the Purchase Date, the beneficial owner must direct (or if the beneficial owner is not a DTC participant, cause its DTC participant to direct) the transfer of said Bond on the records of DTC, and (iii) it shall not be necessary for Bonds of a subseries to be physically delivered on the date specified for purchase thereof, but such purchase shall be made as if such Bonds had been so delivered, and the Purchase Price thereof shall be paid to DTC. In accepting a notice of tender of any Bond of a subseries, the City, the Paying Agent/Registrar and the Tender Agent may conclusively assume that the Person providing the notice of tender is the beneficial owner of the Bonds being tendered and therefore entitled to tender them. The City, the Paying Agent/Registrar and the Tender Agent assume no liability to anyone in accepting a notice of tender from a Person whom it reasonably believes to be such a beneficial owner of the Bonds of the Series.

Untendered Bonds

If Bonds of a subseries to be purchased are not delivered by the Owners to the Tender Agent by 12:00 noon on the Purchase Date or Mandatory Purchase Date, the Tender Agent shall hold any funds received for the purchase of those Bonds in trust in a separate account and shall pay such funds to the former Owners upon presentation of the Bonds subject to tender. Any such amounts shall be held uninvested. Such undelivered Bonds shall be deemed tendered and cease to accrue interest as to the former Owners on the Purchase Date or Mandatory Purchase Date, and moneys representing the Purchase Price shall be available against delivery of those Bonds at the principal office of the Tender Agent; provided, however, that any funds which shall be so held by the Tender Agent and which remain unclaimed by the former Owner of any such Bond not presented for purchase for a period of three years after delivery of such funds to the Tender Agent, shall, to the extent permitted by law, upon request in writing by the City and the furnishing of security or indemnity to the Tender Agent's satisfaction, be paid to the City free of any trust or lien and thereafter the former Owner of such Bond shall look only to the City and then only to the extent of the amounts so received by the City without any interest thereon and the Tender Agent shall have no further responsibility with respect to such moneys or payment of the Purchase Price of such Bonds. The Tender Agent shall authenticate a replacement Bond of a subseries for any undelivered Bond of such subseries which may

then be remarketed by the Remarketing Agents.

Remarketing and Purchase of Bonds upon Tender

Morgan Stanley & Co. Incorporated ("Morgan Stanley") and Morgan Keegan & Company ("Morgan Keegan") have been appointed to serve as initial Remarketing Agents for the Bonds (the "Remarketing Agents"). Morgan Stanley serves as Remarketing Agent for the Sub-series 2005-3 and Sub-series 2005-4 Bonds. Morgan Keegan serves as Remarketing Agent for the Sub-series 2005-1 and Sub-series 2005-2 Bonds.

Pursuant to the Ordinance and the Remarketing Agreements between the Remarketing Agents and the City (the "Remarketing Agreements"), the Remarketing Agents have agreed to use its best efforts to find purchasers for and arrange for the sale on any Purchase Date or Mandatory Purchase Date of any Bonds or portions thereof which will be or are required to be tendered for purchase as described above at the Purchase Price. For additional information regarding the Remarketing Agents, see "THE REMARKETING AGENTS" herein.

The Ordinance and the Remarketing Agreements set forth, among other things, certain conditions to the Remarketing Agents' obligations to remarket Bonds. If any such conditions are not satisfied, or if the Remarketing Agents are otherwise unable to remarket any Bonds, the Purchase Price of such Bonds will be payable from amounts drawn under the Liquidity Facility and from moneys furnished by the City, at the City's option and the City is not obligated, as provided in the Ordinance.

Funds for the payment of the Purchase Price of Bonds on any Purchase Date or Mandatory Purchase Date shall be derived solely from the following sources in the order of priority indicated below, to the extent described in each Ordinance: (1) first, from proceeds of the remarketing and sale of Bonds of such sub-series, (2) second, from funds drawn under the Liquidity Facility; and (3) third, from funds furnished by the City, at the City's option and the City is not obligated.

Substitute Liquidity Facility

At any time, the City may provide for the delivery of (i) an initial and an Alternate Liquidity Facility with respect to the Bonds of any subseries, and/or (ii) an initial and an Alternate Credit Facility with respect to the Bonds of any subseries. The City shall not obtain a Liquidity Facility for the Bonds of a subseries or provide for the delivery of a Liquidity Facility for the Bonds of a subseries without the prior consent of the Credit Facility Issuer for the Bonds of such subseries. Any such Liquidity Facility or Credit Facility shall provide that a Termination Date which permits the City to make on the Termination Tender Date a draw under the Liquidity Facility or the Credit Facility, as the case may be, shall not occur unless written notice thereof is given to the City and the Tender Agent at least sixteen (16) days prior to the Termination Tender Date. To the extent that any Liquidity Facility or Credit Facility permits the issuer thereof to assign its obligation thereunder, such Liquidity Facility or Credit Facility, as the case may be, shall provide that such assignment shall not be effective unless a written notice of such assignment is given to the City, the Remarketing Agents and the Tender Agent at least sixteen (16) days prior to the effective date of such assignment. On or prior to the date on which a Liquidity Facility or Credit Facility is obtained or delivered to the City, the City shall obtain a Favorable Opinion of Bond Counsel. The Ordinance provides that all Outstanding Bonds of the Series to which such Liquidity Facility or Credit Facility relates will become subject to mandatory tender for purchase on the Substitution Date.

The City may execute and deliver any instrument that, upon such execution and delivery by the City, would constitute a "Credit Facility" or "Liquidity Facility."

The City shall deliver to the Paying Agent/Registrar, the Tender Agent, the Credit Facility Issuer, the Bond Insurer and the Remarketing Agent a copy of each Liquidity Facility or Credit Facility obtained pursuant to this article on the effective date of such Liquidity Facility or Credit Facility. If at any time there shall have been delivered (i) an Alternate Credit Facility or Alternate Liquidity Facility in substitution for the Credit Facility or Liquidity Facility with respect to Bonds of a subseries then in effect and (ii) a Favorable Opinion of Bond Counsel, then, providing that any condition to substitution contained in the existing Credit Facility or Liquidity Facility shall have been satisfied, the Paying Agent/Registrar shall accept such Alternate Credit Facility or Alternate Liquidity Facility and, subject to certain provisions of the Ordinance relating to the receipt of sufficient funds to pay the Purchase Price of Bonds then subject of mandatory tender, shall surrender the Credit Facility or Liquidity Facility then in effect to the Credit Facility Issuer or Liquidity Facility Issuer on the effective date of the Alternate Credit Facility or Alternate Liquidity Facility. In the event of an extension of the Expiration Date, the City shall give the Paying Agent/Registrar, the Tender Agent, the Credit Facility Issuer, the Liquidity Facility Issuer and the

Remarketing Agents a written notice of the new Expiration Date at least sixteen (16) days prior to the Expiration Tender Date. In the event of a substitution of a Liquidity Facility with an Alternate Liquidity Facility or of a Credit Facility with an Alternate Credit Facility, the City shall give the Paying Agent/Registrar, the Tender Agent, the Bond Insurer and the Remarketing Agents a written notice of the Substitution Date at least sixteen (16) days prior to such Substitution Date. The City shall give the Paying Agent/Registrar, Tender Agent, the Bond Insurer and the Remarketing Agents a written notice of its election to terminate the Credit Facility or the Liquidity Facility at least sixteen (16) days prior to the Termination Tender Date resulting from its election to terminate such Credit Facility or Liquidity Facility

In no event shall the City surrender or cancel a Liquidity Facility relating to the Bonds of any subseries unless it has received funds, either from proceeds of remarketing or a draw under the Liquidity Facility to be surrendered or cancelled, sufficient to pay the Purchase Price of such Bonds to the applicable Mandatory Purchase Date. In no event shall the City surrender or cancel a Credit Facility relating to the Bonds of any subseries unless it has received funds sufficient to pay the Purchase Price of such Bonds to the applicable Mandatory Purchase Date.

The City shall not sell, assign or otherwise transfer the Credit Facility or Liquidity Facility, except in accordance with the terms of the Credit Facility or Liquidity Facility and the Ordinance.

On or prior to the Substitution Date, no drawing under an Alternate Liquidity Facility shall be made by the City if the predecessor Liquidity Facility shall be effective and available to make drawings thereunder on the date of such drawing. After the Substitution Date, no drawing under a predecessor Liquidity Facility shall be made by the City if the Alternate Liquidity Facility shall be effective and available to make drawings thereunder on the date of such drawing.

Redemption Provisions

Mandatory Sinking Fund Redemption. The Bonds are subject to mandatory sinking fund redemption in part (in accordance with procedures of DTC, so long as DTC is the sole registered owner, and otherwise at random in such manner as the Paying Agent/Registrar in its discretion deems proper) on November 15, or if November 15 is not an Interest Payment Date, then on the next succeeding Interest Payment Date, of each year and in the respective principal amounts set forth below at 100% of the principal amount thereof, plus accrued interest to the redemption date, from sinking fund installments which are required to be made in amounts sufficient to redeem on November 15 or if November 15 is not an Interest Payment Date, then on the next succeeding Interest Payment Date of each year set forth below the principal amount specified for each of the years shown below:

Bonds Maturing November 15, 2025			
<u>Redemption Date (11/15)</u>	<u>Principal Amount</u>	<u>Redemption Date (11/15)</u>	<u>Principal Amount</u>
2008	\$10,475,000	2017	\$ 2,975,000
2009	10,975,000	2018	18,650,000
2010	11,500,000	2019	21,800,000
2011	12,050,000	2020	21,725,000
2012	6,125,000	2021	20,900,000
2013	15,350,000	2022	21,800,000
2014	16,075,000	2023	22,750,000
2015	16,825,000	2024	23,725,000
2016	2,850,000	2025	24,750,000

The City shall designate, in its sole discretion, one or more subseries of the Bonds from which the Bonds to be redeemed shall be selected and the Paying Agent/Registrar shall determine by lot, or by such other random method of selection acceptable to the Paying Agent/Registrar, the particular Bonds within each subseries to be redeemed; provided, that so long as the Bonds are registered in the name of Cede & Co, as nominee for DTC, the Bonds of each subseries selected for redemption shall be determined in the manner required by DTC.

Optional Redemption of Weekly Rate Bonds. The Bonds bearing interest in the Weekly Rate Mode are subject to optional redemption prior to maturity at the option of the City, in whole or in part on any Business Day, without premium or penalty, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest thereon to the date fixed for redemption.

Redemption Procedures. The Paying Agent/Registrar shall give notice of any redemption of Bonds that are in the Auction Rate

Mode, Daily Rate Mode, Weekly Rate Mode or Term Rate Mode by sending notice by United States mail first class, postage prepaid, not less than 15 days before the date fixed for redemption, to the Owner of each Bond (or part hereof) to be redeemed, at the address shown on the registration books maintained by the Paying Agent/Registrar. The notice shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment, and, if less than all the Bonds outstanding are to be redeemed, an identification of the Bonds or portions thereof to be redeemed. Any notice given as provided in this Section shall be conclusively presumed to have been duly given, whether or not the Owner receives such notice.

In the event that less than all Bonds subject to redemption are to be redeemed, Outstanding Bank Bonds shall first be selected for redemption.

Limitations on Remedies

The Ordinance constitutes a contract between the City and the Owners of the Revenue Bonds and the holders of Credit Agreement Obligations related thereto from time to time outstanding and the Ordinance is and shall remain irrevocable until the Revenue Bonds, the Credit Agreement Obligations related thereto and Administrative Expenses shall be fully paid or discharged or provision therefor shall have been made as provided in the Ordinance. In the event of a default in the payment of the Debt Service on any of the Revenue Bonds or Credit Agreement Obligations or a default in the performance of any duty or covenant provided by law or in the Ordinance, the Owner or Owners of any of the Revenue Bonds, and the holders of any Credit Agreement Obligations and the Persons to whom Administrative Expenses are owed may pursue all legal remedies afforded by the Constitution and laws of the State of Texas to compel the City to remedy such default and to prevent further default or defaults. Without in any way limiting the generality of the foregoing, it is expressly provided in the Ordinance that any Owner of any of the Revenue Bonds or holder of Credit Agreement Obligations or Person to whom Administrative Expenses are owed, may at law or in equity, by suit, action, mandamus, or other proceedings, enforce and compel performance of all duties required to be performed by the City under the Ordinance, including the making of reasonably required rates and charges for the use and services of the Airport System, the deposit of the Gross Revenues into the special funds provided in the Ordinance, and the application of such Gross Revenues in the manner required in the Ordinance.

Notwithstanding the provisions of the foregoing, (i) acceleration as a remedy is expressly denied, (ii) no grace period for a default in the performance of any duty or covenant shall exceed thirty (30) days, nor will any grace period be extended for more than sixty (60) days without the written consent of the Bond Insurer, (iii) no grace period is permitted with respect to a default in the payment of Debt Service or the payment of Administrative Expenses when due. For purposes of exercising the rights of Owners of the Bonds upon the occurrence of an event of default in the payment of Debt Service on any of the Revenue Bonds or Credit Agreement Obligations or a default in the performance of any duty or covenant, the Bond Insurer will be deemed to be the sole holder of the Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Owners of the Bonds are entitled to take pursuant to the Ordinance.

On June 30, 2006, the Texas Supreme Court (the "Court") ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) ("Tooke") that a waiver of sovereign immunity must be provided for by statute in "clear and unambiguous" language. In so ruling, the Court declared that statutory language such as "sue and be sued" or "plead and be impleaded", in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act applies to cities and relates to contracts entered into by cities for goods or services. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract).

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"); however, Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, such as that of the Net Revenues of the Airport System. 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 bondholders 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 any other remedies available to the registered owners, other than for the pledge of Net Revenues of the Airport System securing the Bonds, 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.

Book-Entry-Only System

DTC will act as securities depository for the Bonds (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Securities, each in the aggregate principal amount of 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 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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 Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities 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 Securities 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 Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to

obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to the Tender Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to the Tender Agent's DTC account.

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

Subject to DTC's policies and guidelines, the City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

Registration, Transfer and Exchange

Registration and Payment. The Bonds were initially issuable in, and currently are held in, the name of Cede & Co., as nominee of DTC, which acts as securities depository for the Bonds. Debt Service on the Bonds will be paid by the Paying Agent/Registrar to Cede & Co., as nominee for DTC, which shall disburse such payments to the DTC participants who will distribute such payments to the Beneficial Owners as described herein.

For so long as DTC is the securities depository for the Bonds, the term "Owner" shall refer solely to DTC. In the event that DTC is no longer the securities depository for the Bonds, the term "Owner" shall refer to a successor securities depository or the Beneficial Owners of the Bonds which are shown as registered owners on the registration books of the Paying Agent/Registrar. Principal of the Bonds will be payable to the Owner at maturity or prior redemption upon presentation thereof to the Paying Agent/Registrar. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the Paying Agent/Registrar or the Trustee is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

Future Registration. In the event that DTC is no longer the securities depository for the Bonds and a successor securities depository is not appointed by the City, the Bonds may be transferred, registered and assigned only on the registration books of the Paying Agent/Registrar and such registration shall be at the expense of the City except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. A Bond may be assigned by execution of an assignment form on the Bonds or by other instruments of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond will be delivered by the Paying Agent/Registrar to the last assignee (the new Owner) in exchange for such transferred and assigned Bond in accordance with the provisions of the Ordinance. Such new Bonds must be in an Authorized Denomination.

Successor Paying Agent/Registrar. Wells Fargo Bank, N.A. is acting as the Paying Agent/Registrar for the Bonds. Provision is made in the Ordinance for replacement of the Paying Agent/Registrar for one or more series of Bonds. If the Paying Agent/Registrar is replaced by the City with respect to one or more series of Bonds, such Paying Agent/Registrar, promptly upon the appointment of the successor, will deliver the Registrar (or a copy thereof) and all other pertinent books and records relating to the Bonds to the successor Paying Agent/Registrar. The Paying Agent/Registrar selected by the City shall be a commercial bank, a trust company organized under the laws of the State of Texas or the United States of America, or other entity duly qualified and legally authorized to serve as and perform the duties and services of paying agent and registrar for the Bonds. A successor Paying Agent/Registrar, if any, shall be determined by the City. The Paying Agent/Registrar shall not be required to transfer or exchange any Bond during the 45-day period prior to the date fixed for redemption; provided, however, that such restriction shall not apply to the transfer or exchange by the Registered Owner of the unredeemed portion of a Bond called for redemption in part.

Paying Agent/Registrar

Interest on and principal of the Bonds will be payable, and transfer functions will be performed at the Designated Payment/Transfer Office of the Paying Agent/Registrar, currently its corporate trust office is in Minneapolis, Minnesota. 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 while the Bonds are outstanding and any successor Paying Agent/Registrar shall be a commercial bank, trust company organized under the laws of the State of Texas or the United States of America, or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar. 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, firstclass postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

SECURITY FOR THE BONDS

Pledge

The Bonds are limited special obligations of the City and are payable from and are equally and ratably secured solely by a lien on the Net Revenues of the Airport System, subordinate only to the lien on and pledge of Net Revenues to secure the Prior Lien Bonds, and a first lien on the moneys on deposit in the Debt Service Fund and the Debt Service Reserve Fund. The Bonds are Revenue Bonds under the Ordinance. For definitions of the "Airport System," "Net Revenues," "Revenue Bonds," and "Operation and Maintenance Expenses," see "APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE - Selected Definitions."

The Ordinance does not constitute a mortgage of any of the physical properties forming a part of the Airport System or create any lien thereon or security interest therein. The Bonds are not general obligations of the City, and neither the taxing power of the City nor the State of Texas is pledged as security for the Bonds.

Rate Covenant

The City covenants in the Ordinance that it will at all times fix, charge, impose and collect rentals, rates, fees and other charges for the use of the Airport System, and, to the extent it legally may do so, revise the same as may be necessary or appropriate, in order that in each Fiscal Year, the Net Revenues will be at least sufficient to equal the **larger** of either (i) all amounts required to be deposited in such Fiscal Year to the credit of the Prior Lien Debt Service Fund, the Prior Lien Debt Service Reserve Fund, the Debt Service Fund, the Debt Service Reserve Fund, and the Administrative Expenses Fund and to any debt service or debt service reserve fund or account for Subordinate Obligations, **or** (ii) an amount, together with Other Available Funds, not less than 125% of the Debt Service Requirements for the Prior Lien Bonds and Revenue Bonds

for such Fiscal Year plus an amount equal to 100% of anticipated and budgeted Administrative Expenses for such Fiscal Year.

If the Net Revenues in any Fiscal Year are less than the amounts specified above, the City, promptly upon receipt of the annual audit for such Fiscal Year, must request an Airport Consultant to make its recommendations, if any, as to a revision of the City's rentals, rates, fees and other charges, its Operation and Maintenance Expenses or the method of operation of the Airport System in order to satisfy as quickly as practicable the foregoing requirements. Copies of such request and the recommendations of the Airport Consultant shall be filed with the City Clerk. So long as the City substantially complies in a timely fashion with the recommendations of the Airport Consultant, the City will not be deemed to have defaulted in the performance of its duties under the Ordinance even if the resulting Net Revenues plus Other Available Funds are not sufficient to be in compliance with the covenant set forth above, so long as debt service is paid when due.

Pursuant to the Ordinance, so long as any Revenue Bonds or Credit Agreement Obligations remain Outstanding, the Aviation Director shall, prior to the commencement of each Fiscal Year, prepare and deliver to the chief budget officer of the City, for submission to the City Council, a recommended annual budget for the Airport System for such Fiscal Year. The City shall adopt annual budgets for the Airport System for each Fiscal Year, each of which shall contain an estimate of Gross Revenues and only such budgeted expenditures as will produce Net Revenues in an amount that, after making all deposits and payments required by the Prior Lien Ordinances, is not less than the amount necessary to pay the Debt Service and Administrative Expenses when due and make the required deposits to the Debt Service Reserve Fund. After the adoption of the annual Airport System budget by the City, the total expenditures for Operation and Maintenance Expenses will not exceed the total expenditures authorized for such purposes by such budget, as it may from time to time be amended. The City Manager supervises each department of the City and is responsible for the preparation and presentation of the overall budget.

Debt Service Reserve Fund

The Ordinance establishes a Debt Service Reserve Fund for the benefit of all Revenue Bonds and requires that an amount equal to the Debt Service Reserve Fund Requirement be accumulated and maintained therein in accordance with the Revenue Bond Ordinances. The Debt Service Reserve Fund Requirement is defined as the arithmetic average of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Revenue Bonds then Outstanding, including the Bonds. The Ordinance also provides for the use of a Debt Service Reserve Fund Surety Bond in lieu of a cash deposit. See "APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE - Funds and Flow of Funds - Debt Service Reserve Fund."

In connection with the original issuance of the Bonds, a surety bond in the amount equal to the Debt Service Reserve Fund Requirement issued by Financial Security Assurance ("FSA") was deposited to the credit of the Debt Service Reserve Fund to fully fund the Debt Service Reserve Fund Requirement in the amount of \$25,536,832.80.

In connection with the issuance of the Debt Service Reserve Fund Surety Bond, the City and FSA have entered into an Insurance Agreement (the "Agreement"). Pursuant to the Agreement, the City has agreed to reimburse FSA together with interest with respect to any draw on the Debt Service Reserve Fund Surety Bond. The reimbursement period shall be 18 months following payment to the Debt Service Reserve Fund pursuant to a Debt Service Reserve Fund Surety Bond payment. The City has never drawn on a Debt Service Reserve Fund Surety Bond issued in connection with Airport System Bonds.

Additional Revenue Bonds

The City has reserved the right to issue Additional Revenue Bonds on a parity with the Bonds for any lawful Airport System purpose upon the meeting of certain conditions including the following: (i) certain officials of the City certify that upon issuance of such Additional Revenue Bonds the City will not be in default under any terms or provisions of any Prior Lien Bonds or Revenue Bonds or under the provisions of the ordinances pursuant to which they were issued, and upon the issuance of such Additional Revenue Bonds the Prior Lien Debt Service Fund, the Prior Lien Debt Service Reserve Fund, the Debt Service Fund and Debt Service Reserve Fund will have the required amounts on deposit or contained therein; and (ii) a written report of an Airport Consultant indicates that the estimated Net Revenues, together with the estimated Other Available Funds, of the Airport System for each of three (3) consecutive Fiscal Years beginning in the earlier of (a) the first Fiscal Year following the estimated date of completion and initial use of all revenue producing facilities to be financed with Additional Revenue Bonds, based upon a certified written estimated completion date by the consulting engineer for such facility or facilities, or (b) the first Fiscal Year in which the City will have scheduled payments of interest on or principal of

the Additional Revenue Bonds to be issued for the payment of which provision has not been made as indicated in the report of such Airport Consultant from proceeds of such Additional Revenue Bonds, investment income thereon or from other appropriated sources (other than Net Revenues) are equal to at least 125% of the Debt Service Requirements on all Outstanding Prior Lien Bonds and Revenue Bonds scheduled to occur during each such respective Fiscal Year after taking into consideration the additional Debt Service Requirements for the Additional Revenue Bonds to be issued.

In lieu of the certification described in (ii) above, the City's Chief Financial Officer may provide a certificate showing that, for either the City's most recently completed Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Net Revenues, together with Other Available Funds, of the Airport System were equal to at least 125% of the maximum Debt Service Requirements on all outstanding Prior Lien Bonds and Revenue Bonds scheduled to occur in the then current or any future Fiscal Year after taking into consideration the issuance of the Additional Revenue Bonds proposed to be issued.

If Additional Revenue Bonds are being issued for the purpose of refunding less than all previously issued Prior Lien Bonds or Revenue Bonds which are then Outstanding, neither the report of the Airport Consultant nor the certificate of the City's Chief Financial Officer described above is required so long as the maximum annual Debt Service Requirements in any Fiscal Year after the issuance of such Additional Revenue Bonds will not exceed the maximum annual Debt Service Requirements in any Fiscal Year prior to the issuance of the Additional Revenue Bonds.

Subordinate Obligations

The City has reserved the right to issue or incur, for any lawful Airport System purpose, bonds, notes or other obligations, including credit agreement obligations related thereto, secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the lien on Net Revenues securing payment of the Prior Lien Bonds and the Bonds, and any additional Revenue Bonds. Although referred to in the Ordinance as "Subordinate Obligations", such bonds, notes or other obligations may bear any name or designation provided by the ordinance authorizing their issuance. Such Subordinate Bonds may be further secured by any other source of revenues lawfully available for such purposes, whether or not pledged as security for the Bonds or the Revenue Bonds. See "DEBT SERVICE REQUIREMENTS".

Special Facilities Bonds

The City has reserved the right to issue from time to time, in one or more series, Special Facilities Bonds as provided in the Ordinance to finance and refinance the cost of any Special Facilities, including all reserves required therefor, all related costs of issuance and other amounts reasonably relating thereto, provided that such Special Facilities Bonds shall be payable solely from payments by Special Facilities lessees and/or other security not provided by the City. In no event shall any Gross Revenues or any other amounts held in any other fund or account maintained by the City as security for the Prior Lien Bonds, the Revenue Bonds or for the construction, operation, maintenance or repair of the Airport System be pledged to the payment of Special Facilities Bonds. See "DEBT SERVICE REQUIREMENTS".

Flow of Funds

The Ordinance creates, or affirms the creation of, eight special funds in addition to the Construction Fund. Gross Revenues as received are required to be deposited into the Revenue Fund established by the Ordinance, and moneys in such fund are required to be applied and allocated on a monthly basis in the manner and the priority established by the Ordinance. See "APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE - Funds and Flow of Funds".

BOND INSURANCE

The following information has been furnished by FSA (also referred to herein as "Financial Security") for use in this Remarketing Memorandum. A specimen of FSA's policy (the "Policy" or the "Bond Insurance Policy") is included as Appendix E hereto.

Financial Security Assurance Inc.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and

other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security

At December 31, 2007, Financial Security's consolidated policyholders' surplus and contingency reserves were approximately \$2,703,119,716 and its total net unearned premium reserve was approximately \$2,274,576,959 in accordance with statutory accounting principles. At December 31, 2007, Financial Security's consolidated shareholder's equity was approximately \$2,962,301,379 and its total net unearned premium reserve was approximately \$1,796,984,819 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2007 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Remarketing Memorandum. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Remarketing Memorandum and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Remarketing Memorandum. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Remarketing Memorandum, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Remarketing Memorandum.

THE INTEREST RATE SWAP AGREEMENT

In conjunction with the original delivery of the Bonds, and pursuant to the Ordinance, the City entered into an Interest Rate Swap Agreement (the "Interest Rate Swap Agreement") with Morgan Stanley Capital Services, Inc. (the "Counterparty"), an affiliate of Morgan Stanley, to enable the City to substantially fix its interest obligation on the debt represented by the Bonds.

Under the terms of the Interest Rate Swap Agreement, the City is obligated to make payments to the Counterparty calculated on a notional amount equal to the scheduled outstanding principal amount of the Bonds and a fixed interest rate of 4.051% per annum, and the Counterparty is obligated to make reciprocal payments to the City calculated on a notional amount equal to the scheduled outstanding principal amount of the Bonds and a variable rate equal to 71% of the one-month London Interbank Borrowing Rate (LIBOR) for U.S. deposits. Payments under the Interest Rate Swap Agreement will be made on a net basis on the first day of each month, commencing in October 2005 and ending in November 2025. Interest on the Bonds has been and will be calculated on the basis of an index that differs from the LIBOR index used to calculate amounts payable to the City under the terms of the Interest Rate Swap Agreement. On the effective date of the Interest Rate Swap Agreement, the Counterparty was rated "Aa3" by Moody's, "AA-" by S&P and "AA-" by Fitch. Payments to be made by the City, if any, under the terms of the Interest Rate Swap Agreement (other than a "termination payment" as discussed below) are on a parity with the City's obligation to pay principal of and interest on the Bonds. See APPENDIX B – "EXCERPTS FROM THE ANNUAL FINANCIAL REPORT – Note 14 COMMITMENTS AND CONTINGENCIES – Swap for the Airport System" for a discussion relating to the valuation of and risks associated with the Interest Rate Swap Agreement. Arrangements made in respect of the Interest Rate Swap Agreement do not alter the City's obligation to pay principal of and interest on the Bonds. As of the date of this Official Statement, the net aggregate monthly payments the City has made under the Interest Rate Swap Agreement equal \$4,549,183.

If either party to the Interest Rate Swap Agreement commits an event of default, suffers a reduction in credit worthiness, or merges with a materially weaker entity, or in certain other circumstances, the Interest Rate Swap Agreement may be terminated at the option of the other party. Accordingly, no assurance can be given that the Interest Rate Swap Agreement will continue in existence until November 2025. If the Interest Rate Swap Agreement is terminated, then current market conditions will determine whether the City will owe a termination payment to the Counterparty or be entitled to receive a termination payment from the Counterparty. Such termination payment generally would be based on the market value of the Interest Rate Swap Agreement on the date of termination and could be substantial. In addition, a partial termination of the Interest Rate Swap Agreement could occur to the extent any Bonds are redeemed pursuant to the City exercising its right to effect an optional redemption of Bonds. If such optional redemption were to occur, termination payments related to the portion of the Interest Rate Swap Agreement to be terminated will be owed by either the City or the Counterparty, depending on existing market conditions. The obligation of the City to pay a termination payment to the Counterparty is a

Subordinate Obligation under the Ordinance, but could result in the City issuing Additional Revenue Bonds or Subordinate Obligations to enable the City to make such a termination payment.

The City's obligation to make scheduled payments under the Interest Rate Swap Agreement is insured by a policy issued by FSA; however, any termination payment the City may become obligated to pay under the terms of the Interest Rate Swap Agreement is not covered by the policy issued by FSA.

STANDBY BOND PURCHASE AGREEMENT

The following summary of the Liquidity Facility does not purport to be comprehensive or definitive and is subject to all the terms and provisions of the Liquidity Facility to which reference is made hereby. Investors are urged to obtain and review a copy of the Liquidity Facility in order to understand all of the terms of that document.

The City covenants in the Ordinance to maintain a Liquidity Agreement or other similar agreement at all times that the Bonds remain Outstanding in the Weekly Rate Mode. Pursuant to such covenant the City is to enter into the Liquidity Facility with the Standby Purchaser.

Description of Purchase Commitment

In accordance with the terms of the Liquidity Facility, the Standby Purchaser agrees, at the request from time to time of the Tender Agent on behalf of the City, to purchase Eligible Bonds (hereinafter defined) tendered for purchase in accordance with the Ordinance with respect to which the Tender Agent does not, on the date any such tendered Bonds are required to be purchased pursuant to the Ordinance, have sufficient funds to make such purchase as a result of the remarketing of the tendered Bonds. The obligation of the Standby Purchaser to purchase any Eligible Bond on a Purchase Date is subject to: (a) receipt by the Standby Purchaser of a notice of purchase from the Tender Agent given in accordance with the Liquidity Facility; and (b) the condition that the Standby Purchaser's obligation to purchase Eligible Bonds pursuant to the Liquidity Facility has not been suspended or terminated.

"Eligible Bonds" means any Bonds Outstanding under and entitled to the benefits of the Ordinance which bear interest at the Weekly Rate and that are tendered or deemed tendered for optional or mandatory purchase pursuant to the terms of the Ordinance other than any such Bond which (a) is a Bond that has been previously purchased with amounts advanced under the Liquidity Facility and continues to be owned by or for the benefit of the Standby Purchaser or its assignee or transferee or (b) is owned by or on behalf of or is held for the account or for the benefit of the City or any affiliate of the City or by FSA.

The Standby Purchaser's obligation to purchase Bonds will terminate on May 2, 2011 or, if such day is not a Business Day, on the next preceding Business Day, unless terminated earlier. The Standby Purchaser's obligation will be terminated if an Alternate Liquidity Facility has been delivered to the Tender Agent and certain other conditions specified in the Ordinance are satisfied. Under certain circumstances the obligation of the Standby Purchaser to purchase Bonds will be immediately and automatically suspended or terminated without notice to the Holders of Bonds, and without providing the Holders a right to tender their Bonds pursuant to optional or mandatory tender. These circumstances are described below under "Events of Default Permitting Immediate Suspension or Termination." In addition, upon giving written notice to the City, the Tender Agent and the Remarketing Agents stating that the Liquidity Facility will terminate 15 days after receipt of such notice the Standby Purchaser may terminate its commitment following either of the Events of Default described in clauses (a)(i) or (i) under the heading "Events of Default Not Permitting Immediate Termination" below. Such termination will subject the Bonds to mandatory tender prior to such termination.

In no event, however, will the Standby Purchaser be obligated to make funds available to the Tender Agent, or otherwise advance funds to purchase Bonds, in an amount in excess of the Standby Purchaser's Available Commitment. "Available Commitment" as of any day means the sum of the Available Principal Commitment and the Available Interest Commitment, in each case as of such day. "Available Principal Commitment" initially means \$281,300,000 and thereafter means such initial amount adjusted from time to time as follows: (a) downward by the amount of any reduction of the Available Principal Commitment due to a redemption or repayment of all or any portion of the principal amount of the Bonds or a conversion of the interest rate Mode applicable to any of the Bonds to a Mode other than the Weekly Mode; (b) downward by the principal amount of any Bonds purchased by the Standby Purchaser pursuant to the terms of the Liquidity Facility; and (c) upward by the principal amount of any Bonds purchased by the Standby Purchaser pursuant to the terms of the Liquidity Facility, which are sold or deemed sold by the Standby Purchaser (regardless of the purchase price received for such Bonds)

or which the Standby Purchaser elects to retain, pursuant to the terms of the Liquidity Facility. "Available Interest Commitment" initially means \$3,236,877 and, upon any change in the amount of the Available Principal Commitment hereunder, means an amount equal to 35 days of accrued interest at 12% per annum on the Available Principal Commitment then in effect computed on the basis of a year of 365/366 days. Bonds purchased by the Standby Purchaser are referred to herein as the "Bank Bonds" or the "Standby Purchaser Bonds".

Events of Default Not Permitting Immediate Termination

The occurrence of any of the following "Events of Default" does not permit immediate termination of the Standby Purchaser's obligation to purchase tendered Bonds:

(a) The City shall fail to pay when due (i) any installment of the facility fee payable under the Liquidity Facility and such failure shall continue for a period of ten Business Days after written notice is provided to FSA of such failure, or (ii) any other any amounts owed by the City to the Standby Purchaser pursuant to the Liquidity Facility.

(b) Any representation or warranty made by or on behalf of the City in the Liquidity Facility or in the Related Documents shall prove to have been incorrect or untrue in any material respect when made or deemed to have been made.

(c) The City shall fail to perform or observe any term covenant, or agreement (other than those otherwise described in this Section) in the Liquidity Facility or Related Documents which failure continues for 30 days or more.

(d) An "Event of Default" under the Ordinance or an "Event of Default" under any ordinance pursuant to which any other Bonds secured by Net Revenues has been issued.

(e) Any provision of the Liquidity Facility, the Bonds or any of the Related Documents shall cease to be valid and binding on the City, or the City shall contest any such provision, or the City or any agent or trustee on behalf of any of them, shall deny that it has any further liability under any provision of the Liquidity Facility, the Bonds or any of the Related Documents.

(f) Entry of filing of any judgment, writ or warrant of attachment or of any similar process against the City payable from Pledged Revenues in an amount greater than \$5,000,000 and failure of the affected entity to vacate, bond, stay or contest in good faith such judgment, writ, warrant of attachment or other process for a period of 30 days or failure to pay or satisfy such judgment within 60 days or as otherwise required by such judgment, writ or warrant of attachment.

(g) Any event of default under any of the Related Documents shall occur.

(h) The occurrence of one or more of the following events with respect to the City: (i) the issuance, under the laws of the United States of America, of an order of rehabilitation, liquidation or dissolution of the City; (ii) the commencement by or against the City of a case or other proceeding seeking liquidation, reorganization or other relief with respect to the City or its debts under any bankruptcy, insolvency or other similar state or federal law now or hereafter in effect, including, without limitation, the appointment of a trustee, receiver, liquidator, custodian or other similar official for the City or any substantial part of its property; (iii) the making of an assignment for the benefit of creditors by the City; (iv) the failure of the City to generally pay its debts as they become due; (v) the declaration of a moratorium with respect to the payment of the debts of the City; (vi) the City shall admit in writing its inability to pay its debts when due; or (vii) the initiation of any actions to authorize any of the foregoing by or on behalf of the City.

(i) The financial strength rating assigned to FSA by the Rating Agencies is withdrawn, suspended or falls below each of "AA-" by S&P, "AA-" by Fitch and "Aa3" by Moody's, respectively for a period of 30 consecutive days.

Events of Default Permitting Immediate Suspension or Termination

The occurrence of any of the following "Events of Default" does permit immediate suspension or termination of the Standby Purchaser's obligation to purchase tendered Bonds with no opportunity to tender Bonds before suspension or termination:

(1) FSA shall (i) file any petition or commence any case or proceeding under any provision or chapter of the United States Bankruptcy Code or any other similar federal or state law relating to insolvency, bankruptcy, rehabilitation, liquidation

or reorganization, (ii) make a general assignment for the benefit of its creditors or fail to generally pay its debts as they become due, or (iii) have an order for relief entered against it under the United States Bankruptcy Code or any other similar federal or state law relating to insolvency, bankruptcy, rehabilitation, liquidation or reorganization which is final and nonappealable.

(2) The commencement of any proceeding in a court of competent jurisdiction or by the New York Department of Insurance or other governmental authority with appropriate jurisdiction (i) seeking the appointment of a custodian, trustee, agent or receiver for FSA or for all or any material portion of its property, (ii) seeking the liquidation, dissolution, reorganization or rehabilitation of FSA or (iii) authorizing the taking of possession by a custodian, trustee, agent or receiver of FSA or the taking of possession of all or any material portion of the property of FSA and, in the case of any proceeding described in this clause (b), such proceeding is not dismissed within ninety (90) days.

(3) Any principal or interest due on the Bonds (including the Standby Purchaser Bonds) is not paid by the City when due and such principal or interest is not paid by FSA when, as, and in the amounts required to be paid pursuant to the terms of the Bond Insurance Policy.

(4) (i) Any provision of the Bond Insurance Policy affecting FSA's obligation to pay under such policy at any time for any reason ceases to be valid and binding on FSA in accordance with the terms of the Bond Insurance Policy or is declared to be null and void in each case by a final non-appealable order of a court or other governmental agency of appropriate jurisdiction, or (ii) the validity or enforceability thereof is contested by FSA, the New York Department of Insurance, or court or governmental authority of appropriate jurisdiction, in writing or (iii) FSA denies in writing that it has any or further liability or obligation under the Bond Insurance Policy.

(5) FSA shall fail to make any payment (other than payments which are subject to good faith dispute) required under any municipal bond insurance policy (other than the Bond Insurance Policy) issued by it insuring obligations publicly rated by Moody's, Fitch or S&P when due and such payment default shall continue for a period of seven (7) days.

(6) The financial strength rating assigned to FSA by all of the Rating Agencies shall be withdrawn, suspended or reduced below Baa3 by Moody's, BBB- by Fitch, and BBB- by S&P, respectively.

(7) Without the prior written consent of the Standby Purchaser, the Bond Insurance Policy is canceled or terminated, or amended or modified in any respect which materially and adversely affects the rights of the Standby Purchaser.

Upon the occurrence of an Event of Default hereunder, the Standby Purchaser may take one or more of the following actions:

(i) In the case of any Event of Default specified in clauses (1) through (7), under "Events of Default Permitting Immediate Suspension or Termination" above, the Available Commitment and the obligation of the Standby Purchaser to purchase Eligible Bonds shall immediately and automatically terminate without notice or demand, and thereafter the Standby Purchaser shall be under no obligation to purchase Eligible Bonds. Upon such Event of Default, the Standby Purchaser shall promptly give written notice of the same to the Tender Agent, the City and the Remarketing Agents; provided, that the Standby Purchaser shall incur no liability of any kind by reason of its failure to give such notice, and such failure shall in no way affect the termination of the Available Commitment and of the obligation of the Standby Purchaser to purchase Bonds pursuant to the Liquidity Facility. The Tender Agent shall immediately notify the Paying Agent/Registrar, who shall notify all Bondholders of the termination of the Available Commitment and the obligation of the Standby Purchaser to purchase the Eligible Bonds.

(ii) In the case of any Default under clause (5), (1) and (2) of the section "Events of Default Permitting Immediate Suspension or Termination" and prior to the expiration of the 90 day period referenced in clause 2(b) and, in the case of clause (5) of such section and prior to the expiration of the 7 day period referenced therein, the Standby Purchaser's obligations to purchase Bonds will be automatically and immediately suspended without notice or demand and thereafter the Standby Purchaser will be under no obligation to purchase Bonds until the Available Commitment is reinstated as described in this clause. Promptly upon the Standby Purchaser obtaining knowledge of any such Default, the Standby Purchaser will give written notice of the same to the City, the Tender Agent, the Remarketing Agents and FSA of such suspension; provided, that the Standby Purchaser will incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the suspension of the Standby Purchaser's obligations to purchase Eligible Bonds. In the case of a Default under clause (1) or (2), if such insolvency proceedings are dismissed within the 90 day period

referenced in clause (2) then the Standby Purchaser's obligation to purchase Bonds under the Liquidity Facility shall be reinstated unless otherwise terminated under the Liquidity Facility. If such proceedings are not dismissed within such 90 day period then the obligation of the Standby Purchaser to purchase Bonds shall terminate pursuant to clause (i) above. In the case of a Default under clause (5), if the payment default by the Bond Insurer triggering such event is cured within such 7 day period the obligation of the Standby Purchaser to purchase Bonds under the Liquidity Facility shall be reinstated, unless otherwise terminated under the Liquidity Facility. If such payment default by FSA which has caused the Default under clause (5) is not cured within such 7 day period, the obligation of the Standby Purchaser to purchase Eligible Bonds shall terminate pursuant to clause (i) above.

(iii) In the case of any Event of Default as specified in clause (a)(i) or (i) under "Events of Default Not Permitting Immediate Termination," the Standby Purchaser may give written notice of such Event of Default to the City, the Tender Agent and the Remarketing Agents stating that the Liquidity Facility shall terminate fifteen (15) days after such notice is received by the Tender Agent and directing that the Bonds be called for mandatory tender pursuant to the Ordinance. The obligation of the Standby Purchaser to purchase Eligible Bonds shall terminate fifteen (15) days after such notice is received by the Tender Agent, and on such date the Available Commitment shall terminate and the Standby Purchaser will be under no obligation pursuant to the Liquidity Facility to purchase Eligible Bonds.

(iv) Upon the occurrence of any Event of Default under clause (a)(i) "Events of Default Not Permitting Immediate Termination," and (1) through (7) under "Events of Default Permitting Immediate Suspension or Termination," all amounts owed to the Standby Purchaser under the Liquidity Facility and under any Liquidity Provider Bonds shall bear interest at the Default Rate and the Standby Purchaser shall have all remedies provided at law or equity, including, without limitation, to accelerate all amounts due under the Liquidity Facility and under the Liquidity Provider Bonds (provided, however in the case of an Event of Default under clauses (a) through (i) under "Events of Defaults Not Permitting Immediate Termination" amounts owed under the Liquidity Facility and with respect to Liquidity Provider Bonds shall not be subject to acceleration and, except as described in clauses (i), (ii) and (iii) above, the Standby Purchaser shall not have the right to terminate the Purchase Period or cause a mandatory tender of Bonds) and specific performance. The Standby Purchaser shall promptly provide written notice to the Tender Agent and the City of any acceleration of the amounts due under the Liquidity Facility

(v) In addition to the rights and remedies set forth in (i), (ii), (iii) and (iv) above, upon the occurrence of any Event of Default specified in the sections entitled "Events of Default Not Permitting Immediate Termination" and "Events of Default Permitting Immediate Suspension or Termination," (i) the Standby Purchaser may demand that all amounts payable hereunder (excluding principal and interest on the Bonds) shall, upon notice to the City, become immediately due and payable without further presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the City; and/or (ii) the Standby Purchaser may exercise all the rights and remedies available to it under this Liquidity Facility, the Related Documents, or otherwise pursuant to law or equity; provided, however, that the Standby Purchaser shall not have the right to terminate its obligation to purchase Eligible Bonds or to declare any amount due hereunder due and payable except as expressly provided herein, or to accelerate the maturity date of any Bonds except as provided in the Ordinance.

(vi) In the case of any Event of Default under the Liquidity Facility the Standby Purchaser shall have the right, but not the obligation, to cure any such Event of Default (in which case the City shall reimburse the Standby Purchaser therefor pursuant the Liquidity Facility).

THE REMARKETING AGENTS

The Remarketing Agents are Paid by the Issuer

The Remarketing Agents' responsibilities include determining the interest rate from time to time and remarketing Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Remarketing Agreements), all as further described in this Official Statement. The Remarketing Agents are appointed by the issuer and is paid by the issuer for its services. As a result, the interests of the Remarketing Agents may differ from those of existing holders and potential purchasers of Bonds.

The Remarketing Agents Routinely Purchase Bonds for its Own Account

The Remarketing Agents act as remarketing agents for a variety of variable rate demand obligations and, in their sole discretion, routinely purchases such obligations for their own account. The Remarketing Agents are permitted, but not

obligated, to purchase tendered Bonds for its own account and, in their sole discretion, routinely acquire such tendered Bonds in order to achieve a successful remarketing of the Bonds (i.e., because there otherwise are not enough buyers to purchase the Bonds), or for other reasons. However, the Remarketing Agents are not obligated to purchase Bonds, and may cease doing so at any time without notice. The Remarketing Agents may also make a market in the Bonds by routinely purchasing and selling Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agents are not required to make a market in the Bonds. The Remarketing Agents may also sell any Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Bonds. The purchase of Bonds by the Remarketing Agents may cause the interest rate to be lower than it would be if the Remarketing Agents did not purchase Bonds and may create the appearance that there is greater third party demand for the Bonds in the market than is actually the case. The practices described above also may result in fewer Bonds being tendered in a remarketing.

Bonds May be Offered at Different Prices on Any Date Including an Interest Rate Determination Date

Pursuant to the Remarketing Agreements, the Remarketing Agents are required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Bonds bearing interest at the applicable interest rate at par plus accrued interest, if any, on and as of the applicable Rate Determination Date. The interest rate will reflect, among other factors, the level of market demand for the Bonds (including whether either Remarketing Agent is willing to purchase Bonds for its own account). The purchase of the Bonds by the Remarketing Agents may cause the interest rate to be lower than it would be if the Remarketing Agents did not purchase Bonds. There may or may not be Bonds tendered and remarketed on a Rate Determination Date, the Remarketing Agents may or may not be able to remarket any Bonds tendered for purchase on such date at par and the Remarketing Agents may sell Bonds at varying prices to different investors on such date or any other date. The Remarketing Agents are not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Bonds at the remarketing price. The Remarketing Agents, in their sole discretion, may offer Bonds on any date, including the Rate Determination Date, at a discount to par to some investors.

The Ability to Sell the Bonds other than through Tender Process May Be Limited

The Remarketing Agents may buy and sell Bonds other than through the tender process. However, they are not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Bonds other than by tendering the Bonds in accordance with the tender process.

Under Certain Circumstances, the Remarketing Agents May Be Removed, Resign or Cease Remarketing the Bonds, Without a Successor Being Named.

Under certain circumstances the Remarketing Agents may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreements. In the event there is no Remarketing Agent, the Paying Agent/Registrar may assume such duties as described in the Ordinance.

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DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 09/30	Outstanding Prior Lien Bonds (a)	The Bonds		Estimated Debt Service		Estimated Total Combined Debt Service Requirements
		Interest		Series A		
		Principal		Revenue	Notes (b)	
2008	\$ 1,322,413	\$ -	\$ 4,431,569	\$ 840,000	\$ 6,593,981	
2009	4,457,825	10,475,000	11,041,844	1,680,000	27,654,669	
2010	4,467,125	10,975,000	10,600,623	1,680,000	27,722,748	
2011	4,468,125	11,500,000	10,138,303	1,680,000	27,786,428	
2012	4,474,950	12,050,000	9,653,871	1,680,000	27,858,821	
2013	10,760,325	6,125,000	9,365,743	1,680,000	27,931,068	
2014	2,128,375	15,350,000	8,806,199	1,680,000	27,964,574	
2015	2,127,775	16,075,000	8,159,896	1,680,000	28,042,671	
2016	2,126,775	16,825,000	7,483,379	1,680,000	28,115,154	
2017	17,435,781	2,850,000	7,273,570	1,680,000	29,239,352	
2018	17,403,206	2,975,000	7,153,897	28,280,000	55,812,103	
2019	2,268,013	18,650,000	6,504,218	-	27,422,231	
2020	-	21,800,000	5,642,368	-	27,442,368	
2021	-	21,725,000	4,761,782	-	26,486,782	
2022	-	20,900,000	3,909,553	-	24,809,553	
2023	-	21,800,000	3,032,511	-	24,832,511	
2024	-	22,750,000	2,117,323	-	24,867,323	
2025	-	23,725,000	1,162,806	-	24,887,806	
2026	-	24,750,000	167,104	-	24,917,104	
2027	-	-	-	-	-	

(a) Calculated using synthetic fixed rate of 4.051% to be paid by the City pursuant to the Interest Rate Swap Agreement. See "THE INTEREST RATE SWAP AGREEMENT".

(b) Estimated at an assumed interest rate of 6.00%.

* As of April 1, 2008.

THE AIRPORT SYSTEM

ABIA

The Airport System is comprised of airport, heliport and aviation facilities or any interest therein owned, operated or controlled in whole or in part by the City and includes Austin Bergstrom International Airport ("ABIA"), but expressly excludes any heliport or heliports operated by City Departments other than the Aviation Department. ABIA is classified by the Federal Aviation Administration ("FAA") as a medium hub airport. According to Airports Council International, ABIA is the 48th largest airport in the United States based on 2006 total passengers.

On May 23, 1999, ABIA commenced operations at which time Robert Mueller Municipal Airport ceased operations. The property on which Robert Mueller Municipal Airport was located is being developed as mixed-use development, and will no longer be used as an airport. ABIA includes the passenger terminal building, support facilities and a network of public and restricted use roads. The terminal building, the adjacent aircraft parking apron and the related support facilities are located between the independent parallel runways. The terminal building contains 675,000 square feet of integrated terminal core and concourse areas with 25 gates (24 domestic and one international gate and associated Federal Inspection Services area). The existing terminal building may be expanded to add up to nine additional gates.

A parking garage is directly adjacent to the landside of the terminal. The structure is a three-level concrete facility with a capacity of 3,600 vehicles, including approximately 1,200 rental car ready return spaces. Two pedestrian connector bridges between the elevated road structure and the parking garage provide access from the terminal building to the parking garage. The public and employee parking lots provide parking for approximately 11,500 vehicles.

The east runway consists of a 9,000-foot by 150-foot concrete runway and a parallel 75-foot-wide taxiway, taxiway connectors and high-speed exits. The midfield cross taxiways consist of two 4,300-foot by 75-foot concrete parallel taxiways. The west runway consists of a 12,250-foot concrete runway and parallel taxiway and a new cross taxiway. Included in both are grading, drainage, pavement, paint stripping, lighting, signage, and utilities.

The terminal access road provides northerly access to the terminal complex from State Highway 71 via a looped, six-lane access road. The road encircles the parking garage and employee and public parking lots and splits into upper and lower levels in front of the terminal building, providing access for departures and arrivals. The overall length of the road is approximately two miles, including the elevated departure section.

ABIA also includes various aprons and taxiways to support other ABIA users, including the Texas Department of Transportation, Texas Army National Guard, and corporate and general aviation, plus support facilities for the airlines such as the Belly Freight and Ground Service Equipment Maintenance facilities. The airline/cargo fuel farm tank capacity is 1,200,000 gallons. The airport has six third party cargo buildings, which comprise approximately 1,429,072 square feet of ground space, while offering approximately 285,385 square feet of warehouse space.

The City has adopted noise, height, and land-use compatibility ordinances for the areas surrounding ABIA and has completed its Noise Study guidelines. The FAA approved noise studies as submitted on August 10, 1994, in November 2000, and most recently in December 2007. The scope of the noise mitigation program included the acquisition of approximately 68 parcels to date with an additional 65 parcels included in the recently updated study for an estimated total of \$71 million dollars.

In December 2007, the City executed a lease with Austin AIB One, LLC ("AIB One") to develop, construct, operate and maintain a new low cost South Terminal at the Airport. AIB One is an affiliate of GE Commercial Aviation Services. The terminal is intended to attract airlines that operate under an ultra low cost operating model. The initial airline that has committed to operate from the South Terminal is VivaAerobus, a Mexican airline that will offer non-stop flights to various destinations in Mexico. Initially, AIB One will convert an existing former Texas National Guard building into an interim 28,000 SF terminal with three gates. The interim terminal is expected to open by May 1, 2008. If certain financial and passenger enplanement targets are met, AIB One will design, construct, operate and maintain a "permanent" South Terminal approximately 100,000 SF in size with 8 to 10 gates. The agreement with AIB One is structured as a 30 year lease of a tract of 40 acres of land in the South part of the airport between the parallel runways. Access to the new terminal will be from the south via Burleson Road and General Aviation Avenue. The Department of Aviation will receive ground rent, plus a share of the commercial revenues generated from the operation of the South Terminal, including parking, concessions, and rental

car revenue. Additionally, the Airport System will benefit from landing fees and PFCs generated by airlines that operate at the South Terminal.

Capital Program

The Airport's Five Year Capital Improvement Program beginning FY 2008 totaling \$97,351,000 is funded primarily from cash by Capital Fund contributions (67%), and anticipated Federal Aviation Administration and Transportation Security Administration grant funding (32%). The projects for the five year program fall into five categories: Airfield/Apron - \$31,351,000; Terminal - \$20,000,000; Parking and Roadways - \$21,000,000; Noise Mitigation - \$21,400,000; and \$3,600,000— for miscellaneous issues including building roof repairs, drainage improvements, airside demolition and Aircraft Rescue and Fire Fighting ("ARFF") vehicle replacement.

Master Plan

The Master Plan update was completed in early 2003. The plan sets trigger points utilizing passenger, operations and vehicular statistics over the planning period of twenty years. Specific recommendations and/or updates of the Master Plan include:

- updated aviation demand forecasts;
- landside and airside facility requirements;
- evaluated airport development alternatives;
- prepared a airport layout plan;
- developed a financial plan; and
- evaluated potential environmental impacts.

The City received official approval of the update from the FAA, in October, 2003.

AIRLINE AGREEMENTS

The Department of Aviation has commenced preliminary discussions with airline representatives regarding new use and lease agreements. If new agreements are not in place by September 30, 2008, a short term extension of the existing agreements is likely to be implemented. If the parties are ultimately unable to come to agreement, the City could impose airport fees and terms of usage by ordinance. Under current City ordinance, any airline that does not have a written agreement to operate at the Airport must pay landing fees equal to double the rate paid by carriers who do have an agreement.

In addition, the Department of Aviation has entered into Operating Agreements with air cargo carriers serving ABIA and with certain charter passenger carriers and smaller passenger carriers. Carriers having Operating Agreements pay the same signatory rates as do carriers having Airline Use and Lease Agreements, but do not participate in setting airport fees and charges. The Operating Agreements have a shorter term (year to year) than the Airline Use and Lease Agreements. See "Certain Investment Considerations – Airline Industry – Effect of Bankruptcy on Airline Use and Lease Agreements."

The Department of Aviation will also enter into Airfield operating agreements with airlines, such as vivaAerobus, that operate from the new South Terminal which will obligate the airline to pay landing fees and PFCs to the City. Rent for the use of the South Terminal is paid to the operator, AIB One.

Rate-Making Approach at ABIA

The airlines agree to pay signatory airline rates and charges at ABIA calculated according to the rate-making procedures contained in the Airline Use and Lease Agreements, adjusted to include an allocated portion of debt service and coverage on all Airport System debt in the aeronautical rate base. The City believes that the rate-making methodology, costs included in the aeronautical rate base, and cost center allocation methodology assumed in the financial forecasts are fair and reasonable and substantially in conformance with the FAA Policy Regarding Airport Rates and Charges issued on January 30, 1995.

AIRPORT MANAGEMENT

Jim Smith, Executive Director of Aviation. Mr. Smith is responsible for the City's Department of Aviation. He served in executive capacities in Norfolk, Virginia and Dayton, Ohio before joining the City in 1984. Since coming to Austin he has served as Director of Planning and Development, Director of Public Works and Transportation, Assistant City Manager and now Executive Director of the Department of Aviation. He has a Bachelor of Science Degree from the City University of New York and a Master of Public Administration Degree from the University of Dayton.

Patti Edwards, Director, Operations & Maintenance. Ms. Edwards is responsible for all maintenance, operations, security and IT, which include buildings, grounds, airfield, roadways, motor pool and unimproved areas. She has been employed by the City's Aviation Department for over 14 years. She has been in her current position since November 2005. Ms. Edwards has over 25 years experience in Facilities and Project management. She is an active member of BOMA, ACI and AAAE.

Jamy Kazanoff, Assistant Director, Aviation Business Development & Customer Relations. Ms. Kazanoff is responsible for airport marketing, business development and community relations for ABIA. She oversees the areas of properties and contracts management, parking, advertising revenue, passenger air service development, passenger assistance programs, media relations and serves as the point of contact with many Austin-area business and community groups. She has been employed by the City's Aviation Department for ten years. Ms. Kazanoff has 25 years of marketing and business development experience, primarily serving in account executive positions with advertising agencies. She is actively involved in the Airports Council International (ACI) Marketing and Communications Committee, serving as Chairwoman in 2008. She is also active in ACI's International Program, Central Texas Regional Partnership, and Austin Hospitality Council. She is a graduate of The University of Texas at Austin with a Bachelor of Journalism degree.

Barbara E. Tipple, CPA, Assistant Director of Finance. Ms. Tipple is responsible for overall financial management of the Airport System, including financial accounting and reporting, day to day fiscal operations, budgeting, grants administration, airport rate setting and strategic planning. The City has employed her since 1982. She began working at Austin's airport in 1990 as a Senior Accountant and has been in her current position at the Airport System since 2006. Prior to 1982, she was employed in public accounting. She is a graduate of Lamar University with a Bachelor of Arts in History, completed her accounting and business education at Texas A&M University and The University of Texas at Austin and is a Certified Public Accountant.

Shane Harbinson, Assistant Director, Planning & Engineering and Maintenance. Mr. Harbinson is responsible for Airport Development, Environmental and Maintenance Services. Mr. Harbinson has served in airport positions at Minneapolis St. Paul International, and Midland International in Midland Texas before joining the City of Austin in 1999. Since coming to Austin, he has served as Operations Coordinator, Noise Abatement Officer, Airport Planner, Manager of Airport Operations, Assistant Director of Operations and Security, and now Assistant Director of Planning & Engineering and Maintenance. He is a graduate of Saint Cloud State University, Saint Cloud Minnesota, with a Bachelor of Science in Aviation. He is an active in the American Association of Airport Executives and Airport's Council International.

AIRPORT STATISTICAL DATA

ABIA is the principal air carrier airport in the Austin Core Based Statistical Area ("CBSA"), consisting of Hays, Travis, Bastrop, Caldwell and Williamson Counties. The Austin CBSA population and economy generate more than 95 percent of the passengers enplaned at ABIA.

The secondary area of the Airport service region surrounds the Austin CBSA and consists of Bastrop, Blanco, Burnet, Caldwell, Fayette, Lee and Llano Counties. The limits of the secondary area are generally defined by the availability of airline service at air carrier airports in nearby cities such as Dallas/Fort Worth (192 miles), Houston (164 miles) and San Antonio (78 miles).

After the events of September 11, 2001, the Airport System has supplemented revenues available for the payment of operation and maintenance expenses and debt service through the transfer of funds from other available Airport sources, including specifically from the Airport Capital Fund. For the Fiscal Years ended September 30, 2002 through the Fiscal Year ended September 30, 2008, the Airport System transferred on average \$7.1 million annually to the Airport Operating Fund. As is the case with other airports around the country, Airport management continues to explore opportunities to increase non-airline generated revenues at the Airport (e.g., parking, concessions, real estate and other activities).

Set forth below is a table showing the actual and budgeted transfers to the Airport Operating Fund.

Austin-Bergstrom International Airport
Transfer from Airport Capital Fund to Airport Operating Fund

Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008
<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Budgeted</u>
\$7,384,492	\$7,326,653	\$7,066,367	\$6,820,511	\$6,879,187

The transfers to the Airport Operating Fund enable the City to satisfy the rate covenant described above as well as satisfying the tests governing the issuance of Additional Revenue Bonds.

Major Economic Activity

For general information regarding the City and its economy, see APPENDIX A hereto.

AIRLINES AND MARKET SHARE

**Table 1
List of Airlines**

As of the date of this Official Statement, ABIA is being served by the following airlines.

<u>Passenger Airlines</u>	<u>All-Cargo Airlines</u>
AeroMexico Airlines	Airborne Express
Allegiant Air	Amerflight
American Airlines	Ameristar Jet Charter Inc.
Atlantic Southeast ASA	Astar Air Cargo
Continental Airlines	Baron Aviation
Casino Express	Empire Airlines
Delta Air Lines	Federal Express
ExpressJet Airlines	Lone Star Overnight
Frontier	Martinaire, Inc.
JetBlue Airways	Telesis Express
Mesa Airlines	United Parcel Service
Miami Air International	USA Jet Airlines Inc.
Midwest Airlines	
Northwest Airlines	
Pinnacle Airlines	
Skywest Airlines	
Southwest Airlines	
Trans State Airlines	
United Airlines	
US Airways	

Source: City of Austin Department of Aviation.

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The following table presents the airlines' shares of enplaned passengers for Fiscal Years 1985, 1990, 2000, 2001, 2002, 2003, 2004, 2005, 2006 and 2007.

Table 2
Airline Market Shares
Robert Mueller Municipal Airport and Austin-Bergstrom International Airport (a)
(For Fiscal Years Ended September 30)

Airline	Share of Enplaned Passengers									
	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year
	<u>1985</u>	<u>1990</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Southwest	35.0%	34.9%	37.9%	38.8%	37.6%	37.0%	36.6%	35.5%	36.5%	35.7%
American	22.1%	20.8%	24.1%	23.0%	24.1%	25.2%	25.2%	26.2%	26.4%	26.0%
Continental	8.3%	8.7%	10.0%	10.3%	11.2%	11.4%	11.6%	11.7%	12.0%	11.7%
Delta	10.2%	14.8%	10.8%	9.5%	10.8%	8.9%	8.4%	8.6%	5.4%	5.0%
Mesa	-	-	-	-	-	-	2.8%	3.3%	4.0%	2.8%
Jet Blue	-	-	-	-	-	-	-	-	2.0%	2.7%
Frontier	-	-	-	-	1.4%	1.8%	2.2%	2.1%	2.2%	2.4%
United	3.7%	4.1%	5.6%	5.9%	5.8%	8.1%	2.1%	1.7%	1.9%	2.3%
US Airways (d)	3.4%	5.2%	3.8%	3.9%	3.5%	2.9%	2.2%	1.8%	1.3%	2.0%
Skywest	-	-	-	-	-	-	-	3.0%	2.6%	1.9%
Northwest	-	2.8%	3.1%	3.2%	3.0%	3.4%	2.6%	3.5%	1.7%	1.6%
Express Jet (c)	-	-	-	-	-	-	-	-	-	1.2%
Pinnacle	-	-	-	-	-	-	1.5%	0.7%	1.4%	1.2%
Aero Mexico	-	-	-	-	-	-	-	-	0.1%	0.2%
Air Canada	-	-	0.1%	-	-	-	-	-	-	-
Air Wisconsin	-	-	-	-	-	-	1.6%	-	-	-
Allegro	-	-	-	-	0.3%	-	-	-	-	-
American Eagle	-	-	0.6%	-	-	-	-	-	-	-
Braniff	0.4%	-	-	-	-	-	-	-	-	-
Casino Express	-	-	0.1%	-	-	-	0.1%	-	-	-
Eastern	2.2%	-	-	-	-	-	-	-	-	-
Pan American	1.0%	1.0%	-	-	-	-	-	-	-	-
Sun Country	-	-	0.2%	0.2%	-	-	-	-	-	-
TranStar	9.2%	-	-	-	-	-	-	-	-	-
TWA	2.0%	2.5%	3.1%	3.2%	0.3%	-	-	-	-	-
USAir (b)	1.4%	1.1%	-	-	-	-	-	-	-	-
Vanguard	-	-	-	0.8%	1.2%	-	-	-	-	-
	<u>83.1%</u>	<u>91.3%</u>	<u>95.9%</u>	<u>94.6%</u>	<u>97.8%</u>	<u>98.7%</u>	<u>96.9%</u>	<u>98.1%</u>	<u>97.5%</u>	<u>96.7%</u>
Commuters	<u>16.9%</u>	<u>8.7%</u>	<u>4.2%</u>	<u>5.4%</u>	<u>2.2%</u>	<u>1.3%</u>	<u>3.1</u>	<u>1.9%</u>	<u>2.5%</u>	<u>3.3%</u>
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

(a) Robert Mueller Municipal Airport closed and Austin-Bergstrom International Airport opened on May 23, 1999.

(b) Discontinued service during FY1997.

(c) Service commenced during FY2007.

(d) Formerly America West; name change occurred during FY2007.

Source: City of Austin, Department of Aviation.

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AIR CARGO ACTIVITIES

The following table sets forth the historical enplaned cargo activity for the period indicated.

Table 3
Historical Cargo Traffic
 (represented in tons)
Robert Mueller Municipal Airport and Austin-Bergstrom International Airport (a)
 (For Fiscal Years Ended September 30)

Enplaned Cargo (in tons)				
<u>Fiscal Year</u>	Freight and <u>Express (b)</u>	<u>Mail</u>	<u>Total</u>	<u>Annual Increase/(Decrease)</u>
1985	3,405	3,208	6,613	-
1986	3,137	3,305	6,442	(2.6%)
1987	4,501	3,527	8,028	24.6%
1988	8,225	3,603	11,828	47.3%
1989	12,220	3,836	16,056	35.7%
1990	16,155	3,925	20,080	25.1%
1991	12,367	3,800	16,167	(19.5%)
1992	17,379	3,938	21,317	31.9%
1993	23,463	4,145	27,608	29.5%
1994	27,093	4,120	31,213	13.1%
1995	31,652	4,405	36,057	15.5%
1996	37,923	4,309	42,232	17.1%
1997	41,179	5,174	46,353	9.8%
1998	50,378	5,297	55,675	20.1%
1999	61,291	4,982	66,273	19.0%
2000	76,219	5,035	81,254	22.6%
2001	78,621	5,091	83,712	3.0%
2002	71,485	1,793	73,278	(12.5%)
2003	68,313	1,641	69,954	(4.5%)
2004	63,384	1,854	65,238	(6.7%)
2005	64,245	1,362	65,607	0.6%
2006	59,442	1,245	60,687	(7.5%)
2007	57,760	812	58,572	(3.5%)

(a) Robert Mueller Municipal Airport closed and Austin-Bergstrom International Airport opened on May 23, 1999.

(b) Includes small packages.

Source: City of Austin, Department of Aviation.

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The following table sets forth the percentage of total enplaned freight per all-cargo airline.

Table 4
Enplaned Freight Per All-Cargo Airline
Austin-Bergstrom International Airport (a)
(For Fiscal Years Ended September 30)

	Percentage of Total Enplaned Freight					
<u>All-cargo Airlines</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Federal Express	37.6%	40.2%	43.6%	44.3%	49.9%	46.2%
Burlington/ATI (b)	0.7%	-	-	-	-	-
ABX Air (d)	15.5%	17.4%	17.9%	18.2%	15.0%	16.4%
UPS Chain Supply Solutions (c)	1.0%	2.3%	2.9%	2.5%	1.4%	-
Baron Aviation	1.2%	1.5%	1.7%	1.7%	1.7%	1.8%
UPS	10.2%	11.0%	12.0%	11.4%	17.6%	20.8%
Express One	2.7%	-	-	-	-	-
DHL/Astar	5.6%	5.4%	6.2%	6.3%	-	0.4%
Custom Air	7.0%	9.7%	1.6%	-	-	-
Quest	8.6%	-	-	-	-	-
Other	<u>2.3%</u>	<u>3.8%</u>	<u>2.6%</u>	<u>3.7%</u>	<u>1.5%</u>	<u>1.4%</u>
Subtotal	92.5%	91.3%	88.5%	88.1%	87.1%	87.0%
Passenger Airlines	7.6%	8.7%	11.5%	11.9%	12.9%	13.0%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

(a) Robert Mueller Municipal Airport closed and Austin-Bergstrom International Airport opened on May 23, 1999.

(b) Prior to July 2000 Air Transport International (ATI) was Burlington Air Express (BAX).

(c) Prior to May 2005, UPS Chain Supply operated as Menlo Forwarding and Emery Forwarding.

(d) Prior to FY 2007, ABX Air was operated as Airborne Express.

Source: City of Austin, Department of Aviation.

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ORIGIN AND DESTINATION MARKETS

Table 5
Domestic Origin-Destination Patterns and Airline Service
Scheduled Domestic Airlines
Austin-Bergstrom International Airport
12 Months Ended September 30, 2007

<u>Rank</u>	<u>City of Origin or Destination (a)</u>	<u>Air Miles from Austin</u>	<u>Percent of Scheduled Airline Passengers</u>	<u>Daily Scheduled Nonstop Departures (b)</u>
1	Dallas(All Airports)/Texas/US (c)	181	8.15%	34
2	New York N.Y -Newark N.J./ USA (d)	1,507	6.00%	7
3	Major Los Angeles/ California (e)	1,216	5.92%	5
4	Major San Francisco/ USA (i)	1,484	5.85%	4
5	Chicago/ Illinois/ USA (g)	970	4.44%	10
6	Las Vegas (Intl), NV USA	1,083	3.63%	4
7	Denver (Intl), CO USA	768	3.25%	8
8	Houston(HOU+IAH)/ Texas/ USA (h)	147	3.19%	16
9	Phoenix (Intl), AZ USA	867	2.81%	8
10	Washington/ D. C./ USA (f)	1,302	2.40%	2
11	Baltimore(Intl) MD USA	1,337	2.25%	2
12	Atlanta (Intl), GA USA	810	2.15%	7
13	El Paso, TX USA	524	2.06%	4
14	Boston (Intl), MA USA	1,692	2.01%	1
15	San Diego (Intl), CA USA	1,157	1.97%	2
16	Seattle - All Airports/ USA (j)	1,761	1.85%	1
17	Orlando (Intl), FL USA	992	1.72%	1
18	Nashville (Intl), TN USA	752	1.54%	3
19	Lubbock (P. Smith Intl), TX USA	336	1.49%	2
20	Florida South/ Florida/ USA (j)	1,105	1.34%	0
Cities Listed			64.05%	119
Other Cities			<u>35.95%</u>	<u>30</u>
			100.00%	149

(a) Cities with 1% or more of total inbound and outbound passengers in 10% sample.

(b) OAGback Schedules i-Net, April 2008.

(c) Dallas/Ft. Worth Intl Airport and Dallas Love Field.

(d) John F. Kennedy Intl, LaGuardia and Newark Intl airports.

(e) Los Angeles Intl, Burbank-Glendale-Pasadena, Long Beach, Ontario Intl and John Wayne (Orange County) airports.

(f) Washington Dulles Intl and Washington Ronald Reagan National airports.

(g) Chicago O'Hare Intl and Midway airports.

(h) Houston Intercontinental and William P. Hobby airports.

(i) San Francisco and Oakland Intl airports.

(j) Miami and Ft. Lauderdale-Hollywood Intl airports.

Sources: (1) Databank 1B – 10% survey data.

(2) US Department of Transportation "Origin-Destination Survey of Domestic Passengers".
OAGback Schedules i-Net March 2008 issue.

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HISTORICAL AIRLINE TRAFFIC

Table 6
Historical Airline Traffic
Robert Mueller Municipal Airport and Austin-Bergstrom International Airport (a)
 (For Fiscal Years Ended September 30)

<u>Fiscal Year</u>	<u>Enplaned Passengers</u>	<u>Annual Percent Increase/(Decrease)</u>	<u>Aircraft Departures</u>		<u>Passenger Enplaned Per Departure</u>
			<u>Annual</u>	<u>Daily</u>	
1982	1,094,921	14.8%	19,393	53	56
1983	1,189,791	8.7%	22,015	60	54
1984	1,553,266	30.5%	30,406	83	51
1985	1,836,205	18.2%	34,382	94	53
1986	1,802,014	(1.9)%	30,854	85	58
1987	1,930,879	7.2%	33,231	91	58
1988	1,889,110	(2.2)%	31,441	86	60
1989	2,068,961	9.5%	37,323	102	55
1990	2,154,705	4.1%	39,918	109	54
1991	2,062,815	(4.3)%	36,300	99	57
1992	2,144,173	3.9%	36,176	99	59
1993	2,292,646	6.9%	36,759	101	62
1994	2,469,889	7.7%	40,900	112	60
1995	2,659,724	7.7%	46,944	129	57
1996	2,790,470	4.9%	48,756	134	57
1997	2,949,169	5.7%	42,292	116	70
1998	3,002,417	1.8%	43,721	120	69
1999	3,223,913	7.4%	44,318	121	73
2000	3,866,956	19.9%	45,411	124	85
2001	3,867,625	0.0%	45,294	124	85
2002	3,402,463	(12.0)%	41,960	115	81
2003	3,425,064	0.7%	43,752	120	78
2004	3,636,917	6.2%	46,401	127	78
2005	3,866,883	6.3	54,713	150	71
2006	4,141,580	7.1	53,828	147	77
2007	4,473,001	8.0	57,468	157	78

(a) Robert Mueller Municipal Airport closed and Austin-Bergstrom International Airport opened on May 23, 1999.
 Source: City of Austin, Department of Aviation.

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AIRCRAFT OPERATIONS

Historical aircraft operations from Fiscal Year 1982 through Fiscal Year 2007 are set forth on the following table.

Table 7
Historical Aircraft Operations
Robert Mueller Municipal Airport and Austin-Bergstrom International Airport (a)
(For Fiscal Years Ended September 30)

<u>Fiscal Year</u>	<u>Air Carrier</u>	<u>Air Taxi/Commuter</u>	<u>General Aviation</u>	<u>Military</u>	<u>Total Operations</u>
1982	34,757	15,644	131,378	6,765	188,544
1983	39,653	16,390	131,590	7,644	195,277
1984	56,464	14,648	150,325	8,462	229,899
1985	60,151	17,376	149,073	8,450	235,050
1986	60,317	11,093	133,691	7,671	212,772
1987	65,398	10,043	115,448	6,469	197,358
1988	62,647	11,577	108,939	7,088	190,251
1989	61,789	23,195	92,703	7,221	184,908
1990	61,353	28,892	95,602	7,149	192,996
1991	61,698	19,822	95,254	6,057	182,831
1992	63,627	19,030	97,616	6,523	186,796
1993	64,945	20,925	95,467	6,689	188,026
1994	71,531	22,539	92,953	5,018	192,041
1995	76,224	22,445	96,078	5,695	200,442
1996	80,136	21,200	107,450	6,269	215,055
1997	82,763	15,051	104,184	5,153	207,151
1998	87,435	14,470	95,460	4,131	201,496
1999	103,186	13,062	73,891	4,377	194,516
2000	99,631	16,416	82,747	5,063	203,857
2001	102,655	15,758	98,187	7,968	224,568
2002	93,206	17,628	97,431	8,333	216,598
2003	92,600	21,989	88,977	13,806	217,372
2004	91,346	25,777	85,452	15,691	218,266
2005	94,904	25,708	79,880	8,816	209,308
2006	95,170	25,020	80,928	7,381	208,499
2007	101,385	28,299	74,442	5,914	210,040

(a) Robert Mueller Municipal Airport closed and Austin-Bergstrom International Airport opened on May 23, 1999.

Source: 1980-1993: U.S. Department of Transportation, Federal Aviation Administration, "Air Traffic Activity", fiscal year editions.

1994-2007: City of Austin, Department of Aviation.

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AIRCRAFT LANDED WEIGHT

Historical aircraft landed weight at Robert Mueller Municipal Airport and Austin-Bergstrom International Airport from Fiscal Year 1982 through Fiscal Year 2007 are set forth on the following table.

Table 8
Historical Aircraft Landed Weight
Robert Mueller Municipal Airport and Austin-Bergstrom International Airport (a)
 Fiscal Years 1982 – 2007
 (in 1,000-pound units)

<u>Fiscal Year</u>	<u>Passenger Airlines</u>	<u>All-cargo Airlines</u>	<u>Total</u>	<u>Percent Increase/ (Decrease)</u>
1982	2,193,535	27,610	2,221,145	1.0%
1983	2,446,617	35,544	2,482,161	11.8%
1984	3,465,099	105,670	3,570,769	43.9%
1985	3,709,995	134,726	3,844,721	7.7%
1986	3,598,608	119,074	3,717,682	(3.3%)
1987	3,962,387	151,505	4,113,892	10.7%
1988	3,744,765	271,978	4,016,743	(2.4%)
1989	3,648,818	360,041	4,008,859	(0.2%)
1990	3,831,860	230,986	4,062,846	1.3%
1991	3,797,219	106,061	3,903,280	(3.9%)
1992	3,922,625	189,602	4,112,227	5.35%
1993	3,963,281	322,486	4,285,767	4.2%
1994	4,247,865	358,404	4,606,269	7.5%
1995	4,332,391	399,579	4,731,970	2.7%
1996	4,322,633	495,613	4,818,246	1.8%
1997	4,405,228	526,098	4,931,326	2.3%
1998	4,556,204	653,290	5,209,494	5.6%
1999	5,061,755	820,936	5,882,691	12.9%
2000	5,236,831	938,223	6,175,054	5.5%
2001	5,536,571	995,417	6,531,988	11.0%
2002	4,982,834	798,371	5,781,205	(6.4%)
2003	4,845,473	768,318	5,613,791	(2.9%)
2004	4,790,496	723,773	5,514,269	(1.8%)
2005	5,007,578	743,608	5,751,186	4.3%
2006	5,023,135	592,220	5,615,355	(2.4%)
2007	5,456,289	543,248	5,999,537	6.8%

(a) Robert Mueller Municipal Airport closed and Austin-Bergstrom International Airport opened on May 23, 1999.
 Source: City of Austin, Department of Aviation.

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HISTORICAL FINANCIAL DATA

The City, as operator of the Airport System, currently accounts for its activities according to generally accepted accounting principles through an enterprise fund. The City's financial statements for the Fiscal Year ended September 30, 2006 are included as Appendix E hereto. The following table represents the historical operating results of the Airport enterprise fund for Fiscal Year 2002 through 2006 based on the published financial statements of the City, as reported on by the City's certified public accountants together with the audited results for the twelve months ended September 30, 2006.

TABLE 9
Comparative Statements of Revenues, Expenses and Changes in Retained Earnings/Net Assets
City of Austin, Texas
Airport Fund
(Fiscal Year Ended September 30)
(in thousands)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	Unaudited <u>2007</u>
Revenue					
User Fees and Rental	<u>\$ 63,479</u>	<u>\$ 65,361</u>	<u>\$ 68,282</u>	<u>\$ 71,496</u>	<u>\$ 79,871</u>
Operating Revenues	<u>63,479</u>	<u>65,361</u>	<u>68,282</u>	<u>71,496</u>	<u>79,871</u>
Expenses					
Operating Expenses before Depreciation	40,786	38,517	41,320	45,714	47,298
Depreciation	<u>15,962</u>	<u>16,054</u>	<u>17,526</u>	<u>17,129</u>	<u>17,722</u>
Total Operating Expenses	56,748	54,571	58,846	62,843	65,000
Operating Income before Nonoperating Revenues (Expenses) and Operating Transfers	<u>6,731</u>	<u>10,790</u>	<u>9,436</u>	<u>8,653</u>	<u>14,851</u>
Nonoperating Revenues (Expenses)					
Interest and Other Revenues	2,484	1,916	3,549	5,772	7,548
Unrealized Gain on Investments	-	-	-	-	-
Interest on Revenue Bonds and Other Debt	(23,236)	(22,497)	(21,963)	(17,058)	(16,501)
Interest Capitalized during Construction	685	953	1,640	2,103	1,478
Capital Contributions	-	-	15,566	16,017	7,900
Passenger Facility Charges	8,214	10,555	13,938	15,977	16,691
Amortization of Bond Issue Cost	(105)	(131)	(228)	(325)	(229)
Other Nonoperating Expenses	(160)	(1,577)	(8,533)	(255)	(24)
Total Nonoperating Revenues (Expenses)	<u>(12,118)</u>	<u>(10,781)</u>	<u>(11,597)</u>	<u>6,214</u>	<u>8,963</u>
Income before Operating Transfers	(5,387)	9	(2,161)	14,867	23,814
Operating Transfers:					
Operating Transfers In	-	-	-	-	-
Operating Transfers Out	<u>(48)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income before Extraordinary Loss	<u>(5,435)</u>	<u>9</u>	<u>(2,161)</u>	<u>14,867</u>	<u>23,814</u>
Extraordinary Loss – Bond Debt Extinguishment	-	-	-	-	-
Net Income	(5,435)	9	(2,161)	14,867	23,814
Add Depreciation Transferred to Contributions	-	-	-	-	-
Net Increase in Retained Earnings	323,193	6,126	13,405	30,884	-
Retained Earnings at Beginning of Year, as Previously Reported	<u>321,104</u>	<u>323,193</u>	<u>329,319</u>	<u>342,724</u>	<u>373,608</u>
Prior Period Adjustment	-	-	-	-	-
Retained Earnings at Beginning of Year, as Restated	<u>321,104</u>	<u>\$323,193</u>	<u>\$329,319</u>	<u>\$342,724</u>	<u>\$373,608</u>
Retained Earnings at End of Year	<u>\$323,193</u>	<u>\$329,319</u>	<u>\$342,724</u>	<u>\$373,608</u>	<u>\$405,322</u>

TABLE 10
Revenue Detail by Fiscal Year
Austin-Bergstrom International Airport

	Fiscal Year 2003 <u>Actual</u>	Fiscal Year 2004 <u>Actual</u>	Fiscal Year 2005 <u>Actual</u>	Fiscal Year 2006 <u>Actual</u>	Fiscal Year 2007 <u>Actual</u>
Airline Revenue					
Landing Fees	\$16,715,190	\$16,634,349	\$17,363,322	\$14,765,760	\$17,747,794
Terminal Rental & Other Fees	<u>12,963,504</u>	<u>15,095,918</u>	<u>14,774,534</u>	<u>15,676,333</u>	<u>16,920,220</u>
Total Airline Revenue	\$29,678,694	\$31,730,267	\$32,137,856	\$30,442,093	\$34,668,014
Non-Airline Revenue					
Parking	\$17,857,135	\$17,880,828	\$19,324,695	\$21,702,949	\$24,845,364
Other Concessions	10,891,417	10,876,603	11,508,632	13,578,714	14,595,799
Other Rentals and Fees	<u>5,047,378</u>	<u>4,878,253</u>	<u>5,310,406</u>	<u>5,771,806</u>	<u>5,761,439</u>
Total Non-Airline Revenue	<u>\$33,795,930</u>	<u>\$33,635,684</u>	<u>\$36,143,733</u>	<u>\$41,053,469</u>	<u>\$45,202,602</u>
Total Revenue	<u>\$63,474,624</u>	<u>\$65,365,951</u>	<u>\$68,281,589</u>	<u>\$71,495,562</u>	<u>\$79,870,616</u>

AIRLINE INFORMATION

Revenues of the Airport System may be affected by the ability of the airlines operating at ABIA, individually and collectively, to meet their respective obligations under their respective lease and use agreements. Each of said airlines (or their respective parent corporations) is subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files reports and other information with the Securities and Exchange Commission (the "SEC"). Certain information, including financial information, as of particular dates concerning each of the airlines operating at ABIA (or their respective parent corporations) is disclosed in certain reports and statements filed with the SEC. Such reports and statements can be inspected in the Public Reference Room of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20659, and at the SEC's regional offices at 219 South Dearborn Street, Chicago, Illinois 60604; 26 Federal Plaza, New York, New York 10278; and 5757 Wilshire Boulevard, Suite 500 East, Los Angeles, California 90036-3648 and copies of such reports and statements can be obtained from the Public Reference Section of the SEC at the above address at prescribed rates. In addition, each airline operating at ABIA is required to file periodic reports of financial and operating statistics with the United States Department of Transportation (the "U.S. DOT"). Such reports can be inspected at the following location: Office of Aviation Information Management, Data Requirements and Public Reports Division, Research and Special Programs Administration, Department of Transportation, 400 Seventh Street, S.W., Washington, D.C. 20590, and copies of such reports can be obtained from the U.S. DOT at prescribed rates.

CERTAIN INVESTMENT CONSIDERATIONS

General

Since the events of September 11, 2001, ABIA, as well as the rest of the aviation industry, has faced numerous challenges. Following the terrorist events, the aviation industry continued to face obstacles as airline traffic and revenue remained soft, the economy weakened, air traffic demand continued to decrease, and airlines' expenses continued to increase. The aviation industry continues to face obstacles including hostilities in Iraq, elevated oil prices, increased fare discounting, and escalating security costs. All of this has had an impact on the operational levels at airports across the country, including ABIA. While the economy and the travel sector have largely recovered from the events of September 11th, and their aftermath, the National economy is facing new challenges, particularly in the credit markets. Unprecedented fuel prices continue to affect airline financial performance. The City and the Department of Aviation have been seeking to respond to these series of challenges.

The principal of and interest on the Revenue Bonds is payable pursuant to the Ordinance solely from the Net Revenues of the Airport System and moneys on deposit in the Debt Service Fund and the Debt Service Reserve Fund. The ability to pay debt service on the Revenue Bonds will depend on the receipt of sufficient Gross Revenues, including the receipt of PFC

(hereinafter defined) revenues, a portion of which the City has covenanted in the Ordinance to make available for payment of the Prior Lien Bonds and the Revenue Bonds.

The Airport System's ability to generate Gross Revenues, including any PFC revenues, depends upon sufficient levels of aviation activity and passenger traffic at ABIA. The achievement of increased passenger traffic will depend partly on the profitability of the airline industry and the ability of individual airlines to provide sufficient capacity to meet demand. A weak economy, war and the threat of terrorist activity reduces demand for air travel. To the extent the Airport System is unable to make up for revenue shortfalls, the City's ability to pay debt service on the Revenue Bonds may be adversely affected.

In considering the matters set forth in this Remarketing Memorandum, prospective investors should carefully review all investment considerations set forth throughout this Remarketing Memorandum, and should specifically consider certain risks associated with the Bonds, which are Revenue Bonds under the terms of the Ordinance. There follows a discussion of some, but not necessarily all, of the possible considerations and risks which should be carefully evaluated by prospective purchasers of the Bonds prior to purchasing any Bonds. The Bonds may not be suitable investments for all persons. Prospective purchasers should be able to evaluate the risks and merits of an investment in the Bonds and should confer with their own legal and financial advisors before considering a purchase of the Bonds.

Passenger Facility Charges

Application. Under the Aviation Safety and Capacity Act of 1990 (the "PFC Act"), as modified by the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century ("AIR-21"), the Federal Aviation Administration ("FAA") may authorize a public agency to impose a Passenger Facility Charge ("PFC") of \$1.00, \$2.00, \$3.00, \$4.00, or \$4.50 on each passenger enplaned at any commercial service airport controlled by the public agency, subject to certain limitations. On December 20, 1994, the Department of Aviation filed with the FAA a PFC application totaling \$337.8 million for funding a portion of the construction and the financing costs related to ABIA. The scope of the application, to impose and use a \$3.00 Passenger Facility Charge, included construction costs of a passenger terminal complex, airfield facilities, and landside facilities on a pay-as-you-go basis and the financing costs associated with these Passenger Facility Charge qualifying scopes of work. The FAA approved application number 95-03-C00-AUS on February 8, 1995 for a total of \$333,232,479. PFC collections authorized by this application began in August, 1995. Amounts totaling \$27.2 million, collections through September, 1998 together with over collections posted on two earlier applications, were used towards the actual construction costs of the PFC qualifying scopes of work. Beginning October, 1998, interest earned and Passenger Facility Charges collected were used for the debt costs associated with the Passenger Facility Charge qualifying scope of work. As of September, 2007, Passenger Facility Charge collections and interest earned on collections totaled \$139.2 million.

The Aviation Department received approval from the FAA in 2004 amending its current outstanding PFC application to an increase in (i) the PFC collection rate from \$3.00 to \$4.50, and the PFC eligibility amount of the debt service related to the original project funding for the construction of ABIA, effective April 1, 2004. In September 2004, the FAA approved the \$4,125,000 application to impose and use PFC revenue for the installation of the EDS machines and the associated baggage handling system. The proceeds of the Passenger Facility Charges currently imposed by the City are not part of the Net Revenues pledged by the City to the payment of Revenue Bonds, including the Bonds. However, in the Ordinance, the City covenants and agrees, for the benefit of the Owners of the Revenue Bonds, that during each Fiscal Year the City will set aside from any passenger facility charges imposed by the City on enplaned passengers the lesser of (i) such passenger facility charges imposed and collected by the City or (ii) \$4.50 derived from each passenger facility charge so imposed and collected by the City for the payment of debt service on the Prior Lien Bonds and the Revenue Bonds in the following Fiscal Year, unless the City receives a report from an Airport Consultant showing that an alternative use of all or a portion of such passenger facility charges will not reduce the forecast coverage of Debt Service Requirements with respect to the Prior Lien Bonds and the Revenue Bonds by forecast Net Revenues during the following Fiscal Year (or such longer forecast period as may be covered in the Airport Consultant's Report) to less than 125%. See APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE – Use of Passenger Facility Charges."

Sufficiency. The Airport System's ability to collect PFC revenues will vary depending on the actual number of passenger enplanements at ABIA. If the number of enplaned passengers at ABIA falls below projections, actual PFC revenues will fall short of projections. Such a shortfall in PFC collections could have an adverse affect on the timely payment of debt service on bonds secured by a pledge of PFC revenues. This adverse impact could be direct or indirect, if the PFC shortfall results in sufficient increases in landing fees as to impact negatively ABIA's desirability to the airline industry and thus ultimately impact the collection of landing fees at ABIA. While passenger traffic fell after September 11, 2001, traffic at the Airport has recovered resulting in record enplanements in the last four fiscal years. There can be no assurance as to what passenger

traffic, and ABIA revenues, will be in the future.

Availability. The authority to impose and use PFCs is subject to the terms and conditions of the PFC Act, AIR-21 and the related regulations thereto. Failure to comply with the requirements of applicable law, such as the failure to use PFCs strictly for approved PFC projects, may cause the FAA to terminate or reduce the Airport System's authority to impose and collect PFCs. In addition, notwithstanding FAA regulations requiring airlines to collect PFCs to account for PFC collections separately and indicating that those PFC collections are to be regarded as funds held in trust by the collecting airline for the beneficial interest of the public agency imposing the PFC, in the event of a bankruptcy proceeding involving a collecting airline, there is the possibility that a bankruptcy court could hold that the PFCs in the airline's custody are not to be treated as trust funds and that ABIA is not entitled to any priority over other creditors of the collecting airline as to such funds. Also, there is no assurance that the PFC Act, AIR-21, or any other relevant legislation or regulation will not be repealed or amended to adversely affect the Airport System's ability to collect PFCs. The occurrence of any of these events could have an adverse impact on the timely payment of debt service on bonds secured in part by the pledge of PFCs.

No assurance can be given that PFCs will actually be received in the amount or at the time contemplated by the City, or that the Airport System will collect such PFC revenues in amounts or at times sufficient to pay debt service. The amount of actual PFC revenues collected, and the rate of collection, will vary depending on the actual levels of qualified passenger enplanements at ABIA, and will not necessarily correlate in any way to the debt service requirements of the Bonds to which PFC revenues have been pledged. Regardless of the amount of PFC revenues, the City will be able to apply such revenues to pay debt service only to the extent the City applied bond proceeds to pay the costs of PFC approved projects described in the PFC application that was authorized by the FAA. In addition, the FAA may terminate ABIA's ability to impose PFCs, subject to formal and informal procedural safeguards, if (1) ABIA fails to use its PFC revenues for approved projects in accordance with the FAA's approval, the PFC Act or the regulations promulgated thereunder, or (2) ABIA otherwise violates the PFC Act or regulations.

Airline Industry

General Factors Affecting Air Carrier Revenues. The revenues of both the Airport System and the airlines serving ABIA may be materially affected by many factors including, without limitation, the following: declining demand; service and cost competition; mergers; the availability and cost of fuel and other necessary supplies; high fixed costs; high capital requirements; the cost and availability of financing; technological changes; national and international disasters and hostilities; the cost and availability of employees; strikes and other employee disruptions; the maintenance and replacement requirements of aircraft; the availability of routes and slots at various airports, litigations liability; regulation by the federal government; environmental risks and regulations; noise abatement concerns and regulation; deregulation; federal and state bankruptcy and insolvency laws; acts of war and terrorism; world health concerns such as the outbreak of SARS and other risks. Many airlines, as a result of these and other factors, have operated at a loss in the past and several have filed for bankruptcy, ceased operations and/or have merged with other airlines. Historically, the airline industry's results have correlated with the performance of the economy. The September 11, 2001 attacks, the war in the Middle East and their aftermath have resulted in a further adverse effect on airline industry earnings. Several major carriers filed for federal bankruptcy protection, including US Airways (twice), Delta, Northwest, and United. Each of these major carriers successfully reorganized under Chapter 11. Vanguard Airlines also has sought federal bankruptcy protection but ceased to operate. Further bankruptcy filings, liquidations or major restructuring by members of the airline industry remain possible. There is the increasing likelihood of consolidation within the airline industry, with reports of possible airline mergers including Delta, Northwest, United, and Continental, among others. If two or more existing carriers operating at the Airport were to merge, it is possible that the merged entity may seek to consolidate its space at the airport by reducing the amount of gate, ticket counter, office and operations space it rents from the Department of Aviation. While this may result in some reduced rental income, it will also make it easier for the Airport to attract new entrants, who may have been deterred by a lack of available space in the Barbara Jordan Terminal.

General Factors Affecting Airline Activity. Numerous factors affect air traffic generally and air traffic at ABIA specifically. Demand for air travel is influenced by factors such as population, levels of disposable income, the nature, level and concentration of industrial and commercial activity in the service area and the price of air travel. The price of air travel is, in turn, affected by the number of airlines serving a particular airport and a particular destination, the financial condition, cost structure and hubbing strategies of the airlines serving the airport, the willingness of competing airlines to enter into an airport market, the cost of operating at an airport, the price of fuel and any operating constraints (due to capacity, environmental concerns or other related factors) limiting the frequency or timing of airport traffic within the national system or at a particular airport. In addition, the onset of war and the threat of renewed terrorist attacks may dampen air traffic.

Although the City has developed contingency plans that make assumptions as to factors described above and suggest a prudent response to such events, the City may anticipate but can never predict the occurrence of any particular event or trend that could adversely impact airline traffic and/or Airport System revenues.

Effect of Bankruptcy on Airline Use and Lease Agreements. The profitability of the airline industry has declined drastically since 2000, with most airlines, until recently, posting significant losses every fiscal quarter since the beginning of 2001. As a result, several major carriers sought relief in bankruptcy. All of the major air carrier that filed for bankruptcy protection have successfully emerged, and no active airline at ABIA is currently operating in bankruptcy.

When an airline seeks protection under the bankruptcy laws, such airline or its bankruptcy trustee must determine whether to assume or reject its agreements with the City (1) within 60 days or later, if ordered by the court, with respect to its Airline Use and Lease Agreement or other leases of rental property, or (2) prior to the confirmation of a plan or reorganization with respect to any other agreement. In the event of assumption, the airline would be required to cure any prior defaults and to provide adequate assurance of future performance under the applicable Airline Use and Lease Agreement or other agreements. Rejection of an Airline Use and Lease Agreement or other agreement or executory contract would give rise to an unsecured claim of the City for damages, the amount of which in the case of an Airline Use and Lease Agreement or other agreement is limited by the Bankruptcy Code generally to the amounts unpaid prior to bankruptcy plus the greater of (1) one year of rent or (2) 15% of the total remaining lease payments, not to exceed three years. However, the amount ultimately received in the event of a rejection of an Airline Use and Lease Agreement or other agreement could be considerably less than the maximum amounts allowed under the Bankruptcy Code. Except for costs allocated to such airline for usage and rental of the terminal, concourse and ramps, amounts unpaid as a result of a rejection of an Airline Use and Lease Agreement or other agreement in connection with an airline in bankruptcy, such as airfield costs and costs associated with the baggage claim area, would be passed on to the remaining airlines under their respective Airline Use and Lease Agreements, although there can be no assurance that such other airlines would be financially able to absorb the additional cost. Additionally, during the pendency of a bankruptcy proceeding, a debtor airline may not, absent a court order, make any payments to the City on account of goods and services provided prior to the bankruptcy. Thus, the City's stream of payments from a debtor airline would be interrupted to the extent of a pre-petition goods and services, including accrued rent and landing fees. Each of the major carriers operating at the Airport that sought protection under the Bankruptcy Code assumed its leases and other executory contracts with the City, and cured all defaults, pursuant to its Plan of Reorganization.

Uncertainties of the Airline Industry. The City's ability to derive revenues from its operation of ABIA depends on many factors, many of which are not subject to the City's control. Revenues may be affected by the ability of the airlines, individually and collectively, to meet their respective Bonds under the Airline Use and Lease Agreements.

The airline industry has undergone significant changes including airline mergers, acquisitions, bankruptcies and closures. In addition, the financial results of the airline industry have been subject to substantial volatility since deregulation. The airline industry accumulated substantial losses from 1990 to 1994, before improving in 1995. The airline industry was generally profitable from 1995 to 1999. However, recent events, including the September 11, 2001 attacks, the general economic downturn in the industry and the war in the Middle East, have triggered record losses and caused the industry's worst financial performance in history. While the airline industry has largely recovered from the events of September 11th, and its aftermath, unprecedented high fuel prices, and recent adverse developments in the credit markets will continue to present new challenges to the airline industry.

The financial strength and stability of airlines serving ABIA are key determinants of future airline traffic. In addition, individual airline decisions regarding level of service, particularly hubbing activity, at ABIA will affect total enplanements. No assurance can be given as to the levels of aviation activity that will be achieved by ABIA. There is no assurance that ABIA, despite a demonstrated level of airline service and operations, will continue to maintain such levels in the future. The continued presence of the airlines serving ABIA, and the levels at which that service will be provided, are a function of a variety of factors. Future airline traffic of ABIA will be affected by, among other things, the growth or decline in the population and the economy of the Airport Service Region and by national and international economic conditions, acts of war and terrorism, federal regulatory actions, airline service, air fare levels and the operation of the air traffic control system.

LITIGATION

It is the opinion of the City Attorney and ABIA management that there is no pending litigation against the City that would have a material adverse financial impact upon ABIA or its operations.

TAX EXEMPTION

Bond Counsel stated in an opinion (the "Original Opinion") dated August 17, 2005, that, as of such date, (i) interest on the Bonds was excludable from gross income for federal income tax purposes under existing law and (ii) the Bonds were not "private activity bonds" under the Internal Revenue Code of 1986, as amended (the "Code") and interest on the Bonds was not subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations. Delivery of the remarketed Bonds is subject to the receipt of the opinion of Bond Counsel to the effect that the conversion of the interest rate on the Bonds pursuant to the Ordinance does not in and of itself adversely affect the exclusion from gross income for federal income tax purposes of interest on any Bond under existing law.

Except as stated above, Bond Counsel has expressed in the Original Opinion and will express in connection with the conversion, no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds.

Bond Counsel's Original Opinion assumed continuing compliance with the covenants of the Ordinances pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, relied on representations by the City, the City's Financial Advisor and the Underwriters with respect to matters solely within the knowledge of the City, the City's Financial Advisor and the Underwriters, respectively, which Bond Counsel has not independently verified. If the City failed or fails to comply with the covenants in the Ordinances or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

Bond Counsel has not been asked to undertake and has not undertaken any review or investigation of, and has not been asked to express and does not express any opinion concerning, the original or continuing treatment of the interest on the Bonds as excludable from gross income for federal income tax purposes except insofar as the conversion of the interest rate on the Bonds may affect the excludability of interest on the Bonds. Thus, in providing the opinion set forth above, Bond Counsel has assumed without investigation that interest on the Bonds was excludable from gross income for federal income tax purposes immediately prior to the conversion of the interest rate on the Bonds.

Prospective purchasers of the Bonds should be aware that the Code imposes a 20% alternative minimum tax on the "alternative minimum taxable income" of a corporation if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT, REMIC or FASIT), includes 75% of the amount by which its "adjusted current earnings" exceeds its other "alternative minimum taxable income." Because interest on tax exempt obligations, such as the Bonds, is included in a corporation's "adjusted current earnings," ownership of the Bonds could subject a corporation to alternative minimum tax consequences.

Furthermore, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

Prospective purchasers of the Bonds should also be aware that the ownership of tax exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Bond Counsel's opinion are based on existing law, which is subject to change. Such opinion is further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinion to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinion represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems

relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer and the Owners may not have a right to participate in such audit. 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 the ultimate outcome of the audit.

OTHER RELEVANT INFORMATION

Ratings

The Bonds received an underlying rating of “A-” by Standard & Poor’s, a division of The McGraw-Hill Companies (“S&P”). The Bonds are also rated “AAA” by S&P as a result of the municipal bond insurance policy by FSA. See “BOND INSURANCE” herein. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. 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 one or all of such rating companies, if in the judgment of one or more companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price and liquidity of the Bonds.

Legal Investments and Eligibility to Secure Public Funds in Texas

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 made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

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 (which is set forth in the Texas Business & Commerce 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 of Texas. 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 in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256 and referred to as the “PFIA”), the Bonds may have to be assigned a rating of “A” or its equivalent as to investment quality by a national rating agency before such Bonds 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.

Legal Investments

The City invests its available funds in investments authorized by Texas Law and in accordance with investment policies approved by the City Council. Both State law and the City’s investment policies are subject to change.

Under Texas law, the City is authorized to invest in: (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit meeting the requirements of the PFIA that are issued by or through an institution that either has its main office or a branch in 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 City deposits; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations

described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) certain 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 with a stated maturity of 270 days or less 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 U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated 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, invest exclusively in obligations described in the this paragraph, 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; and (13) local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Act) as amended, whose assets consist exclusively of the obligations that are described above. A public funds investment pool must be continuously ranked no lower than "AAA", "AAA-m" or at an equivalent rating by at least one nationally recognized rating service. The City may also invest bond proceeds in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

Political subdivisions such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

Effective September 1, 2005, the City, as the owner of a municipal electric utility that is engaged in the sale of electric energy to the public, may invest funds held in a "decommissioning trust" (a trust created to provide the Nuclear Regulatory Commission assurance that funds will be available for decommissioning purposes as required under 10 C.F.R. Part 50 or other similar regulation) in any investment authorized by Subtitle B, Title 9, Texas Property Code (commonly referred to as the "Texas Trust Code"). The Texas Trust Code provides that a trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill and caution. See "CUSTOMER RATES – Energy Risk Management".

The City may also contract with an investment management firm registered under the Investment Advisor Act of 1940 (15 U.S.C. Section 80b.1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term of up to two years, but the City retains ultimate responsibility as fiduciary of its assets.

The City 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 City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield and maturity; and also that address the quality and capability of investment personnel. The policy includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically

addresses each funds' investment. Each Investment Strategy Statement must describe the investment objectives for the particular fund using the following priorities: (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, City 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 that 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 City shall submit an investment report detailing: (1) the investment position of the City, (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 City funds without express written authority of the City Council or the Chief Financial Officer.

Additional Provisions

Under Texas law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (3) require the registered representative of firms seeking to sell securities to the City to (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; and (5) provide specific investment training for the Chief Financial Officer, Treasurer and Investment Officers.

Legal Opinions

In connection with the original issuance of the Bonds, the City has furnished a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinions of the Attorney General of Texas approving the Bonds and to the effect that the Bonds are valid and legally binding special Bonds of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel.

Financial Advisor

The PFM Group ("PFM"), Austin, Texas, is Financial Advisor to the City in connection with the Bonds. PFM, 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 bond documentation with respect to the federal income tax status of the Bonds.

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 specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports. The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the Airport System of the general type included in the main text of the Remarketing Memorandum within the numbered tables only and in APPENDIX B. The City will update and provide this information as of the end of such fiscal year or for the twelve month period then ended within six months after the end of each fiscal year ending in or after 2008. The City will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the United States Securities and Exchange Commission (the "SEC").

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, 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 provided by that time, the City will provide unaudited financial statements by that time and will provide audited financial statements when and if they 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 City's current fiscal year is October 1 to September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each NRMSIR and any SID of the change.

Material Event Notices. The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, (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 (there is no liquidity provider for the Bonds in the Auction Rate Mode), or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. 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". The City will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIR and SID. The City has agreed to provide the foregoing information to each NRMSIR and any SID only. The information will be available to holders of Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

The Municipal Advisory Council of Texas (the "MAC") has been designated by the State of Texas as a SID, and the SEC staff has issued a no action letter confirming that it will accept that designation. The address of the MAC is 600 West 8th Street, P. O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947.

The MAC has also received SEC approval to operate, and has begun to operate, a "central post office" for information filings made by municipal issuers, such as the City. A municipal issuer may submit its information filings with the central post office, which then transmits such information to the NRMSIRs and the appropriate SID for filing. This central post office can be accessed and utilized at www.DisclosureUSA.org ("DisclosureUSA"). The City may utilize DisclosureUSA for the filing of information relating to the Bonds.

Limitations and Amendments. The City has agreed to update information and to provide notices of material 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 the 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 the Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement 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 Airport System, if the agreement, as amended, would have permitted an underwriter to purchase or sell the Bonds in the offering described herein in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. If the City amends its agreement, it must 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 information and data provided.

Compliance with Prior Undertakings. During the last five (5) years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule. The City did not receive the Comprehensive Audited Financial Report for the fiscal year ended September 30, 2006 (the "CAFR") from its auditors until October 23, 2007. As a result of not receiving the CAFR within 180 days of the end of the City's 2006 Fiscal Year, the City filed unaudited financial statements with the NRMSIRs and the SID, in accordance with its continuing disclosure agreements. On October 24, 2007, the City filed the CAFR with the NRMSIRs and the SID.

Forward - Looking Statements

The statements contained in this Remarketing Memorandum 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 Remarketing Memorandum are based on information available to the City on the date hereof, and the City assumes no Bonds to update any such forward-looking statements. It is important to note that the City's actual results could differ materially from those 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 Remarketing Memorandum will prove to be accurate.

Miscellaneous Information

The financial data and other information contained herein have been obtained from the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and ordinances contained in this Remarketing Memorandum are made subject to all of the provisions of such statutes, documents and ordinances. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects. This Remarketing Memorandum, and the execution and delivery of this Remarketing Memorandum, were authorized by the City Council.

ATTEST:

/s/

City Clerk

City of Austin, Texas

/s/

Mayor

City of Austin, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

The following information has been presented for informational purposes only.

AUSTIN'S GOVERNMENT, ECONOMY AND OUTLOOK

The City of Austin, chartered in 1839, has a Council-Manager form of government with a Mayor and six Councilmembers. The Mayor and Councilmembers are elected at large for three-year staggered terms with a maximum of two consecutive terms. A petition signed by a minimum 5 percent of voters waives the term limit for a Councilmember. The City Manager, appointed by the City Council, is responsible to them for the management of all City employees and the administration of all City affairs.

Austin, the capital of Texas, is the fourth largest city in the State (behind Houston, Dallas, and San Antonio), with an estimated population of 714,237 in 2006. Over the past ten years, Austin's population has increased by approximately 153,298 residents, an increase of 21.5 percent. Geographically, Austin consists of approximately 296 square miles. The current estimated median household income and per capita income for the Austin-Round Rock Metropolitan Statistical Area (MSA) is \$40,888 and \$35,413, respectively.

Austin is frequently recognized as a great place to live, work, and play, with one of the most recent commendations in Forbes Magazine, which listed Austin as one of its "top ten places for business" in 2005 and this year as a great place to retire. Austin was featured in Expansion Management magazine's list of "America's 50 hottest cities", citing factors that include business climate, workforce quality, operating costs, incentive programs, and the ease of working with local political and economic development officials. Expansion Management also named Austin the top metro for future business locations. Business Week ranked Austin fourth in the U.S. for projected job growth among metropolitan areas with at least 1 million residents and has forecasted 24.7 percent job growth from 2005 to 2015. SustainLane.com ranked Austin in the top five "smart places to live" based on its cost of living, housing market, access to quality health care and a strong economy. Men's Journal ranked Austin second among America's heart healthy cities, citing Mayor Will Wynn's efforts to make Austin the fittest city in the U.S. by 2010.

Austin has long attracted a variety of people and the reasons that draw people to the City are varied. The area has a natural beauty and a first-rate parks department that administers a number of public outdoor recreational facilities, including neighborhood parks, greenbelts, athletic fields, golf courses, tennis courts, a veloway for bicyclists and in-line skaters, miles of hike and bike trails and striped bike lanes, a youth entertainment complex, and swimming pools. The long awaited second phase of Town Lake Park and the Mexican American Cultural Center were completed during the summer of 2007.

Residents of Austin enjoy many outdoor events, including art, music, and food and wine festivals; races and bicycle rides; and the nightly flights of the world's largest urban bat colony. Indoor events vary from music to museums to ice hockey, art galleries, and include an opera facility and a wide variety of restaurants and clubs. Long recognized as the "live music capital of the world", Austin boasts more than 120 live music venues, and is home to the annual South by Southwest (SXSW) music, film and interactive festivals each spring, as well as the Austin City Limits Festival each fall. Pollstar named the Austin City Limits Festival "festival of the year" during its annual concert industry awards in 2006.

The educational opportunities in Austin have long drawn people to the city. Among U.S. cities with a population over 250,000, Austin is one of the most highly educated cities, with approximately 44.1 percent of adults twenty-five years or older holding a bachelor's or advanced degree. With its seven institutions of higher learning and more than 119,202 students, education is a significant aspect of life in the Austin area. The University of Texas at Austin (UT), the largest public university in the nation, is known as a world-class center of education and research.

Since 1990, over 345,000 jobs were created in Austin. Following September 11, 2001, Austin and the Central Texas area faced a significant economic downturn, resulting in a significant number of job layoffs and high unemployment rates. Over the past few years, the Austin economy has sustained a robust growth trend, with low unemployment, a strong housing market, and business expansion throughout the area.

The average annual unemployment rate was 4.3 percent in 2005 and 3.2 percent in 2006. The statewide average unemployment rate for Texas was 5.3 percent in 2005 and 4.1 percent in 2006. Samsung Electronics Co., Ltd., the world's

second largest chipmaker, announced in April 2006 that the company will invest \$3.5 billion in a new 300mm wafer fab and create nearly 900 new jobs in Austin. Samsung's announcement is the largest single investment by a foreign company in the United States. This is the first 300mm wafer fab in Central Texas with only six in existence or under construction in the United States. Hewlett-Packard has indicated plans to build two data centers in the Austin area and Advanced Micro Devices, a manufacturer of semiconductor chips, is building a new campus in southwest Austin. The City of Austin is also a corporate partner in Opportunity Austin, a five-year initiative of the Greater Austin Chamber of Commerce aimed at creating 72,000 jobs and a \$2.9 billion increase in payroll to the surrounding five-county area by the end of 2008. Since the inception of the program in 2004, the employment base has expanded by 51,000 jobs.

Sales tax revenue showed steady improvement in fiscal years 2004 and 2005, followed by significant growth in fiscal year 2006. Sales tax revenue grew an average of 6.6 percent in fiscal year 2004, 5.0 percent in fiscal year 2005, and 12.6 percent in fiscal year 2006, compared to prior years. Growth in revenue has continued each quarter since the fourth quarter of fiscal year 2003. The 2006 growth rate is the third highest among major Texas cities. As a sign of sustained improvement, initial sales tax revenue for the first four months of fiscal year 2007 grew 13.9 percent over fiscal year 2006.

Single-family residential building permits increased by approximately 3,219 permits from fiscal year 2005, representing an approximate 20.5 percent increase over the previous year. Assessed taxable property valuation within the City increased approximately \$2.6 billion, or 5.3 percent from the prior year. Property tax revenue increased by \$15.8 million or 7.2 percent compared to the previous year. Property taxes for 2006 and subsequent years may be negatively impacted by lawsuits filed against the appraisal district; the suits challenge the appraisal district's property valuations for many businesses. If the challenges are successful, they could result in decreased tax revenue in future years for the local taxing jurisdictions, including the City.

Total passenger traffic for the City's airport increased by 7.5% in the FY 2007 when compared to the previous year. Over 8.7 million passengers traveled through Austin-Bergstrom International Airport in FY 2007, both a milestone and a record year for the facility. In 2007, five airlines added fourteen new nonstop routes to Austin-Bergstrom International Airport's passenger service lineup. New brand, ExpressJet Airlines, flying 50-seat regional jets, initially added nine markets (now downsized to five markets). Midwest Airlines entered the Austin market with twice daily nonstop service to Kansas City. Other highlights include American Airlines' addition of Orange County and Seattle nonstop service. In May 2008, Air Canada returns to Austin with daily service to Toronto; US Airways connects its Charlotte hub with Austin; and Northwest Airlines reintroduces Indianapolis service to Austin. Southwest Airlines began nonstop service between Austin and Philadelphia in March 2008, and will begin new service between Austin and Oakland and Fort Lauderdale in May 2008. Importantly, in the Austin market for less than two years, JetBlue Airways announced it will triple its flight options from Austin starting May 1, 2008. In February 2008, JetBlue announced new nonstop service from Austin to Fort Lauderdale, Florida; Orlando, Florida; San Francisco, California, and Long Beach, California - connecting east and west coast JetBlue markets via Austin. Austin-Bergstrom International Airport is virtually connected to all of the legacy carriers' hubs. VivaAerobus projects it will transport the 150,000 enplaned passengers through the new low cost South Terminal at the Airport in its first year of operation, with the number of enplaned passengers increasing each year up to a fifth year estimate of 700,000 enplaned passengers.

Throughout the downturn in 2002 through 2005, City management implemented cost savings while maintaining a structurally balanced budget. Emphasis was placed on permanent reductions rather than one-time reductions that would have to be re-addressed in the future and revenue initiatives were implemented to bring fees more in line with cost of service and to adjust them for inflation. Other budgetary accomplishments include maintaining the effective tax rate during the downturn, ensuring that no public facilities closed, maintaining utility transfer rates in conformity with the City's financial policies, and placing no reliance on "one-time" funds to be utilized as revenue funding sources. In fiscal year 2006, City staff continued the policy of presenting a budget to the City Council that is both sound and balanced, and also began strategically reinvesting in the City's workforce and rebuilding the services provided to the community.

Economic indicators indicate that the conditions are good for the continuing economic growth in Austin and surrounding areas. The revenue recovery that began in 2005 has continued unabated in 2006 and was reflected in the projections developed for the fiscal year 2007 budget, which was adopted by the City Council in September 2006. For the future, Austin's strengths continue to be the ones that led to growth in the past: a highly capable workforce, innovation and entrepreneurship, the presence of a world-class research university and several other institutions of higher learning, strong community assets and a superior quality of life.

MAJOR INITIATIVES AND ACHIEVEMENTS

The City has a number of significant initiatives underway or recently completed, as described below. These initiatives should have a positive effect on the City's economic health and services to residents and businesses.

General Obligation Bond Election

A successful general obligation bond election on November 7, 2006, was the culmination of a long journey and much hard work that began in 2005 when staff presented a comprehensive analysis of the City's debt capacity and infrastructure needs to the City Council. The November election gave Austinites a chance to decide the fate of seven bond propositions aimed at providing quality public services and responding to Central Texas' growth. They responded overwhelmingly in support of \$567.4 million in funding for projects that include transportation, drainage and water quality protection, parks facilities and parkland, community and cultural facilities, affordable housing, a new central library, and public safety facilities.

The November bond election marked the largest general obligation bond election in the City's history, yet Moody's Investor Services noted that the City continues to maintain a manageable debt position. Moody's announced in August 2006 that the City of Austin's general obligation bond rating has been upgraded from an Aa2 rating to an Aa1 rating. In upgrading Austin's bond rating, Moody's indicated confidence that the City has the financial capacity to carry out the \$567.4 million bond program and stated it "believes additional debt can be layered in without significant upward pressure on the debt position." Moody's acknowledged that the City has an "aggressive capital plan." Moody's also cited Austin's economic recovery, robust tax base, and prudent management of cash reserves as key factors contributing to the upgrade. A quote from Moody's credit analysis in August 2006: "Considering the City's ample reserve levels, conservative budgeting practices, strengthening of reserve policies, continued property and sales tax revenue growth, proactive actions in regards to its pension liability, and management's proven ability to guide the City through a significant economic downturn, Moody's believes the City's financial operations are consistent with the high level Aa1 rating category."

In September 2007, the first installment of bonds authorized by the 2006 bond election were issued. \$82,500,000 in approved projects were funded from proceeds of the first bond installment.

Economic Growth and Planning Initiatives

Downtown Austin has virtually undergone a development renaissance, and offers a vibrant and diverse array of shops, restaurants, live music venues, museums, and theater for its residents and visitors. This vitality also shows up in the City's citizen survey results, which reflect a higher level of satisfaction than last year. The Second Street Retail District continues to show strong results, with 73 percent of the available retail spaces open for business and 100 percent either leased or in development. The district eventually will have 200,000 square feet of space to shop and dine along Second between Colorado and San Antonio streets. The first shops opened in the district in June 2005. At the northwest corner of Second and Guadalupe, AMLI has begun constructing another building. This new 18-story structure will contain 231 apartments bringing more customers to the Second Street area. The building also will have 40,000 square feet of ground-floor retail space. The opening of Austin Java in City Hall completed the City Hall construction project.

Other planned projects, including continued redevelopment on Second Street, will enable Austin to realize its potential as a downtown residential market. The development of "Block 21", City-owned land located directly across the street from City Hall, will be a major mixed-use development with street-level retail store fronts and a hotel. The project creates an opportunity for Austin City Limits to relocate to the heart of the warehouse district. In December 2006, the City completed the sale of "Block 21" to Stratus Properties, which will pave the way for development to begin. In 2005, the City also created a decommissioning plan for the Green Water Treatment Plant, located on the shores of Town Lake, including identification of alternative sites for a new treatment plant and creation of a redevelopment plan for the existing site. In February 2006, the City Council passed a resolution designating the site as the location of the new central library approved for bond funding by voters in November 2006. The City also negotiated with a developer for redevelopment of the circa 1950 Art Deco Seaholm Power Plant and adjacent property, to create a high quality, mixed-use cultural attraction.

Following a successful referendum on its long-range transit plan in November 2004, the Capital Metropolitan Transportation Authority (Capital Metro) will be implementing new transit services, including urban commuter rail in 2008 and rapid bus service. In May 2005, the City Council adopted a Transit-Oriented Development Ordinance (TOD) designed to specifically support transit and increase use of publicly funded transit investments. Key features of the ordinance include moderate to high density, pedestrian orientation, mixed use, strong transit connection, public and private partnerships and market

responsive development. A station area technical advisory group has been assembled, which includes representatives from Capital Metro, to help guide the visioning process that will enable preferred station area concepts to emerge. Finalization of the initial three station area plans is expected in the fall of 2007.

The redevelopment of Robert Mueller Municipal Airport is underway. In December 2004, the City completed and approved the Master Development Agreement (MDA), with a master developer to convert the old airport site into a vibrant mixed-use community. The MDA calls for the development of a full range of land use in order to promote a viable transit-oriented community for residents and employers. The City has established goals in order to achieve community-based values in a number of areas including affordable housing, green building, and publicly accessible greenways and parks. Major development milestones reached in the last year include:

- The first major project, a new Children's Hospital, opened in the summer of 2007.
- In 2006, the City negotiated a ground lease with the University of Texas for development of the Dell Pediatric Research Institute, which has begun construction.
- Construction of the retail center will occur in phases, with the first phase opening in the spring of 2007. Ultimately, the retail center will draw customers throughout the region upon its planned completion in 2008.
- The developer, Catellus Austin, has announced homebuilders for the first phase of the Mueller community. The range of new home choices at Mueller includes single-family yard houses and row houses, live-work "shop houses" and multi-family "Mueller Houses," and mixed-use apartment and townhouses. The first Mueller homes were completed in late 2007.

Environment and Quality of Life

Many of the City's accomplishments in 2006 assist in the achievement of the City's vision of being the most livable city in the country.

Austin is ranked the fourth safest city in the nation for its low violent crime rate – behind Honolulu, San Jose and El Paso. The violent crime rate reported by the Austin Police Department in 2006 was 5.2 per 1,000 population. Changes in enforcement to reduce the number of traffic fatalities yielded positive results in 2006. The number of traffic fatalities decreased by approximately 9.8 percent, from 71 in 2005 to 64 in 2006. It was the third lowest total in ten years. During 2006, the Austin Police Department implemented a traffic incident management plan that promotes the removal of collisions from major roadways, which helped to decrease the number of traffic fatalities. In 2006, the Austin Police Department also implemented on-line public access to crime reports by neighborhood.

Preserving and protecting Austin's environment contributes to the quality of life that the City's residents value. In November 2005, the City Council voted unanimously to ban the sale and use of pollution-causing coal tar containing pavement sealants, a first in the nation response to this environmental risk. The proposed ban is based on two years of research by City biologists and other environmental scientists and became effective in January 2006. Pavement sealants are protective surface finishes typically used for parking lots and driveways. The Watershed Protection and Development Review Department has also begun developing technical criteria to enable the development community to receive credit for innovative water quality controls, such as biofiltration and rainwater harvesting, as well as completing a number of in-house erosion designs that protect threatened property while enhancing the natural creek setting around the properties. The Solid Waste Services Department has begun to address the long-range solid waste planning needs of Central Texas in conjunction with the Long-Range Solid Waste Planning Task Force which represents a broad spectrum of multi-stakeholder interests and complements the work undertaken by the City of Austin Solid Waste Advisory Commission and other central Texas solid waste planning efforts.

Other initiatives, such as the adoption of affordable housing goals in the University Neighborhood Overlay and creating strategies to help mitigate gentrification under the Community Preservation and Revitalization program, add to the quality of life. In April 2005, on the fifth anniversary of the City's S.M.A.R.T. Housing™ policy, the International City/County Managers' Association named it a best practice. Five years ago, the City established the S.M.A.R.T. Housing™ (Safe, Mixed Income, Accessible, Reasonably Priced, and Transit Oriented) initiative to stimulate the creation of reasonably priced homes within the city limits of Austin. This initiative provides development fee waivers and other benefits for projects that meet all S.M.A.R.T. Housing™ standards, including at least 10 percent of the units meeting the "reasonably priced" standard by serving families at or below 80 percent of the Austin area median family income. In 2006, the Housing Smarts housing counseling program was established and offered free, three-part homebuyer education courses to City of Austin residents. The course teaches about the basics of money management, mortgages, realtors, and preventing foreclosure.

The Citywide Information Center Project has expanded the use of 3-1-1 from a public safety non-emergency number to one that can be utilized for all City services. The 3-1-1 Citywide Information Center continues to grow and supports sixteen divisions within five different departments. Customer Service Representatives field an average of 1800 calls per day resulting in a daily average of over 400 service requests issued to participating departments. The center has been successfully relocated to the Rutherford Lane Campus and has begun to answer the 3-1-1 calls that were previously routed to APD.

First Workers was featured as a model program on National Public Radio. This past fiscal year the Day Labor Program showed a significant increase in placements with more than 70 percent of workers compared to less than 50 percent average last year. Safety training was provided in March for First Workers' clients in collaboration with the Hispanic Contractor's Association, Home Depot, and Newmark Homes.

Utility Projects and Initiatives

Austin Energy is implementing a Quality Management System based on the ISO 9001:2000 Standard established by the International Organization for Standardization (ISO). Austin Energy will seek ISO registration in December 2007. ISO registration certifies that an organization conforms to the ISO 9001:2000 Standard for a quality management system. The quality management system and ISO registration will enhance AE's ability to meet its customer requirements for improved power quality and reliability and customer satisfaction. Registration is significant because AE will be the first utility in the country to obtain ISO 9001: 2000 Registration of transmission and distribution processes.

By improving the energy efficiency of homes and businesses, Austin Energy over the past year reduced peak demand on generating plants by 57 megawatts (MW). This represents the largest peak energy savings ever in the 24-year history of the programs — saving electricity sufficient to power 37,000 homes. The amount of power generated at Decker Power Plant during the peak demand months was more than 20 percent greater than the previous year, but the NO₂ emission rate was reduced by almost the same percentage keeping emissions almost the same as last year. A campaign to persuade automakers to manufacture plug-in hybrid electric vehicles (PHEVs) by demonstrating a nationwide market began in January 2006 and has since signed up more than 500 partners nationwide, including more than half of the 50 largest cities in the nation and partners in 41 states. Plug-in hybrid vehicles were mentioned in the 2006 President's State of the Union Address and recent federal legislation.

The Austin Water Utility launched the Austin Clean Water Program in 2001 because of an Administrative Order from the U.S. Environmental Protection Agency to eliminate overflows from its wastewater collection system by the end of June 2009. The Utility remains on schedule to complete the necessary requirements that are currently estimated to cost \$400 million, with over 48 percent of total improvements installed. In other initiatives during the past year, the Austin Water Utility rehabilitated over fifteen miles of wastewater pipelines with minimal impact on traffic and neighborhoods by avoiding open cut construction.

Additionally, both utility systems received upgrades to their bond ratings. In November, 2006, the Austin Water Utility received upgrades from two rating agencies: Moody's Investor Services and Standard & Poor's. Moody's upgraded the City's Utility's debt from A1 to Aa3 and S&P upgraded Austin's Water Utility debt to A+. The improved ratings will allow the utility to issue debt at a lower interest rate in the future. Both rating agencies cited the utility's growing customer base and favorable economic trends in the utility's service area. Moody's cited its belief that the Austin Water Utility "will continue to pursue prudent financial management" and that City officials "are committed to the fiscal health of the (water/wastewater) system." In May 2006, Moody's moved Austin Energy up two notches from A3 to A1, citing the utility's continued sound competitive position and diverse power supply, its close relationship to the City, its satisfactory financial record including strong debt service coverage, and a moderate debt position.

<u>Type</u>	<u>Fitch</u>	<u>Moody's</u>	<u>S&P</u>
Combined Utility System:			
Prior lien	AA-	A1	AA-
Subordinate lien	AA-	A1	A+
Electric:			
Separate lien	AA-	A1	A+
Water and Wastewater:			
Separate lien	AA-	Aa3	A+

Status of City Services

The vision of the City is to be the most livable community in the country. To achieve this vision, the governing leaders of the City invite citizens to participate in the Citizen Satisfaction Survey. The City has conducted the survey yearly since 1997.

Austin residents assign a very high level of importance to public safety services, including 9-1-1, EMS, Fire, and Police. Generally, satisfaction with most public safety services continues to be high and 2006 survey results improved over 2005. Although neighborhood policing and traffic enforcement rank low as compared to other public safety services, neighborhood policing showed the most improvement from 2005, notably in police cooperation with neighborhoods. Satisfaction with emergency medical services (EMS) among people who have used these services within the last 12 months has dropped compared to last year's survey result with the primary factor cited as timeliness. This statistic is consistent with the rising call volumes that EMS has experienced. The fiscal year 2007 budget, approved by the City Council in September 2006, included the addition of a peak load unit to rove during times and in areas of the city where call volumes are high. Additionally, two new EMS stations were opened in 2007.

Residents have generally expressed satisfaction with the services provided by the Parks and Recreation Department from year to year. In 2006, satisfaction has declined slightly and the survey results appear to focus on the condition of our facilities, notably the appearance of park facilities and grounds and the availability of parks and preserves. Our successful bond election in November 2006 included \$20 million for parkland acquisition and \$64.7 million for park facilities, targeted primarily at major rehabilitation of our existing facilities. Of the \$64.7 million for park facilities, the bond package will include \$53 million to renovate our buildings and facilities, pools, and park infrastructure. About 60 percent of all residents use library services during the year. The overall rating of library services has increased compared to 2005, with satisfaction related to availability of materials showing the most improvement.

Survey results continue to show that Austin citizens consider the environment as one of their top priorities. Residents are most satisfied with the quality of drinking water, consistent with 2005 findings. In 2006, satisfaction with almost all service areas has improved over 2005. The preservation of green space slipped somewhat compared to the 2005 survey results, but was still higher than the results for 2003 and 2004. The November bond package included \$50 million funding for acquisition of land, including fee title and conservation easements in the Barton Springs contributing and recharge zones and should favorably impact ratings in the future. For the first time, survey responses indicate that citizens see significant improvement in the road conditions in Austin. About 70 percent of respondents view road conditions as "good" or "mostly good" compared to 62 percent in 2005. Satisfaction with the traffic flow and traffic signal timing on city streets has also increased compared to 2005 survey results, yet citizens still remain dissatisfied with road conditions and traffic flow overall. Both of these categories remained in the top 10 citizen issues in 2006.

The top issues of importance to Austin residents, listed in rank order, are:

- Road conditions and new roads
- Growth management
- Cost of living

Other issues that citizens considered important, also in rank order:

- Tax-related issues (including rates, fees and charges)
- Mass transit
- Pollution-related issues
- Quality of life (more green space, arts, etc.)
- Public education issues
- Water quality and supply
- Management of budget

The City is committed to incorporating the public's preferences into its strategic planning and using the public's expression of satisfaction as a criterion of accountability.

Employment by Industry in the Austin Metropolitan Area (a)

Employment Characteristics

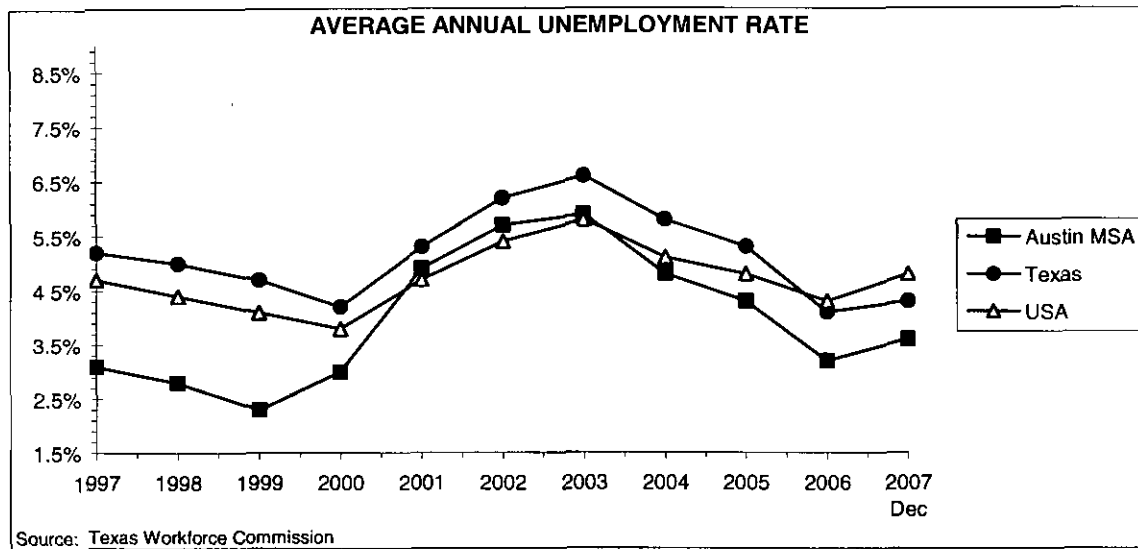
	<u>2000</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>February 2008</u>
<u>Industrial Classification</u>	<u>% of Total</u>	<u>% of Total</u>	<u>% of Total</u>	<u>% of Total</u>	<u>% of Total</u>
Manufacturing	84,000 12.3%	57,500 8.4%	57,400 7.9%	60,600 7.9%	58,900 7.7%
Government	137,100 20.1%	146,800 21.5%	156,600 21.5%	158,400 20.8%	162,200 21.1%
Trade, transportation & utilities	116,000 17.0%	118,600 17.3%	151,400 20.8%	159,800 21.0%	157,900 20.6%
Services and miscellaneous	267,100 39.1%	281,300 41.1%	275,800 37.9%	290,100 38.0%	293,900 38.3%
Finance, insurance and real estate	35,400 5.2%	40,200 5.9%	42,500 5.8%	45,200 5.9%	45,600 5.9%
Natural resources, mining & construction	42,700 6.3%	39,800 5.8%	44,600 6.1%	49,200 6.4%	49,100 6.4%
Total	682,300 100.0%	684,200 100.0%	728,300 100.0%	763,300 100.0%	767,600 100.0%

(a) Austin-Round Rock MSA includes Travis, Bastrop, Caldwell, Hays and Williamson Counties. Information is updated periodically, data contained herein is the latest provided.

Source: Texas Labor Market Review, March 2008, Texas Workforce Commission.

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Average Annual Unemployment Rate



	<u>Austin MSA</u>	<u>Texas</u>	<u>U.S.</u>
1997	3.1%	5.2%	4.7%
1998	2.8%	5.0%	4.4%
1999	2.3%	4.7%	4.1%
2000	3.0%	4.2%	3.8%
2001	4.9%	5.3%	4.7%
2002	5.7%	6.2%	5.4%
2003	5.9%	6.6%	5.8%
2004	4.8%	5.8%	5.1%
2005	4.3%	5.3%	4.8%
2006	3.2%	4.1%	4.3%
2007	3.6%	4.3%	4.8%
2008 February	3.6%	4.3%	5.2%

Note: Information is updated periodically, data contained herein is latest provided.

Source: Texas Labor Market Review, March 2008, Texas Workforce Commission.

City Sales Tax Collections (In Millions)

<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>
1-1-04	\$ 8.883	1-1-05	\$ 9.076	1-1-06	\$10.334	1-1-07	\$11.422	1-1-08	\$11.639
2-1-04	12.382	2-1-05	13.171	2-1-06	14.818	2-1-07	16.371	2-2-08	16.569
3-1-04	8.693	3-1-05	9.049	3-1-06	10.051	3-1-07	11.080	3-1-08	12.109
4-1-04	8.534	4-1-05	8.660	4-1-06	9.930	4-1-07	11.414		
5-1-04	10.867	5-1-05	11.795	5-1-06	12.950	5-1-07	14.611		
6-1-04	9.384	6-1-05	9.718	6-1-06	10.725	6-1-07	11.748		
7-1-04	8.980	7-1-05	8.936	7-1-06	11.981	7-1-07	12.011		
8-1-04	11.474	8-1-05	12.004	8-1-06	11.880	8-1-07	14.101		
9-1-04	9.157	9-1-05	9.938	9-1-06	11.152	9-1-07	11.883		
10-1-04	9.214	10-1-05	10.182	10-1-06	11.535	10-1-07	12.257		
11-1-04	11.340	11-1-05	11.735	11-1-06	13.401	11-1-07	14.774		
12-1-04	9.354	12-1-05	10.532	12-1-06	11.525	12-1-07	12.365		

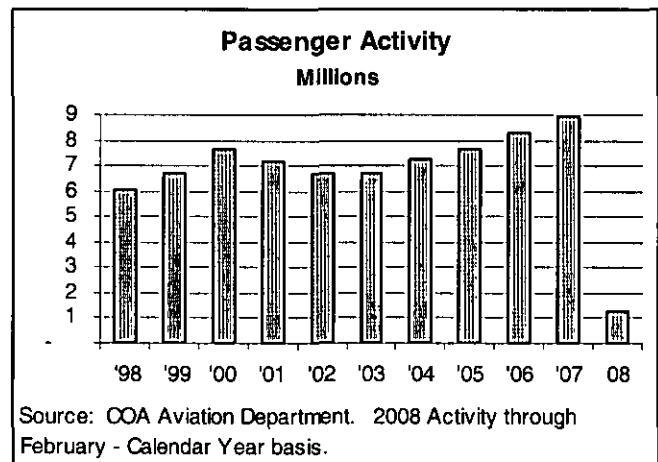
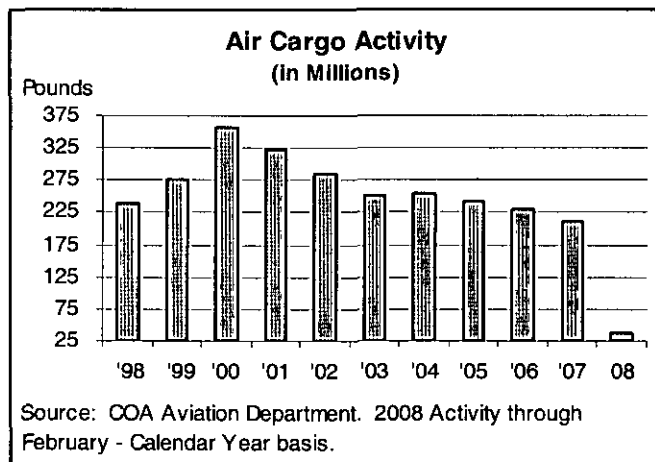
Source: City of Austin, Budget Office.

Ten Largest Employers (As of September 30, 2006)

<u>Employer</u>	<u>Product or Service</u>	<u>Employees</u>
State Government	State Government	36,216
The University of Texas at Austin	Education	22,450
Dell Computer Corporation	Computers	17,000
City of Austin	City Government	11,425
Federal Government	Federal Government	10,624
Austin Independent School District	Education	10,617
Seton Healthcare Network	Healthcare	7,538
IBM Corporation	Computers	6,200
St. David's Healthcare Partnership	Healthcare	5,712
Wal-Mart	Retail	5,648

Source: 2006 Comprehensive Annual Financial Report.

Transportation



Austin-Bergstrom International Airport

Prior to May 23, 1999 all passenger activity was out of Robert Mueller Municipal Airport.

Austin-Bergstrom International Airport is served by fourteen major airlines; Aero Mexico, Air Canada, American, Continental, Delta, ExpressJet, Frontier, Jet Blue, Midwest, Northwest, Southwest, United, US Airways, and VivaAerobus. Non-stop air service is available to forty-eight U.S destinations and four international destinations.

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Wealth Indicators

The Austin-Round Rock MSA has experienced growth not only in population, but also in median household income and per capita personal income, while maintaining a low unemployment rate.

Demographic and Economic Statistics Last Ten Fiscal Years

Year	City of Austin Population (1)	Area of Incorporation (Sq. Miles) (1)	Population MSA (2)(3)	Income (MSA) (Thousand of Dollars) (2)	Median Household Income MSA (2)	Capita Income MSA (2)	Unemployment Rate (MSA) (3)
1997	560,939	232	1,111,264	28,191,969	31,362	25,369	3.1
1998	608,214	254	1,155,579	33,116,579	33,690	28,658	2.9
1999	619,038	252	1,205,898	37,408,615	36,532	31,021	2.3
2000	628,667	265	1,249,763	41,157,290	36,321	32,548	3.0
2001	661,639	266	1,319,000	42,489,015	39,811	32,213	4.9
2002	671,044	273	1,346,332	41,908,425	47,089	31,128	5.7
2003	674,719	276	1,376,005	43,142,172	41,909	31,353	5.9
2004	683,551	291	1,411,199	45,854,868	39,227	32,494	4.7
2005	695,881	294	1,452,529	49,394,000	40,335	34,005	4.3
2006	714,237	296	1,533,308 (4)	53,024,459 (4)	40,888 (4)	35,413	3.9
1997-2006 Change	21.46%	21.49%	27.53%	46.83%	23.30%	28.36%	

(1) Source: City Demographer, City of Austin, Neighborhood Planning and Zoning Department based on full purpose area as of September 30.

(2) Source: Bureau of Economic Analysis.

(3) Source: Bureau of Labor Statistics, Texas A&M University.

(4) Data not available for 2006. Figures are estimated.

Growth Indicators

Austin has experienced considerable growth as evidenced by the following utility connection and building permit statistics.

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Connections and Permits

Year	Utility Connections			Building Permits		Total
	Electric	Water	Gas	Taxable	Federal, State and Municipal	
1991	281,926	142,721	131,713	\$ 327,777,503	\$33,619,419	\$ 361,396,922
1992	286,413	141,210	139,529	435,053,697	5,162,800	440,216,497
1993	291,896	146,396	143,088	607,717,144	70,976,449	678,693,593
1994	298,662	148,148	142,373	840,043,119	19,643,501	859,686,620
1995	306,670	149,867	147,023	870,446,315	11,087,831	881,534,146
1996	319,518	151,757	148,124	1,246,232,619	89,945,847	1,336,178,466
1997	326,816	156,397	156,752	1,023,114,762	2,574,539	1,025,689,301
1998	342,263	168,907	165,274	1,434,660,615	46,722,845	1,481,383,460
1999	348,721	173,038	173,150	1,501,435,229	54,399,189	1,555,834,418
2000	344,134	176,096	172,063	1,797,039,075	34,334,286	1,831,373,361
2001	349,671	178,608	172,177	1,625,508,854	71,189,116	1,696,697,970
2002	359,358	182,977	193,278	1,261,868,130	38,727,017	1,300,595,147
2003	363,377	184,659	199,042	1,189,489,091	17,084,652	1,206,573,743
2004	369,458	188,441	203,966	1,280,385,298	20,533,975	1,300,919,273
2005	372,735	192,511	207,686	1,405,871,887	40,484,950	1,446,356,837
2006	380,696	197,511	213,009	2,353,171,746	16,526,040	2,369,697,786

Source: 2006 Comprehensive Annual Financial Report.

Housing Units

The average two-bedroom apartment in the Austin MSA was \$938 per month, with an occupancy rate of 96.6% for the fourth quarter 2007.

Residential Sales Data

Year	Number of Sales	Total Volume	Average Price
1996	12,597	1,672,441,903	132,765
1997	12,439	1,762,198,574	141,667
1998	15,583	2,334,200,698	149,791
1999	18,135	2,963,915,274	163,436
2000	18,621	3,561,039,919	191,238
2001	18,392	3,556,546,121	193,375
2002	18,716	3,695,947,381	197,475
2003	19,793	3,899,018,519	196,990
2004	22,567	4,487,464,528	198,851
2005	26,905	5,660,934,916	210,405
2006	30,278	6,960,536,304	229,888
2007	28,000	6,901,788,236	246,413
2008 February	1,705	395,832,164	232,160

Note: Information is updated periodically, data contained herein is latest provided. February 2008 data is for the single month only.

Source: Real Estate Center at Texas A&M University.

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City-Wide Austin Office Occupancy Rate

<u>Year</u>	<u>Occupancy Rate</u>
1998	93.4%
1999	92.8%
2000	96.0%
2001	81.2%
2002	77.1%
2003	76.5%
2004	76.7%
2005	83.1%
2006	87.5%
2007	85.6%
2008 First Quarter	84.0%

Source: Oxford Commercial

Education

The Austin Independent School District had an enrollment of 82,145 for the 2007 school year. This reflects an increase of 3.0% in enrollment from the end of the 2006 school year. The District includes 110 campus buildings.

<u>School Year</u>	<u>Average Daily Membership</u>	<u>Average Daily Attendance</u>
1996/97	74,315	70,361
1997/98	75,693	71,241
1998/99	75,915	71,491
1999/00	76,268	71,583
2000/01	76,447	71,518
2001/02	76,347	71,638
2002/03	77,009	72,494
2003/04	77,313	73,085
2004/05	77,937	73,572
2005/06	79,500	74,860
2006/07	82,145	76,821
2007/08	82,011	77,152

Source: Austin Independent School District. (Data for the fourth six weeks, as of 2-22-08.)

The following institutions of higher education are located in the City: The University of Texas at Austin, St. Edward's University, Huston-Tillotson College, Concordia Lutheran College, Austin Presbyterian Theological Seminary, Episcopal Theological Seminary of the Southwest and Austin Community College.

The University of Texas at Austin had a preliminary enrollment of 50,201 for the fall semester of 2007 and is a major research university with many nationally ranked academic programs at the graduate level. It is also known for its library collections and research resources. The present site has expanded more than 300 acres since classes began on the original 40 acres near downtown Austin. Additionally, University-owned property located in other areas of Austin includes the Pickle Research Center and the Brackenridge Tract, partially used for married student housing. The McDonald Observatory on Mount Locke in West Texas, the Marine Science Institute at Port Aransas and the Institute for Geophysics (Galveston) on the Gulf Coast operate as specialized research units of The University of Texas at Austin.

Tourism

The impact of tourism on the Austin economy is significant. Total travel expenditures in the Austin-Round Rock MSA were \$4.143 billion in 2006. There are more than 255 hotels available within the Austin Metropolitan Area, as of the fourth quarter of 2007, with a hotel occupancy rate of nearly 64 percent.

Existing City convention and meeting facilities include a Convention Center, which is supported by hotel/motel occupancy

tax collections and revenues of the facility and the new Lester E. Palmer Events Center with 70,000 square feet of exhibit space. Other facilities in Austin include the Frank Erwin Center, a 17,000-seat arena at The University of Texas, the Texas Exposition and Heritage Center and the Austin Music Hall. The Texas Exposition and Heritage Center offers 6,000 seat arena seating and 20,000 square feet of banquet/exhibit hall facilities. The Austin Music Hall has a concert seating capacity of 3,000 and 32,000 square feet of exhibit space. The Long Center for the Performing Arts, a \$77 million venue, will open in March 2008. The Center will contain two theaters; the 2,300-seat Michael and Susan Dell Hall and the flexible 240-seat Debra and Kevin Rollins Studio Theater. Once completed, the new venue will be owned by the City, while a private nonprofit corporation will operate the building.

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APPENDIX B

EXCERPTS FROM THE ANNUAL FINANCIAL REPORT

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE

The following constitutes a summary of certain portions of the Ordinance. This summary should be qualified by reference to other provisions of the Ordinance referred to elsewhere in this Remarketing Memorandum, and all references and summaries pertaining to the Ordinance in this Remarketing Memorandum are, separately and in whole, qualified by reference to the exact terms of the Ordinance, a copy of which may be obtained from the City.

Selected Definitions

“Additional Revenue Bonds” shall mean the additional parity revenue bonds permitted to be issued by the City pursuant to the Ordinance.

“Administrative Expenses” shall mean the fees, expenses and indemnification liabilities payable to the Persons to whom fees and expenses incurred in connection with the Revenue Bonds and Credit Agreement Obligations incurred in connection therewith, including but not limited to the fees and expenses of the Paying Agent/Registrars, the Credit Providers, the rebate analysts, the remarketing agents, the tender agents, the auction agents and the broker-dealers, and of which the City is given actual notice at least thirty (30) days prior to the due date thereof.

“Administrative Expense Fund” shall mean the fund by that name established in the Ordinance.

“Airport” shall mean the air carrier airport developed, constructed and operated by the City pursuant to the city-wide election held within the City on May 1, 1993, and designated as the Austin-Bergstrom International Airport (ABIA).

“Airport Consultant” shall mean a nationally recognized independent firm, person or corporation having a widely known and favorable reputation for special skill, knowledge and experience in methods of development, operation and financing of airports of approximately the same size as the properties constituting the Airport System.

“Airport System” shall mean all airport, heliport and aviation facilities, or any interest therein, now or from time to time hereafter owned, operated or controlled in whole or in part by the City, including the Airport, together with all properties, facilities and services thereof, and all additions, extensions, replacements and improvements thereto, and all services provided or to be provided by the City in connection therewith, but expressly excluding (i) any heliport or heliports operated by City Departments other than the Aviation Department and (ii) the Mueller Airport Property.

“Authorized Officer” shall mean the City Manager of the City or, to the extent so designated by the City Manager, any Assistant City Manager of the City or the Chief Financial Officer of the City.

“Aviation Director” shall mean the Executive Director of the City’s Department of Aviation, or any successor or person acting in such capacity.

“Bond Insurance Policy” shall mean the municipal bond insurance policy issued by the Bond Insurer insuring the payment, when due, of the principal of and interest on the Bonds.

“Bond Insurer” shall mean Financial Security Assurance, Inc., a New York stock insurance company, or any successor thereto or assignee thereof.

“Bonds” shall mean the City of Austin, Texas, Airport System Refunding Revenue Bonds, Series 2005 authorized by the Ordinance.

“Capital Fund” shall mean the fund so designated in the Ordinance.

“Code” shall mean the Internal Revenue Code of 1986, as amended.

“Completion Bonds” shall mean each series of Revenue Bonds permitted to be issued as completion bonds by the City pursuant to Section 6.02 of the Ordinance.

“Construction Fund” shall mean the fund so designated in the Ordinance.

“Credit Agreement” shall mean (i) any agreement of the City entered into in connection with and for the purpose of (A) enhancing or supporting the creditworthiness of a series of Revenue Bonds or (B) providing liquidity with respect to Revenue Bonds which by their terms are subject to tender for purchase, and which, by its terms, creates a liability on the part of the City on a parity with the Revenue Bonds to which it relates, and (ii) a Swap Agreement. A determination by the City that an agreement constitutes a Credit Agreement under this definition shall be conclusive as against all Owners. As defined in the Note Ordinance, a “Credit Agreement,” “Alternate Credit Facility,” “Liquidity Facility” and “Alternate Liquidity Facility” executed in connection with the Notes shall each constitute a Credit Agreement under the Ordinance.

“Credit Agreement Obligations” shall mean any amounts payable by the City under and pursuant to a Credit Agreement other than amounts payable as an Administrative Expense. Credit Agreement Obligations shall include “Reimbursement Obligations” incurred pursuant to the Note Ordinance.

“Credit Provider” shall mean the issuer or provider of a Credit Agreement.

“Debt Service Fund” shall mean the fund so designated in the Ordinance.

“Debt Service Requirements”, (i) with respect to Prior Lien Bonds, shall have the meaning assigned thereto in the Prior Lien Ordinances, and (ii) with respect to Revenue Bonds, shall mean, for any particular period of time, an amount equal to the sum of the following for such period with respect to all or any portion of Revenue Bonds or Credit Agreement Obligations, as applicable, then Outstanding:

A. That portion of interest which would accrue with respect to Revenue Bonds during such period if interest were deemed to accrue only during the 6 month period prior to its payment (12 month period in the case of capital appreciation or compound interest bonds), plus

B. That portion of the principal amount of such Revenue Bonds which would accrue during such period if principal was deemed to accrue only during the 12 month period prior to its scheduled payment date (either at maturity or by reason of scheduled mandatory redemptions, but after taking into account all prior optional and mandatory Revenue Bond redemptions);

less and except any such interest or principal for the payment of which provision has been made by (i) appropriating for such purpose amounts sufficient to provide for the full and timely payment of such interest or principal either from proceeds of bonds, from interest earned or to be earned thereon, from Airport System funds other than Net Revenues, or from any combination of such sources and (ii) depositing such amounts (except in the case of interest to be earned, which shall be deposited as received) into a dedicated fund or account, the proceeds of which are required to be transferred as needed into the Debt Service Fund or directly to the paying agent for the Revenue Bonds.

For purposes of calculation of Debt Service Requirements, in making estimates as to interest accrued or to accrue on Variable Rate Bonds, the actual interest rate shall be used to the extent known or ascertainable and to the extent unknown and not ascertainable, the Maximum Interest Rate shall be used; provided, however, that to the extent Variable Rate Bonds are subject to a Swap Agreement, the fixed rate that is effective with respect to such Variable Rate Bonds pursuant to such Swap Agreement shall be used.

“Debt Service Reserve Fund” shall mean the fund so designated in the Ordinance.

“Debt Service Reserve Fund Requirement” shall mean the amount required to be maintained in the Debt Service Reserve Fund. Such amount shall be computed and recomputed annually as a part of the City’s budget process and upon the issuance of each series of Revenue Bonds to be the arithmetic average of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Revenue Bonds then Outstanding including the series of Revenue Bonds then being issued. In no event, however, will the amount deposited in the Debt Service Reserve Fund that is allocable to the Revenue Bonds or Additional Revenue Bonds, in accordance with section 1.148-6 of the regulations promulgated

under the Code, exceed the least of (a) 10% of the stated principal amount of each issue of which such Revenue Bonds or Additional Revenue Bonds are a part, (b) the maximum annual principal and interest requirements of such issue or (c) 125% of the average annual principal and interest requirements of such issue, unless there is received an opinion of nationally recognized bond counsel to the effect that such additional amount will not cause the Revenue Bonds and any Additional Revenue Bonds to be "arbitrage bonds" within the meaning of section 148 of the Code and the regulations promulgated from time to time thereunder.

"Debt Service Reserve Fund Surety Bond" shall mean any surety bond or insurance policy having a rating in the highest respective rating categories by Moody's and Standard & Poor's issued to the City for the benefit of the Owners of the Revenue Bonds to satisfy any part of the Debt Service Reserve Fund Requirement as provided in the Ordinance.

"Federal Payments" shall mean those funds received by the Airport System from the federal government or any agency thereof as payments for the use of any facilities or services of the Airport System.

"Fiscal Year" shall mean the City's fiscal year as from time to time designated by the City, which is currently October 1 to September 30.

"General Obligation Airport Bonds" shall mean those bonds or other obligations of the City secured by a levy of ad valorem taxes from time to time issued or to be issued by the City for Airport System purposes.

"Gross Revenues" shall mean all income and revenues derived directly or indirectly by the City from the operation and use of and otherwise pertaining to the Airport System, or any part thereof, whether resulting from extensions, enlargements, repairs, betterments or other improvements to the Airport System, or otherwise, and includes, except to the extent hereinafter expressly excluded, all revenues received by the City from the Airport System, including, without limitation, all rentals, rates, fees and other charges for the use of the Airport System, or for any service rendered by the City in the operation thereof, interest and other income realized from the investment or deposit of amounts required to be transferred or credited to the Revenue Fund. Gross Revenues expressly exclude:

- (a) proceeds of any Prior Lien Bonds, Revenue Bonds and Subordinate Obligations;
- (b) interest or other investment income derived from Prior Lien Bonds, Revenue Bonds and Subordinate Obligation proceeds and Subordinate Obligations deposited to the credit of a construction fund, and all other interest or investment income not required to be transferred or credited to the Revenue Fund;
- (c) any monies received as grants, appropriations, or gifts, the use of which is limited by the grantor or donor to the construction or acquisition of Airport System facilities, except to the extent any such monies shall be received as payments for the use of the Airport System facilities;
- (d) any revenues derived from any Special Facilities which are pledged to the payment of Special Facilities Bonds;
- (e) insurance proceeds other than loss of use or business interruption insurance proceeds;
- (f) the proceeds of the passenger facility charge currently imposed by the City and any other per-passenger charge as may be hereafter lawfully authorized;
- (g) sales and other taxes collected by the Airport System on behalf of the State of Texas and any other taxing entities;
- (h) Federal Payments received by the Airport System unless the City first receives an opinion from nationally recognized bond counsel to the effect that such payments, if included in Gross Revenues, would not cause the interest on the Bonds to be includable within the gross income of the Owners thereof for federal income tax purposes;
- (i) the proceeds received by the City from the sale or other disposition of Airport System property, except amounts representing interest or finance charges in a deferred sale or other similar method of conveyance

where a portion of the sale price is payable on a deferred basis, in which case any interest or finance charges shall be considered Gross Revenues; and

- (j) Other Available Funds transferred to the Revenue Fund as provided in the Ordinance.

“Minimum Capital Reserve” shall mean an amount, designated by the Aviation Director not less frequently than annually at the end of each Fiscal Year, but in any event not more than \$100,000 each Fiscal Year, necessary to accumulate or to reaccumulate in the Capital Fund a reserve in an amount not less than \$1,000,000.

“Moody’s” shall mean Moody’s Investors Service, Inc., its successors and assigns, and if such corporation shall for any reason no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the City.

“Mueller Airport Property” shall mean the property and facilities that comprised the former Robert Mueller Municipal Airport, located within the City. The Mueller Airport Property is not part of the Airport System.

“Net Revenues” shall mean that portion of the Gross Revenues remaining after the deduction of the Operation and Maintenance Expenses of the Airport System.

“Note Ordinance” shall mean the ordinance of the City adopted by the City Council on February 5, 1998, authorizing the issuance of the Notes.

“Notes” shall mean the City’s Airport System Variable Rate Revenue Notes, Series A, issued pursuant to the Note Ordinance.

“Operation and Maintenance Expenses” shall mean all reasonable and necessary current expenses of the City, paid or accrued, of operating, maintaining and repairing the Airport System, including, without limitation, those reasonably allocated City overhead expenses relating to the administration, operation and maintenance of the Airport System; insurance and fidelity bond premiums; payments to pension and other funds and to any self-insurance fund; any general and excise taxes or other governmental charges imposed by entities other than the City; any required rebate of any portion of interest income to the federal government which is payable from Gross Revenues or the Revenue Fund; costs of contractual and professional services, labor, materials and supplies for current operations, including the costs of such direct City services rendered to the Airport System as are requested from the City by the Airport System and as are reasonably necessary for the operation of the Airport System; costs of issuance of Prior Lien Bonds, Revenue Bonds and Subordinate Obligations for the Airport System (except to the extent paid from the proceeds thereof); fiduciary costs; costs of collecting and refunding Gross Revenues; utility costs; any lawful refunds of any Gross Revenues; and all other administrative, general and commercial expenses, but excluding:

- (a) any allowance for depreciation;
- (b) costs of capital improvements;
- (c) reserves for major capital improvements, Airport System operations, maintenance or repair;
- (d) any allowance for redemption of, or payment of interest or premium on, Prior Lien Bonds, Revenue Bonds and Subordinate Obligations;
- (e) any liabilities incurred in acquiring or improving properties of the Airport System;
- (f) expenses of lessees under Special Facilities Leases and operation and maintenance expenses pertaining to Special Facilities to the extent they are required to be paid by such lessees pursuant to the terms of the Special Facilities Leases;
- (g) any charges or obligations incurred in connection with any lawful Airport System purpose, including the lease, acquisition, operation or maintenance of any facility or property benefiting the Airport System,

provided that the payment of such charges or obligations is expressly agreed by the payee to be payable solely from proceeds of the Capital Fund;

- (h) liabilities based upon the City's negligence or other ground not based on contract; and
- (i) so long as Federal Payments are excluded from Gross Revenues, an amount of expenses that would otherwise constitute Operation and Maintenance Expenses for such period equal to the Federal Payments for such period.

"Operation and Maintenance Reserve Fund" shall mean the fund so designated and created within the Revenue Fund in the Ordinance.

"Other Available Funds" shall mean any amount of unencumbered funds accumulated in the Capital Fund in excess of the Minimum Capital Reserve which, prior to the beginning of any Fiscal Year, are designated by the City as Other Available Funds and transferred at the beginning of such Fiscal Year to the Revenue Fund, but in no event may such amount exceed twenty-five percent (25%) of the Debt Service Requirements for the Prior Lien Bonds for such Fiscal Year for purposes of Sections 5.03 (Rate Covenant) and 6.01 (Additional Prior Lien Bonds) of the Ordinance.

"Outstanding" when used with reference to any Prior Lien Bonds, Revenue Bonds and Subordinate Obligations shall mean, as of a particular date, all those Prior Lien Bonds, Revenue Bonds and Subordinate Obligations theretofore and thereupon delivered except: (a) any such obligation paid, discharged or cancelled by or on behalf of the City at or before said date; (b) any such obligation defeased pursuant to the defeasance provisions of the ordinance authorizing its issuance, or otherwise defeased as permitted by applicable law; and (c) any such obligation in lieu of or in substitution for which another obligation shall have been delivered pursuant to the ordinance authorizing the issuance of such obligation.

"Owner" or "Registered Owner," when used with respect to any Revenue Bond shall mean the person or entity in whose name such Revenue Bond is registered in the registration books kept by the Paying Agent/Registrar. Any reference to a particular percentage or proportion of the Owners shall mean the Owners at a particular time of the specified percentage or proportion in aggregate principal amount of all Revenue Bonds then Outstanding under the Ordinance.

"Paying Agent/Registrar" initially shall mean, for the Bonds, Wells Fargo Bank, N.A., and its successors in that capacity.

"Person" shall mean any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Pricing Certificate" shall mean a certificate or certificates to be signed by the Authorized Officer containing the terms and provisions authorized in the Ordinance.

"Principal Installment" shall mean, with respect to Revenue Bonds or a series of Revenue Bonds, any amounts, including any mandatory sinking fund installments, which are stated to be due or required to be made on or with respect to an Revenue Bond or series of Revenue Bonds, which, when made, would reduce the amount of the Revenue Bond or series of Revenue Bonds that remain Outstanding or would retire and pay the same in full.

"Prior Lien Bonds" shall mean the Series 1989 Bonds, the Series 1995A Bonds, the Series 1995B Bonds and Series 2003 Bonds.

"Prior Lien Debt Service Fund" shall mean the debt service fund established and created for the Prior Lien Bonds pursuant to the Prior Lien Ordinances.

"Prior Lien Debt Service Fund" shall mean the debt service reserve fund established and created for the Prior Lien Bonds pursuant to the Prior Lien Ordinances.

"Prior Lien Ordinances" shall mean the ordinances authorizing the Prior Lien Bonds.

“Qualified Put” shall mean any agreement, however denominated, provided by a qualifying financial institution (as described in the following sentence) which contractually commits to purchase, upon no more than seven days’ notice, for not less than a stated price any class or amount of investment securities or other authorized investments of the City at any time that such investment securities or investments must be liquidated in order to make cash transfers from the fund or account that holds such investments. A Qualified Put may be entered into only with a financial institution which (a) is a domestic bank the long-term debt of which is rated at least “AA” by Standard & Poor’s and “Aa” by Moody’s, or (b) a foreign bank the long-term debt of which is rated “AAA” by Standard & Poor’s and at least “Aa” by Moody’s, or at least “AA” by Standard & Poor’s and “Aaa” by Moody’s, or (c) a financial institution the long-term debt of which is rated at least “A” by both Standard & Poor’s and Moody’s and agrees to collateralize its obligations under such agreement by lodging with a third party trustee, escrow agent, custodian or other financial third party direct obligations of the United States of America or its agencies with a market value equal to 102% of the difference between the face amount of its purchase obligation under the agreement and the market value of the investment securities to which the agreement relates (based upon periodic market valuations at least monthly), or (d) a financial institution approved by any bond insurer then insuring a series of Prior Lien Bonds. A Qualified Put may be integrated into any investment authorized under Texas law, such as a repurchase agreement.

“Register” shall mean the books of registration kept by the Paying Agent/Registrar in which are maintained the names and addresses of and the principal amounts registered to each Owner.

“Renewal and Replacement Fund” shall mean the fund so designated in the Ordinance.

“Renewal and Replacement Fund Requirement” shall mean the amount required to be maintained in the Renewal and Replacement Fund pursuant to the Ordinance, or any greater amount required by any ordinance authorizing any series of Additional Revenue Bonds.

“Revenue Bond Ordinances” shall mean the Note Ordinance, this Ordinance and any ordinances pursuant to which Additional Revenue Bonds are issued.

“Revenue Bonds” shall mean each series of bonds, notes or other obligations, other than Credit Agreement Obligations, which the City has reserved the right to issue or incur from time to time pursuant to the Ordinance, payable from and secured by a lien on and pledge of Net Revenues junior and subordinate to the lien and pledge securing the Prior Lien Bonds.

“Revenue Fund” shall mean the fund so designated in the Ordinance.

“Series 1989 Bonds” shall mean the City of Austin, Texas, Airport System Prior Lien Revenue Bonds, Series 1989.

“Series 1995A Bonds” shall mean the City of Austin, Texas, Airport System Prior Lien Revenue Bonds, Series 1995A.

“Series 1995B Bonds” shall mean the City of Austin, Texas, Airport System Prior Lien Revenue Refunding Bonds, Series 1995B.

“Series 2003 Bonds” shall mean the City of Austin, Texas Airport System Prior Lien Revenue Refunding Bonds, Series 2003.

“Special Facilities” shall mean structures, hangars, aircraft overhaul, maintenance or repair shops, heliports, hotels, storage facilities, garages, inflight kitchens, training facilities and any and all other facilities and appurtenances being a part of or related to the Airport System, the cost of the construction or other acquisition of which is financed with the proceeds of Special Facilities Bonds.

“Special Facilities Bonds” shall mean those bonds from time to time hereafter issued by the City pursuant to the appropriate provisions of the Ordinance.

“Special Facilities Lease” shall mean any lease or agreement, howsoever denominated, pursuant to which a Special Facility is leased by the City to the lessee in consideration for which the lessee agrees to pay (i) all debt service on the Special

Facilities Bonds issued to finance the Special Facility (which payments are pledged to secure the Special Facilities Bonds) and (ii) the operation and maintenance expenses of the Special Facility.

“Standard & Poor’s” shall mean Standard & Poor Ratings Services, A Division of The McGraw-Hill Companies, Inc., its successors and assigns, and if such entity shall for any reason no longer perform the functions of a securities rating agency, “Standard & Poor’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the City.

“Subordinate Obligations” shall mean each series of bonds, notes or other obligations, including reimbursement obligations and obligations pursuant to credit agreements and interest rate hedges, which the City has reserved the right to issue or incur from time to time pursuant to the Ordinance as Subordinate Obligations secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the lien on Net Revenues securing payment of the Prior Lien Bonds and the Revenue Bonds.

“Swap Agreement” means a Credit Agreement, approved in writing by the Bond Insurer, with respect to a series of Revenue Bonds pursuant to which the City has entered into an interest rate exchange agreement or other interest rate hedge agreement for the purpose of converting in whole or in part the City’s fixed or variable interest rate liability on all or a portion of the Revenue Bonds to a fixed or variable rate liability (including converting a variable rate liability to a different variable rate liability). For the purpose of this definition, a counterparty is not qualified unless it holds, on the date of execution of a Swap Agreement, a current rating by at least two of the following three rating agencies: Moody’s Investor Services, Inc., and by Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., and by Fitch Ratings, or their respective successors, at least equal to the rating of each such rating agency assigned to the Revenue Bonds without reference to any Credit Agreement. The Series 2005 Swap Agreement previously executed and delivered by the City constitutes a Swap Agreement under the Ordinance with respect to the Bonds.

“Termination Payment” shall mean an amount owed by the City to a counterparty pursuant to a Swap Agreement incurred in connection with the termination of such Swap Agreement and which, on the date of execution of the Swap Agreement, is not an amount representing a regularly scheduled payment thereunder. “Termination Payment” shall not include any amount representing an Administrative Expense.

“Variable Rate” shall mean an interest rate borne by the Revenue Bonds that is reset from time to time.

“Variable Rate Bonds” shall mean Revenue Bonds which bear a Variable Rate.

Funds and Flow of Funds

Funds. The Ordinance creates the Revenue Fund, including the Operation and Maintenance Reserve Fund therein, the Debt Service Fund, the Debt Service Reserve Fund, the Renewal and Replacement Fund, the Capital Fund, including the Capital Improvement Account therein, and the Construction Fund. The City may create additional accounts and sub-accounts in any of the funds, including specifically rebate accounts or sub-accounts for accumulating rebatable arbitrage payable to the federal government, so long as they are not inconsistent with the Ordinance.

The Revenue Fund, including the Operation and Maintenance Reserve Fund, the Renewal and Replacement Fund, the Capital Fund and the Construction Fund (other than any Capitalized Interest Accounts therein) shall be maintained as separate funds or accounts on the books of the City and all amounts credited to such Funds and Accounts shall be maintained in an official depository bank of the City. The Prior Lien Debt Service Fund, the Prior Lien Debt Service Reserve Fund and all Capitalized Interest Accounts established in the Construction Fund for Prior Lien Bonds and the Debt Service Fund, the Debt Service Reserve Fund and the Administrative Expense Fund shall be maintained at an official depository bank of the City or in a trustee bank designated by the City separate and apart from all other funds and accounts of the City. The Debt Service Fund and the Debt Service Reserve Fund shall constitute trust funds which shall be held in trust for the owners of the Revenue Bonds and the proceeds of which shall be pledged, as provided in the Ordinance, to the payment of the Revenue Bonds. The Administrative Expense Fund shall constitute trust funds which shall be held in trust for the payment of Administrative Expenses to the Persons entitled thereto.

Flow of Funds. Gross Revenues shall be deposited as received into the Revenue Fund. In addition, the City may deposit into the Revenue Fund any Federal Payments not restricted for capital purposes, provided that, so long as such

Federal Payments are excluded from the definition of Gross Revenues, such Federal Payments shall be applied solely to the payment of Operation and Maintenance Expenses or capital expenditures and never constitute Net Revenues. Other Available Funds may also be deposited into the Revenue Fund. Moneys from time to time credited to the Revenue Fund shall be applied as follows in the following order of priority:

- (a) First, to provide for all payments of Operation and Maintenance Expenses required by the Prior Lien Ordinances or the Revenue Bond Ordinances.
- (b) Second, to transfer all amounts to the Prior Lien Debt Service Fund required by the Prior Lien Ordinances.
- (c) Third, to transfer all amounts to the Prior Lien Debt Service Reserve Fund required by the Prior Lien Ordinances.
- (d) Fourth, to transfer all amounts to the Debt Service Fund required by the Revenue Bond Ordinances necessary to pay Debt Service on the Revenue Bonds and any Credit Agreement Obligations related thereto.
- (e) Fifth, to transfer all amounts to the Administrative Expense Fund required to pay Administrative Expenses to the Persons entitled thereto when due.
- (f) Sixth, to transfer all amounts to the Debt Service Reserve Fund required by the Revenue Bond Ordinances.
- (g) Seventh, to transfer all amounts necessary to provide for the payment of Subordinate Obligations, or to provide reserves for such payment, as may be required by any ordinance authorizing such Subordinate Obligations and credit agreement obligations related thereto.
- (h) Eighth, to transfer all amounts necessary to provide for the payment of principal of and interest on General Obligation Airport Bonds.
- (i) Ninth, to transfer all amounts to the Operation and Maintenance Reserve Fund required by the Revenue Bond Ordinances.
- (j) Tenth, to transfer all amounts to the Renewal and Replacement Fund required by the Revenue Bond Ordinances.
- (k) Eleventh, the balance shall be transferred to the Capital Fund.

Debt Service Fund. On or before the last Business Day of each month so long as any Revenue Bonds remain Outstanding, after making all required payments of Operation and Maintenance Expenses and all payments and transfers to the Prior Lien Debt Service Fund and the Prior Lien Debt Service Reserve Fund required by the Prior Lien Ordinances, there shall be transferred from the Revenue Fund to the Debt Service Fund the amount necessary to cause the balance in the Debt Service Fund to equal (i) the Debt Service on all Revenue Bonds and Credit Agreement Obligations accrued, but unpaid, to the end of the current month and the Debt Service on all Revenue Bonds and Credit Agreement Obligations reasonably expected to accrue and be payable on or before the last Business Day of the next succeeding month, plus (ii) such additional amounts as may be required to be deposited therein pursuant to the Note Ordinance. Moneys credited to the Debt Service Fund shall be used solely for the purpose of paying Debt Service on Revenue Bonds and Credit Agreement Obligations.

Debt Service Reserve Fund. The City shall establish and maintain as provided in the Ordinance a balance in the Debt Service Reserve Fund equal to the Debt Service Reserve Fund Requirement. Each increase in the Debt Service Reserve Fund Requirement resulting from the issuance of Additional Revenue Bonds shall be funded at the time of issuance and delivery of such series of Additional Revenue Bonds by depositing to the credit of the Debt Service Reserve Fund either (A) proceeds of such Additional Revenue Bonds and/or other lawfully appropriated funds in not less than the amount which will be sufficient to fund fully the Debt Service Reserve Fund Requirement or (B) a Debt Service Reserve Fund Surety Bond sufficient to provide such portion of the Debt Service Reserve Fund Requirement. The City further expressly reserves the

right to substitute at any time a Debt Service Reserve Fund Surety Bond for any funded amounts in the Debt Service Reserve Fund and to apply the funds thereby released, to the greatest extent permitted by law, to any of the purposes for which the related Revenue Bonds were issued or to pay debt service on the related Revenue Bonds. The City shall not employ any Debt Service Reserve Fund Surety Bond unless (i) the City officially finds that the purchase of such Debt Service Reserve Fund Surety Bond is cost effective, (ii) the Debt Service Reserve Fund Surety Bond does not impose upon the City a repayment obligation (in the event the Debt Service Reserve Fund Surety Bond is drawn upon) greater than can be funded in eighteen (18) monthly installments as provided below, payable out of Net Revenues on a parity with the monthly deposits that are otherwise required to be made to the Debt Service Reserve Fund, and (iii) that any interest due in connection with such repayment obligation does not exceed the highest lawful rate of interest which may be paid by the City at the time of delivery of the Debt Service Reserve Fund Surety Bond.

In any month in which the Debt Service Reserve Fund contains less than the Debt Service Reserve Fund Requirement or in which the City is obligated to repay or reimburse any issuer of a Debt Service Reserve Fund Surety Bond (in the event such Debt Service Reserve Fund Surety Bond is drawn upon), then on or before the last business day of such month, after making all required transfers to the Debt Service Fund and the Administrative Expense Fund, there shall be transferred into the Debt Service Reserve Fund from the Revenue Fund, in approximately equal monthly installments, amounts sufficient to enable the City within an eighteen (18) month period to reestablish in the Debt Service Reserve Fund the Debt Service Reserve Fund Requirement and satisfy any repayment obligations to the issuer of any Debt Service Reserve Fund Surety Bond. After such amount has been accumulated in the Debt Service Reserve Fund and after satisfying any repayment obligation to any Debt Service Reserve Fund Surety Bond issuer and so long thereafter as such Fund contains such amount and all such repayment obligations have been satisfied, no further transfers shall be required to be made, and any excess amounts in such Fund shall be transferred to the Revenue Fund. But if and whenever the balance in the Debt Service Reserve Fund is reduced below such amount or any Debt Service Reserve Fund Surety Bond repayment obligations arise, monthly transfers to the Debt Service Reserve Fund shall be resumed and continued in such amounts as shall be required to restore the Debt Service Reserve Fund to such amount and to pay such reimbursement obligations within an eighteen (18) month period.

The Debt Service Reserve Fund shall be used to pay Debt Service on the Revenue Bonds and the Credit Agreement Obligations at any time the amount available in the Debt Service Fund is insufficient for such purpose, and to make any payments required to satisfy repayment obligations to issuers of Debt Service Reserve Fund Surety Bonds, and may be used to make the final payments for the retirement or defeasance of Revenue Bonds, Credit Agreement Obligations related thereto and Administrative Expenses.

Funds and Accounts for Subordinate Obligations. On or before the last business day of each month, after making all required transfers to the Debt Service Fund, the Debt Service Reserve Fund and the Administrative Expense Fund there shall be transferred into such funds and accounts as shall be established for such purpose pursuant to the ordinance authorizing the issuance or incurrence of Subordinate Obligations, such amounts as shall be required pursuant to such ordinance to provide for the payment, or to provide reserves for the payment, of the Subordinate Obligations.

General Obligation Airport Bonds. On or before the last business day of each month, so long as any General Obligation Airport Bonds remain outstanding, after making all required transfers to the Debt Service Fund, the Debt Service Reserve Fund and any of the aforesaid funds and accounts established by ordinance authorizing the issuance of Revenue Bonds and Subordinate Obligations, there shall be transferred from the Revenue Fund, to the extent amounts are available therein, such amounts as shall be necessary to provide for the payment, when due, of principal of and interest on General Obligation Airport Bonds.

Operation and Maintenance Reserve Fund. The City shall fund and maintain a balance of money and investments in the Operation and Maintenance Reserve Fund at least equal to two (2) months current Operation and Maintenance Expenses, which amount shall annually be redetermined by the Aviation Director at the time he submits his recommended budget for the Airport System based upon either his recommended budget for Operation and Maintenance Expenses or his estimate of actual Operation and Maintenance Expenses for the then current Fiscal Year. On or before the last business day of each month, after making all required transfers to the Prior Lien Debt Service Fund, the Prior Lien Debt Service Reserve Fund, the Debt Service Fund, the Debt Service Reserve Fund, and the Administrative Expense Fund and any required transfers for Revenue Bonds, Subordinate Bonds or General Bond Airport Bonds as hereinabove provided, there shall be transferred from the Revenue Fund, to the extent amounts are available therein, to the Operation and Maintenance Reserve Fund an amount equal to one-twelfth (1/12th) of the deficiency, if any, therein as of the last day of the previous Fiscal Year until the required balance therein is established or reestablished. Amounts from time to time credited to the

Operation and Maintenance Reserve Fund may be used at any time first, to pay for any Operation and Maintenance Expenses for which amounts are not otherwise available in the Operation and Maintenance Fund; second, to pay any costs or expenses payable from the Renewal and Replacement Fund for which there are insufficient amounts in the Renewal and Replacement Fund; and third, to the extent any amounts are remaining, to be transferred to the Prior Lien Debt Service Fund, the Prior Lien Debt Service Reserve Fund, and the Debt Service Fund, the Debt Service Reserve Fund, and the Administrative Expense Fund, or any similar fund created to provide for the payment, and reserves for the payment, of Subordinate Obligations and General Obligation Airport Bonds to the extent of any deficiency therein.

Renewal and Replacement Fund. The City has established the Renewal and Replacement Fund Requirement to be \$5,000,000. On or before the last business day of each month, if the Renewal and Replacement Fund contains less than the Renewal and Replacement Fund Requirement, then after making all required transfers to the Prior Lien Debt Service Fund, the Prior Lien Debt Service Reserve Fund, the Debt Service Fund, the Debt Service Reserve Fund and the Administrative Expense Fund and any required transfers for Subordinate Obligations or General Obligation Airport Bonds as hereinabove provided, and to the Operation and Maintenance Reserve Fund, there shall be transferred from the Revenue Fund, to the extent funds are available therein, to the Renewal and Replacement Fund an amount equal to one-twelfth (1/12th) of the deficiency (being the amount by which the Renewal and Replacement Fund Requirement exceeded the unappropriated balance therein) as of the last day of the previous Fiscal Year and, at the discretion of the City, to pay directly from the Revenue Fund any other costs that could be paid from amounts on deposit in the Renewal and Replacement Fund.

Such transfers shall be required to be made into the Renewal and Replacement Fund until such time as the Renewal and Replacement Fund Requirement has again been accumulated in the Renewal and Replacement Fund. Amounts from time to time credited to the Renewal and Replacement Fund may be used at any time first, to pay for any costs of replacing depreciable property and equipment of the Airport System and making repairs, replacements or renovations of the Airport System; second, to pay any Operation and Maintenance Expenses for which insufficient amounts are available in the Operation and Maintenance Fund; and third, to the extent any amounts are remaining, to be transferred to the Prior Lien Debt Service Fund, the Prior Lien Debt Service Reserve Fund, the Debt Service Fund, the Debt Service Reserve Fund and the Administrative Expense Fund or any similar fund created to provide for the payment, and reserves for the payment, of Revenue Bonds, Subordinate Obligations and General Obligation Airport Bonds to the extent of any deficiency therein.

Capital Fund. After making all payments and transfers hereinabove required, not less frequently than annually all amounts remaining in the Revenue Fund shall be transferred to the Capital Fund; provided, however, that no transfers shall be made to the Capital Fund unless the Prior Lien Debt Service Reserve Fund contains the Prior Lien Debt Service Reserve Fund Requirement and the Debt Service Reserve Fund contains the Debt Service Reserve Fund Requirement. Amounts credited to the Capital Improvement Account may be used only for lawful purposes relating to the Airport System, including without limitation, to pay for any capital expenditures or to pay costs of replacing any depreciable property or equipment of the Airport System, to make any major or extraordinary repairs, replacements or renewals of the Airport System, to acquire land or any interest therein, to pay costs necessary or incident to the closing or disposition of any facility of the Airport System and, at the City's discretion, to be designated as Other Available Funds to be transferred to the Revenue Fund.

Construction Fund. From the proceeds of each series of Prior Lien Bonds (other than the Bonds or other Refunding Revenue Bonds) there shall be deposited into the Capitalized Interest Account established in the Construction Fund for such series the amount of capitalized interest required by the ordinance authorizing issuance of such series of Revenue Bonds. Such amounts may be applied to pay interest on such series of Revenue Bonds as provided in such ordinance.

From the proceeds of each series of Revenue Bonds (other than the Bonds or other Refunding Revenue Bonds) there shall be deposited into the applicable Project Account established in the Construction Fund such amounts as shall be provided in the ordinance authorizing such series of Revenue Bonds. Such amounts may be applied to pay costs of establishing, improving, enlarging, extending and repairing the Airport System or any project to become part of the Airport System, to reimburse advances made by the City for such costs, to pay costs of issuance of Revenue Bonds and to pay any other capital costs of the Airport System as provided in the ordinance authorizing such series of Revenue Bonds.

Mueller Airport Disposition Fund. In connection with the issuance of the Series 1995A Bonds and the Series 1995B Bonds the City established the Mueller Disposition Fund for the purpose of paying or reimbursing costs and expenses incurred by the City necessary or incident to the closing of Robert Mueller Municipal Airport for aviation purposes and the disposition of the Mueller Airport Property. Subsequent to the issuance of the Series 1995A Bonds and the Series 1995B Bonds and the opening of the Airport, the Robert Mueller Municipal Airport was closed for aviation purposes and the Mueller Airport Property was transferred out of the Airport System and is no longer part of the Airport System. In

connection with the transfer of the Mueller Airport Property, the City deposited certain funds into the Mueller Disposition Fund. Such funds, together with any other amounts deposited into the Mueller Disposition Fund, may be used for the payment or reimbursement of all costs and expenses incurred by the City necessary or incident to the closing of Robert Mueller Municipal Airport to aviation purposes and the disposition of the Mueller Airport Property. Any amounts thereafter remaining, if any, will be transferred to the City's aviation department.

Investment of Funds; Transfer of Investment Income. Money in all Funds and Accounts shall, at the option of the City, be invested in the manner provided by Texas law; provided, that all such deposits and investments shall be made in such manner that the money required to be expended from any Fund will be available at the proper time or times. Moneys in such Funds and Accounts may be subjected to further investment restrictions imposed from time to time by ordinance authorizing the issuance of Additional Revenue Bonds and Subordinate Obligations. All such investments shall be valued no less frequently than once per Fiscal Year at market value, except that (i) any direct Obligations of the United States of America - State and Local Government Series shall be continuously valued at their par value or principal face amount, and (ii) any investments which are subject to a Qualified Put may continuously be valued at the amount at which they can be put or sold under the terms of such Qualified Put. For purposes of maximizing investment returns, money in such Funds may be invested, together with money in other Funds or with other money of the City, in common investments or in a common pool of such investments maintained by the City at an official depository of the City or in any fund or investment vehicle permitted by Texas law, which shall not be deemed to be a loss of the segregation of such money or Funds provided that safekeeping receipts, certificates of participation or other documents clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such Fund are held by or on behalf of each such Fund. If and to the extent necessary, such investments or participations therein shall be promptly sold to prevent any default.

All interest and income derived from deposits and investments credited to any of the following funds and accounts shall be applied as follows, except as provided in the following paragraph.

<u>Source of Interest or Income</u>	<u>Fund or Account to which such Interest or Income should be Credited</u>
Revenue Fund	Remains in Revenue Fund
Prior Lien Debt Service Fund and Debt Service Fund	Revenue Fund
Prior Lien Debt Service Reserve Fund and Debt Service Reserve Fund	Remains in fund until the applicable Debt Service Reserve Fund Requirement is satisfied; thereafter to the Revenue Fund
Administrative Expense Fund	Revenue Fund
Operation and Maintenance Reserve Fund	Remains in fund until fully funded; thereafter, to the Revenue Fund
Renewal and Replacement Fund	Remains in fund until Renewal and Replacement Fund Requirement is met; thereafter, to the Revenue Fund
Capital Fund - Capital Improvement Account	Remains in the fund or in the appropriate fund or account therein

Any interest and income derived from deposits and investments of any amounts credited to any fund or account may be (i) transferred into any rebate account or subaccount and (ii) paid to the federal government if in the opinion of nationally recognized bond counsel such payment is required to comply with any covenant contained in the Ordinance or required in order to prevent interest on any bonds payable from Net Revenues from being includable within the gross income of the Owners thereof for federal income tax purposes.

So long as any Prior Lien Bonds remain Outstanding, all uninvested moneys on deposit in, or credited to, the Revenue Fund, the Debt Service Fund and the Debt Service Reserve Fund shall be secured by the pledge of security, as provided by Texas law.

Additional Bonds

Additional Revenue Bonds. The City reserves the right to issue, for any lawful Airport System purpose, one or more installments of Additional Revenue Bonds payable from and secured on a parity with the Outstanding Revenue Bonds; provided, however, that no such Additional Revenue Bonds shall be issued unless:

- (a) No Default. The City Manager and the Aviation Director certify that, upon the issuance of such Additional Revenue Bonds, the City will not be in default under any term or provision of any Revenue Bonds then Outstanding or any ordinance pursuant to which any of such Prior Lien Bonds or Revenue Bonds were issued unless such default will be cured by the issuance of such Additional Revenue Bonds.
- (b) Proper Fund Balances. The City's Chief Financial Officer or trustee, if one has been appointed, shall certify that, upon the issuance of such Additional Revenue Bonds, the Debt Service Fund and the Prior Lien Debt Service Fund will have the required amounts on deposit therein and that the Debt Service Reserve Fund and the Prior Lien Debt Service Reserve Fund will contain the applicable Debt Service Reserve Fund Requirement or so much thereof as is required to be funded at such time.
- (c) Projected Coverage for Additional Revenue Bonds. An Airport Consultant provides a written report setting forth projections which indicate that the estimated Net Revenues, together with the estimated Other Available Funds, of the Airport System for each of three (3) consecutive Fiscal Years beginning in the earlier of
 - (i) the first Fiscal Year following the estimated date of completion and initial use of all revenue producing facilities to be financed with Additional Revenue Bonds, based upon a certified written estimated completion date by the consulting engineer for such facility or facilities, or
 - (ii) the first Fiscal Year in which the City will have scheduled payments of interest on or principal of the Additional Revenue Bonds to be issued for the payment of which provision has not been made as indicated in the report of such Airport Consultant from proceeds of such Additional Revenue Bonds, investment income thereon or from other appropriated sources (other than Net Revenues),are equal to at least 125% of the Debt Service Requirements on all outstanding Prior Lien Bonds and Revenue Bonds scheduled to occur during each such respective Fiscal Year after taking into consideration the additional Debt Service Requirements for the Additional Revenue Bonds to be issued.
- (d) Alternate Coverage for Additional Revenue Bonds. In lieu of the certification described in (c) above, the City's Chief Financial Officer may provide a certificate showing that, for either the City's most recent complete Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Net Revenues, together with Other Available Funds, of the Airport System were equal to at least 125% of the maximum Debt Service Requirements on all Prior Lien Bonds and Revenue Bonds scheduled to occur in the then current or any future Fiscal Year after taking into consideration the issuance of the Additional Revenue Bonds proposed to be issued.
- (e) Refunding Bonds. If Additional Revenue Bonds are being issued for the purpose of refunding less than all previously issued Prior Lien Bonds or Revenue Bonds which are then Outstanding, neither of the certifications described in (c) or (d) above are required so long as the maximum annual Debt Service Requirements in any Fiscal Year after the issuance of such Additional Revenue Bonds will not exceed the maximum annual Debt Service Requirements in any Fiscal Year prior to the issuance of such Additional Revenue Bonds.

- (f) **Bond Ordinance Requirements.** Provision is made in the Revenue Bond Ordinances authorizing the Additional Revenue Bonds proposed to be issued for (1) additional payments into the Debt Service Fund sufficient to provide for any principal and interest requirements resulting from the issuance of the Additional Revenue Bonds including, in the event that interest on the additional series of Revenue Bonds is capitalized and/or to be paid from investment earnings, a requirement for the transfer from the capitalized interest fund or account and/or from the construction fund to the Debt Service Fund of amounts fully sufficient to pay interest on such Additional Revenue Bonds during the period specified in the Revenue Bond Ordinances, and (2) satisfaction of the Debt Service Reserve Fund Requirement by not later than the date required by the Ordinance or any other Revenue Bond Ordinance authorizing such Additional Revenue Bonds.
- (g) **Special Provisions for Completion Bonds.** The provisions of paragraphs (c) and (d) above shall not apply to the issuance of Completion Bonds in accordance with the provisions of the Ordinance.

Completion Bonds. The City reserves the right to issue one or more series of Revenue Bonds to pay the cost of completing any Project for which Revenue Bonds have previously been issued.

Prior to the issuance of any series of Completion Bonds the City must provide, in addition to all of the applicable certificates required above for the issuance of Additional Prior Lien Bonds, the following documents:

- (a) a certificate of the consulting engineer engaged by the City to design the Project for which the Completion Bonds are to be issued stating that such Project has not materially changed in scope since the issuance of the most recent series of Prior Lien Bonds or Revenue Bonds for such purpose (except as permitted in the applicable ordinance authorizing such Prior Lien Bonds or Revenue Bonds) and setting forth the aggregate cost of the Project which, in the opinion of such consulting engineer, has been or will be incurred; and
- (b) a certificate of the Aviation Director (i) stating that all amounts allocated to pay costs of the Project from the proceeds of the most recent series of Prior Lien Bonds or Revenue Bonds issued in connection with the Project for which the Completion Bonds are being issued were used or are still available to be used to pay costs of such Project; (ii) containing a calculation of the amount by which the aggregate cost of that Project (furnished in the consulting engineer's certificate described above) exceeds the sum of the costs of the Project paid to such date plus the moneys available at such date within any construction fund or other like account applicable to the Project plus any other moneys which the Aviation Director, in his discretion, has determined are available to pay such costs in any other fund; and (iii) certifying that, in the opinion of the Aviation Director, the issuance of the Completion Bonds is necessary to provide funds for the completion of the Project.

For purposes of this Section, the term "Project" shall mean the Airport or any other Airport System facility or project which shall be defined as a Project in any ordinance authorizing the issuance of Additional Prior Lien Bonds or Additional Revenue Bonds, as applicable, for the purpose of financing such Project. Any such ordinance may contain such further provisions as the City shall deem appropriate with regard to the use, completion, modification or abandonment of such Project.

Subordinate Obligations. The City reserves the right to issue or incur, for any lawful Airport System purpose, Subordinate Obligations and Credit Agreement Obligations related thereto, secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the liens on Net Revenues securing payment of the Prior Lien Bonds and Revenue Bonds. Although herein referred to as "Subordinate Obligations," such Subordinate Obligations may bear any name or designation provided by ordinance authorizing their issuance or incurrence. Such Subordinate Obligations may be further secured by any other source of payment lawfully available for such purposes. Unless expressly provided herein to the contrary, no default with respect to a Subordinate Obligation shall constitute a default hereunder.

Special Facilities Bonds. The City reserves the right in the Ordinance to issue from time to time, in one or more series, Special Facilities Bonds to finance and refinance the cost of any Special Facilities, including all reserves required therefor, all related costs of issuance and other amounts reasonably relating thereto, provided that such Special Facilities Bonds shall be payable solely from payments by lessees under Special Facilities Leases and/or other security not provided by the City. In no event shall Gross Revenues or any other amounts held in any other fund or account maintained by the City

as security for the Prior Lien Bonds, the Revenue Bonds or for the construction, operation, maintenance or repair of the Airport System be pledged to the payment of Special Facilities Bonds. Unless expressly provided in the Ordinance to the contrary, no default with respect to a Special Facilities Bond shall constitute a default under the Ordinance.

Credit Agreements. To the fullest extent permitted by applicable law, the City expressly reserves the right to enter into Credit Agreements in connection with any series of Revenue Bonds and to pledge to and secure the payment of related Credit Agreement Obligations from Net Revenues and the various funds and accounts established or referred to in the Ordinance to the extent permitted by the Ordinance, the Prior Lien Ordinances, the Note Ordinance and any of the City's other ordinances authorizing the issuance of Additional Revenue Bonds and to enter into credit agreements in connection with any series of Subordinate Obligations.

No Prior Lien Bonds to be Issued. The City covenants and agrees in the Ordinance that on and after the delivery date of the Bonds the City will not issue Additional Prior Lien Bonds, as defined in the Prior Lien Ordinances.

Particular Covenants

Annual Budget. So long as any Revenue Bonds or Credit Agreement Obligations remain Outstanding, the Aviation Director shall, prior to the commencement of each Fiscal Year, prepare and deliver to the chief budget officer of the City, for submission to the City Council, a recommended annual budget for the Airport System for such Fiscal Year. The City shall adopt annual budgets for the Airport System for each Fiscal Year, each of which shall contain an estimate of Gross Revenues and only such budgeted expenditures as will produce Net Revenues in an amount that, after making all deposits and payments required by the Prior Lien Ordinances, is not less than the amount necessary to pay the Debt Service and Administrative Expenses when due and make the required deposits to the Debt Service Reserve Fund. After the adoption of the annual Airport System budget by the City, the total expenditures for Operation and Maintenance Expenses will not exceed the total expenditures authorized for such purposes by such budget, as it may from time to time be amended.

Rate Covenant. The City covenants that it will at all times fix, charge, impose and collect rentals, rates, fees and other charges for the use of the Airport System, and, to the extent it legally may do so, revise the same as may be necessary or appropriate, in order that in each Fiscal Year the Net Revenues will be at least sufficient to equal the larger of either:

- (i) all amounts required to be deposited in such Fiscal Year to the credit of the Prior Lien Debt Service Fund, the Prior Lien Debt Service Reserve Fund, the Debt Service Fund, the Debt Service Reserve Fund, and the Administrative Expense Fund and to any debt service or debt service reserve fund or account for Subordinate Obligations, or
- (ii) an amount, together with Other Available Funds, not less than 125% of the Debt Service Requirements for Prior Lien Bonds and Revenue Bonds for such Fiscal Year plus an amount equal to 100% for anticipated and budgeted Administrative Expenses for such Fiscal Year.

If the Net Revenues in any Fiscal Year are less than the amounts specified above, the City, promptly upon receipt of the annual audit for such Fiscal Year, must request an Airport Consultant to make its recommendations, if any, as to a revision of the City's rentals, rates, fees and other charges, its Operation and Maintenance Expenses or the method of operation of the Airport System in order to satisfy as quickly as practicable the foregoing requirements. Copies of such request and the recommendations of the Airport Consultant shall be filed with the City Clerk. So long as the City substantially complies in a timely fashion with the recommendations of the Airport Consultant, the City will not be deemed to have defaulted in the performance of its duties under the Ordinance even if the resulting Net Revenues plus Other Available Funds are not sufficient to be in compliance with the covenant set forth above, so long as the Debt Service is paid when due.

Sale or Encumbrance of Airport System. Except for the use of the Airport System or services pertaining thereto in the normal course of business, the City covenants that neither all nor a substantial part of the Airport System shall be sold, leased, mortgaged, pledged, encumbered, alienated, or otherwise disposed of until all Revenue Bonds, Credit Agreement Obligations and Administrative Expenses have been paid in full, or unless provision has been made therefor, and the City shall not dispose of its title to the Airport System or to any useful part thereof, including, without limitation, any property necessary to the operation and use of the Airport System, except for the execution of leases, licenses, easements, or other agreements in connection with the operation of the Airport System by the City, or in connection with any Special Facilities thereat, except for any pledges of and liens on revenues derived from the operation and use of the Airport System, or any

part thereof, or any Special Facilities pertaining thereto, for the payment of Revenue Bonds, Credit Agreement Obligations and Administrative Expenses, Special Facilities Bonds and any other obligations pertaining to the Airport System, and except as otherwise provided in the next two paragraphs.

The City may sell, exchange, lease, or otherwise dispose of, or exclude from the Airport System, any property constituting a part of the Airport System which the Aviation Director certifies (i) to be no longer useful in the construction or operation of the Airport System, or (ii) to be no longer necessary for the efficient operation of the Airport System, or (iii) to have been replaced by other property of at least equal value. The net proceeds of the sale or disposition of any Airport System property (or the fair market value of any property so excluded) pursuant to this paragraph shall be used for the purpose of replacing properties at the Airport System, shall be paid into the Capital Fund - Capital Improvement Account or shall be applied to retire or pay principal of or interest on Revenue Bonds.

Nothing herein prevents any transfer of all or a substantial part of the Airport System to another body corporate and politic (including, but not necessarily limited to a joint action agency or an airport authority) which assumes the City's obligations under the Ordinance and in any ordinance authorizing the issuance of Revenue Bonds, wholly or in part, if, (i) in the written opinion of the Airport Consultant, the ability to meet the rate covenant and other covenants under the Ordinance and in any ordinance authorizing the issuance of Revenue Bonds, are not materially and adversely affected and (ii) in the written opinion of nationally recognized bond counsel, such transfer and assumption will not cause the interest on any Revenue Bonds that were issued as "tax-exempt bonds" within the meaning of the regulations promulgated under the Code to be includable in gross income of the Owners thereof for federal income tax purposes. In such event, following such transfer and assumption, all references to the City, any City officials, City Ordinance, City budgetary procedures and any other officials, actions, powers or characteristics of the City shall be deemed references to the transferee entity and comparable officials, actions, powers or characteristics of such entity. In the event of any such transfer and assumption, nothing herein shall prevent the retention by the City of any facility of the Airport System if, in the written opinion of the Airport Consultant, such retention will not materially and adversely affect nor unreasonably restrict the transferee entity's ability to comply with the requirements of the rate covenant and the other covenants of the Ordinance and in any other Revenue Bond Ordinance.

Insurance. The City covenants and agrees that it will keep the Airport System insured with insurers of good standing against risks, accidents or casualties against which and to the extent customarily insured against by political subdivisions of the State of Texas operating similar properties, to the extent that such insurance is available; provided, however, that if any such insurance is not commercially available or not available on more favorable economic terms, the City may elect to be self insured in whole or in part against the risk or loss that would otherwise be covered by such insurance, in which case the City will establish reserves for such risk or loss in amounts the City determines to be appropriate. All net proceeds of property or casualty insurance shall be applied to repair or replace the insured property that is damaged or destroyed or to make other capital improvements to the Airport System or to redeem Prior Lien Bonds or Revenue Bonds. Proceeds of business interruption insurance may be credited to the Revenue Fund.

Accounts, Records, and Audits. The City covenants and agrees that it will maintain a proper and complete system of records and accounts pertaining to the Gross Revenues and the operation of the Airport System in which full, true and proper entries will be made of all dealings, transactions, business and affairs which in any way affect or pertain to the Gross Revenues and the Airport System. The City shall, after the close of each of its Fiscal Years, cause an audit report of such records and accounts to be prepared by an independent certified public accountant or independent firm of certified public accountants, which may be part of an overall audit report of the City and/or other of its enterprise funds. All expenses of obtaining such reports shall constitute Operation and Maintenance Expenses of the Airport System.

Bondholders' Remedies. The Ordinance shall constitute a contract between the City and the Owners of the Revenue Bonds and the holders of Credit Agreement Obligations related thereto from time to time outstanding and the Ordinance shall be and remain irrevocable until the Revenue Bonds, the Credit Agreement Obligations related thereto and Administrative Expenses shall be fully paid or discharged or provision therefor shall have been made as provided herein. In the event of a default in the payment of the Debt Service on any of the Revenue Bonds or Credit Agreement Obligations or a default in the performance of any duty or covenant provided by law or in this Ordinance, the Owner or Owners of any of the Revenue Bonds, and the holders of any Credit Agreement Obligations and the Persons to whom Administrative Expenses are owed may pursue all legal remedies afforded by the Constitution and laws of the State of Texas to compel the City to remedy such default and to prevent further default or defaults. Without in any way limiting the generality of the foregoing, it is expressly provided that any Owner of any of the Revenue Bonds or holder of Credit Agreement Obligations or Person to whom Administrative Expenses are owed, may at law or in equity, by suit, action, mandamus, or other proceedings, enforce

and compel performance of all duties required to be performed by the City under the Ordinance, including the making of reasonably required rates and charges for the use and services of the Airport System, the deposit of the Gross Revenues into the special funds herein provided, and the application of such Gross Revenues in the manner required in the Ordinance.

Legal Holidays. If any date on which a payment of Debt Service is due is not a Business Day, the such payment need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the date of scheduled payment of Debt Service.

Discharge By Deposit

The City may discharge its obligations to the Owners of any or all of the Bonds to pay Debt Service thereon, or any portion thereof, by depositing with the Paying Agent/Registrar cash in an amount equal to such Debt Service of such Bonds to the date of maturity or redemption (assuming, for any period that the interest thereon is subject to adjustment, that such Bonds shall bear interest at the Maximum Rate), or any portion thereof to be discharged, or by depositing either with the Paying Agent/Registrar or with any national banking association with capital and surplus in excess of \$100,000,000, pursuant to an escrow or trust agreement, cash and/or Defeasance Obligations in principal amounts and maturities and bearing interest at rates sufficient to provide for the timely payment of Debt Service on the Bonds to the date of maturity or redemption or any portion thereof to be discharged. Upon such deposit, such Bonds, or any portion shall no longer be regarded to be Outstanding or unpaid. In case any Bonds are to be redeemed on any date prior to their maturity, the City shall give to the Paying Agent/Registrar irrevocable instructions to give notice of redemption of Bonds to be so redeemed in the manner required in the Ordinance.

Amendments

Alteration of Rights and Duties. The rights, duties, and obligations of the City and the Owners of the Bonds and the holders of Credit Agreement Obligations related to the Bonds, and Persons to whom Administrative Expenses are owed, are subject in all respects to all applicable federal and state laws including, without limitation, the provisions of federal law regarding the composition of indebtedness of political subdivisions, as the same now exist or may hereafter be amended.

Amendment of Ordinance Without Consent. The City may, without the consent of or notice to any of the Owners of the Bonds but with the consent of the Bond Insurer, amend the Ordinance for any one or more of the following purposes:

- (a) to cure any ambiguity, defect, omission or inconsistent provision in the Revenue Bond Ordinances or in the Revenue Bonds; or to comply with any applicable provision of law or regulation of Federal agencies; provided, however, that such action shall not adversely affect the interests of the Owners of the Revenue Bonds;
- (b) to change the terms or provisions of the Ordinance to the extent necessary to prevent the interest on the Revenue Bonds from being includable within the gross income of the Owners thereof for federal income tax purposes;
- (c) to grant to or confer upon the Owners of the Revenue Bonds any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Owners of the Revenue Bonds;
- (d) to add to the covenants and agreements of the City contained in the Revenue Bond Ordinances other covenants and agreements of, or conditions or restrictions upon, the City or to surrender or eliminate any right or power reserved to or conferred upon the City in the Ordinance;
- (e) to amend any provisions of the Ordinance relating to the issuance of Revenue Bonds and Subordinate Obligations or the incurrence of and security for reimbursement obligations in connection therewith so long as to do so does not cause any reduction in any rating assigned to the Outstanding Revenue Bonds by any nationally recognized rating agency then rating any series of Revenue Bonds;
- (f) to subject to the lien and pledge of the Revenue Bond Ordinances additional Net Revenues which may include revenues, properties or other collateral;

- (g) to amend the undertaking contained in Article Thirteen of the Ordinance to the extent permitted in such Article; and
- (h) to amend the provisions of Article Twelve of the Ordinance to the extent permitted in such Article.

Amendments of Ordinance Requiring Consent. The City may at any time adopt one or more ordinances amending, modifying, adding to or eliminating any of the provisions of the Ordinance but, if such amendment is not of the character described above, only with the consent given in accordance with the Ordinance of not less than 66-2/3% of the Owner or Owners of the aggregate unpaid principal amount of the Revenue Bonds then Outstanding and affected by such amendment, modification, addition, or elimination; provided, however, that nothing in this paragraph shall permit (a) an extension of the maturity of the principal of or interest on any Revenue Bond issued hereunder, or (b) a reduction in the principal amount of any Revenue Bond or the rate of interest on any Revenue Bond, or (c) a privilege or priority of any Revenue Bond or Revenue Bonds over any other Revenue Bond or Revenue Bonds, or (d) a reduction in the percentage of aggregate principal amount of the Revenue Bonds required for consent to such amendment.

Consent of Owners. Any consent required by the preceding paragraph hereof by any Owner shall be in writing, may be in any number of concurrent writings of similar tenor, and may be signed by such Owner or his duly authorized attorney. Proof of the execution of any such consent or of the writing appointing any such attorney and of the ownership of Revenue Bonds, if made in the following manner, shall be sufficient for any of the purposes of the Revenue Bond Ordinances, and shall be conclusive in favor of the City with regard to any action taken, suffered or omitted to be taken by the City under such instrument, namely:

- (a) The fact and date of the execution by any person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the person signing such writing acknowledged before him the execution thereof, or by affidavit of any witness to such execution.
- (b) The fact of the ownership by any person of any Revenue Bond and the date of the ownership of same may be proved by a certificate executed by an appropriate officer of the Paying Agent/Registrar, stating that at the date thereof such Revenue Bond was registered in the name of such party in the Register.

In lieu of the foregoing the City may accept such other proofs of the foregoing as it shall deem appropriate.

Consents required pursuant to the subsection titled "Amendments of Ordinance Requiring Consent" shall be valid only if given following the giving of notice by or on behalf of the City requesting such consent and setting forth the substance of the amendment of the Ordinance in respect of which such consent is sought and stating that copies thereof are available at the office of the City Clerk for inspection. Such notice shall be given by certified mail to each Registered Owner of the Revenue Bonds affected at the address shown on the Register.

No amendment or supplement to the Ordinance shall be effective unless and until the Bond Insurer shall have consented thereto in writing.

Revocation of Consent. Any consent by any Owner of a Revenue Bond shall be irrevocable for a period of eighteen (18) months from the date of mailing of the notice provided for in the Ordinance, and shall be conclusive and binding upon all future Owners of the same Revenue Bond and any Revenue Bond delivered on transfer thereof or in exchange for or replacement thereof during such period. Such consent may be revoked at any time after eighteen (18) months from the date of the first mailing of such notice by the Owner who gave such consent or by a successor in title, by filing notice thereof with the Paying Agent/Registrar, but such revocation shall not be effective if the Owners of a majority in aggregate principal amount of the Revenue Bonds Outstanding as in the Ordinance defined have, prior to the attempted revocation, consented to and approved the amendment.

Use of Passenger Facility Charges

The City covenants and agrees, for the benefit of the Owners of the Revenue Bonds, that during each Fiscal Year the City will set aside from any passenger facility charges imposed by the City on enplaned passengers the lesser of (i) such passenger facility charges imposed and collected by the City or (ii) \$4.50 derived from each passenger facility charge so

imposed and collected by the City for the payment of debt service on the Prior Lien Bonds and the Revenue Bonds in the following Fiscal Year, unless the City receives a report from an Airport Consultant showing that an alternative use of all or a portion of such passenger facility charges will not reduce the forecast coverage of Debt Service Requirements by forecast Net Revenues during the following Fiscal Year (or such longer forecast period as may be covered in the Airport Consultant's Report) to less than 125%.

APPENDIX D
FORM OF OPINION OF BOND COUNSEL

APPENDIX E
FORM OF SPECIMEN INSURANCE POLICY

APPENDIX F
MULTI-MODAL PROVISIONS

APPENDIX G
THE STANDBY PURCHASER

Dexia Credit Local

Dexia Credit Local ("Dexia") is a subsidiary of the Dexia Group, which was created in 1996. The Dexia Group is a major European banking organization that is the product of several cross-border mergers. Dexia is an authentically European bank in terms of both its management organization and the scope of its different lines of business. The Dexia Group is listed on the Brussels, Paris and Luxembourg stock exchanges. With a stock market capitalization of over 24 billion euros as of December 31, 2007, the Dexia Group ranks in the top third of the Euronext 100 companies.

Dexia specializes in the Dexia Group's first line of business – public and project finance and financial services for the public sector. Dexia has recognized expertise in local public sector financing and project finance. It is backed by a network of specialized banks, which employ over 3,500 professionals. Through this network of subsidiaries, affiliates and branches, Dexia is present in almost all of the countries of the European Union as well as Central Europe, the United States of America and Canada. Dexia also has operations in Latin America, the Asian-Pacific Region including Australia, and the countries around the Mediterranean.

Dexia is a bank with its principal office located in La Défense, France. In issuing the facility, Dexia will act through its New York Branch, which is licensed by the Banking Department of the State of New York as an unincorporated branch of Dexia Credit Local, Paris. Dexia is the leading local authority lender in Europe, funding its lending activities in 2007 primarily through the issuance of euro and U.S. dollar-denominated bonds. In 2007, total funding raised by Dexia and Dexia Municipal Agency was 18.2 billion euros.

The Dexia Group is the owner of Financial Security Assurance Holdings Ltd. ("FSA Holdings"), the holding company for Financial Security Assurance Inc., a leading financial guaranty insurer.

As of December 31, 2007, Dexia had total consolidated assets of 345 billion euros, outstanding medium and long-term loans to customers of 285.1 billion euros and shareholders' equity of over 6.29 billion euros (Tier I plus Tier II), and for the year then ended had consolidated net income of 991 million euros. These figures were determined in accordance with generally accepted accounting principles in France. Dexia maintains its records and prepares its financial statements in euros. At December 31, 2007, the exchange rate was 1.0000 euro equals 1.4721 United States dollar. Such exchange rate fluctuates from time to time.

Dexia is rated "Aa1" long-term and "P-1" short-term by Moody's, "AA" long-term and "A-1+" short-term by S&P, and "AA+" long-term and "F1+" short-term by Fitch.

Dexia will provide without charge a copy of its most recent publicly available annual report. Written requests should be directed to: Dexia Credit Local, New York Branch, 445 Park Avenue, 8th Floor, New York, New York 10022, Attention: General Manager. The delivery of this information shall not create any implication that the information contained or referred to herein is correct as of any time subsequent to its date.