OFFICIAL STATEMENT DATED AUGUST 9, 2005

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

NEW ISSUE – Book-Entry-Only

In the opinion of Vinson & Elkins L.L.P. ("Bond Counsel"), assuming compliance with certain covenants and based on certain representations and prior to the first change of interest rate modes for which an opinion of nationally recognized bond counsel is required under the Ordinance, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law (except with respect to interest on any Bond during any period while it is held by a "substantial user" of the projects financed by the Refunded Bonds or a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended). Interest on the Bonds, however, is an item of tax preference includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations. See "Tax Exemption" herein for a discussion of Bond Counsel's opinion and the requirement for an opinion of nationally recognized bond counsel in the event of certain changes of interest rate modes.

$306,225,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
Airport System Refunding Revenue Bonds, Series 2005 (AMT)
Initially Issued as Auction Rate Securities in Four Sub-Series

$76,575,000 Sub-Series 2005-1 **$76,575,000 Sub-Series 2005-3**
$76,575,000 Sub-Series 2005-2 **$76,500,000 Sub-Series 2005-4**

Dated: August 15, 2005, interest to accrue from the Date of Delivery Due: November 15, 2025

The $306,225,000 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 as of August 15, 2005, and are issued in fully registered form and in Authorized Denominations of $25,000 or any integral multiple thereof. The Bonds will initially bear interest in an Auction Rate Mode. The initial interest rates established by the Broker-Dealer for each sub-series of the Bonds will apply to the period commencing on their date of issuance to and including the Initial Auction Date identified below (the "Initial Auction Date"). Thereafter, the Bonds of each sub-series will bear interest at an Auction Rate resulting from an Auction conducted each Auction Period on each Auction Date in accordance with the Auction Procedures described herein until such date, if any, on which the Auction Rate Mode for the Bonds is changed to a Daily Mode, a Weekly Mode, Term Mode or a Fixed Rate Mode in accordance with the Ordinance. Interest on each sub-series of the Bonds will be payable commencing on the respective Initial Interest Payment Date identified below for each sub-series of the Bonds, and on each interest payment date thereafter. This Official Statement, in general, describes the Bonds only during the Auction Rate Mode.

Prospective purchasers of the Bonds should carefully review the Auction Procedures described in "APPENDIX G - MULTI-MODAL PROVISIONS - EXHIBIT I – AUCTION PROCEDURES" and should note that (i) a Bid or Sell Order constitutes a commitment to purchase or sell the Bonds based upon the results of an Auction, (ii) Auctions will be conducted through telephone, facsimile transmission or other similar electronic means of communication and (iii) settlement for purchases and sales will be made on the Business Day following an Auction; provided, that with respect to the daily period, settlement for purchases and sales will be made on the Business Day of the Auction. Beneficial interests in the Bonds may be transferred only pursuant to a Bid or Sell Order placed in an Auction or to or through a Broker-Dealer. The length of an Auction Period for the Bonds may be changed as described herein. The Bonds will not be subject to mandatory tender for purchase upon a change in the length of an Auction Period, although notice of such change will be given as further described herein and on such conversion date. Any Bonds that are not the subject of a specific Hold Order or Bid shall be deemed to be subject to a Sell Order. Wells Fargo Bank, N.A., will serve as Auction Agent and Morgan Stanley & Co. Incorporated will serve as Broker-Dealer for the Bonds. The Bonds are subject to optional and mandatory redemption prior to their scheduled maturities. See "DESCRIPTION OF THE BONDS – Redemption Provisions".

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 on and after the delivery date of the Bonds, 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 to be issued by Financial Security Assurance Inc. concurrently with the delivery of the Bonds. See "BOND INSURANCE" herein.

The Auction Period, the Initial Auction Date, the Initial Interest Payment Date and the Final Maturity Date are set forth below:

Sub-Series	Par Amount	Auction Period	Initial Auction Date	Initial Interest Payment Date	Final Maturity Date
2005-1	$76,575,000	28-Day	9/08/05 (Thursday)	9/09/05 (Friday)	11/15/2025
2005-2	76,575,000	28-Day	9/15/05 (Thursday)	9/16/05 (Friday)	11/15/2025
2005-3	76,575,000	28-Day	9/22/05 (Thursday)	9/23/05 (Friday)	11/15/2025
2005-4	76,500,000	28-Day	9/29/05 (Thursday)	9/30/05 (Friday)	11/15/2025

The Bonds are subject to optional redemption by the City, in whole or in part, on any Interest Payment Date immediately following an Auction Period, at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date; provided, however, that in the event of a partial redemption of the Bonds, the aggregate principal amount of each sub-series of the Bonds which will remain outstanding must equal at least $10,000,000 unless otherwise consented to by the Broker-Dealer.

In connection with the issuance of the Bonds, the City has 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%

The Bonds are offered for delivery when, as and if issued, subject to the opinions of the Attorney General of the State of Texas and Vinson & Elkins L.L.P., Bond Counsel for the City, as to the validity of the issuance of the Bonds under the Constitution and laws of the State of Texas. Certain additional legal matters will be passed on for the City by McCall, Parkhurst & Horton L.L.P. Certain legal matters will be passed on for the Underwriter by its counsel, Locke Liddell & Sapp LLP. It is expected that the Bonds will be delivered through the facilities of DTC on or about August 17, 2005.

MORGAN STANLEY

CITY OF AUSTIN, TEXAS

Elected Officials

Name	Office	Term Expires June 15
Will Wynn	Mayor	2006
Lee Leffingwell	Councilmember Place 1	2007
Raul Alvarez	Councilmember Place 2	2006
Jennifer Kim	Councilmember Place 3	2007
Betty Dunkerley	Councilmember Place 4	2007
Brewster McCracken	Councilmember Place 5	2006
Danny Thomas, Mayor Pro Tem	Councilmember Place 6	2006

Appointed Officials

Toby Hammett Futrell	City Manager
Joe Canales	Deputy City Manager
Rudy Garza	Assistant City Manager
Mike McDonald	Acting Assistant City Manager
Jim Smith	Aviation Director
John Stephens, CPA	Chief Financial Officer
Laura Huffman	Assistant City Manager
Vickie Schubert, CPA	Deputy Chief Financial Officer
Leslie Browder, CPA	Deputy Chief Financial Officer
David Allan Smith	City Attorney
Shirley A. Brown	City Clerk

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

SECURITIES COUNSEL FOR THE CITY
McCall, Parkhurst & Horton L.L.P.
Dallas and Austin, Texas

FINANCIAL ADVISOR
Public Financial Management
Austin, Texas

AUDITORS
KPMG LLP and Richard Mendoza, CPA
Austin, Texas

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This Official Statement 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 Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City 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 Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in the Official Statement 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 Underwriter does not guarantee the accuracy or completeness of such information.

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

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 Official Statement 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 Official Statement 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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OFFICIAL STATEMENT

relating to

$306,225,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
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INTRODUCTION

The purpose of this Official Statement, 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 Official Statement shall have the meanings established in the Ordinance. See "APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE - Selected Definitions" and "APPENDIX G – MULTI-MODAL PROVISIONS - EXHIBIT I – AUCTION PROCEDURES".

The Bonds are being 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, 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"). The City has covenanted in the Ordinance that it will not issue additional Prior Lien Bonds following the issuance of the Bonds. Approximately $55,350,000 principal amount of Prior Lien Bonds will remain outstanding upon the issuance and delivery of the Bonds. 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 $2,000,000. 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 anticipation of the issuance of the Bonds, the City has 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".

PLAN OF FINANCING

Purpose of Refunding Bonds

The Bonds are being issued to refund $288,810,000 of the Airport System Prior Lien Revenue Bonds, Series 1995A, and Airport System Prior Lien Revenue Refunding Bonds, Series 1995B (the "Refunded Bonds"), and to pay costs of issuance. The refunding will result in debt service savings to the Airport System. See "APPENDIX F – SCHEDULE OF REFUNDED BONDS" for a listing of the Refunded Bonds.

Refunded Bonds

The Refunded Bonds, and interest due thereon, are to be paid on the scheduled interest payment dates and the maturity or redemption dates of such bonds from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the City and Wells Fargo Bank, N.A., Austin, Texas (the "Escrow Agent"). The Ordinance provides that a portion of the proceeds of the sale of the Bonds will be deposited with the Escrow Agent in an amount which, together with other funds of the City used for such purpose, if any, will be sufficient to accomplish the discharge, final payment and defeasance of the Refunded Bonds. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase direct obligations of the United States of America (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

The Arbitrage Group, Inc., a nationally recognized accounting firm, will verify at the time of delivery of the Bonds to the Underwriter the mathematical accuracy of the schedules that demonstrate the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. Such maturing principal of and interest on the Federal Securities, and other uninvested funds in the Escrow Fund, will not be available to pay the Bonds.

By deposit of the Federal Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have entered into firm banking and financial arrangements for the discharge, final payment, and defeasance of the Refunded Bonds, in accordance with applicable law. As a result of such firm banking and financial arrangements, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Federal Securities and cash held for such purpose by the Escrow Agent, and such Refunded Bonds will not be deemed as being outstanding for the purpose of any limitation on debt.

The City has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund from lawfully available funds, or any additional amounts required to pay the principal of and interest on the Refunded Bonds, if, for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

SOURCES AND USES OF FUNDS

The following table sets forth the estimated application of proceeds of the Bonds.

Sources of Funds:	
Principal Amount of the Bonds	$306,225,000.00
Total Sources of Funds	$306,225,000.00
Uses of Funds:	
Deposit to Escrow Fund	$300,796,128.16
Underwriter's Discount	1,163,500.50
Costs of Issuance (Includes Bond Insurance Premium)	3,418,046.23
Deposit to Debt Service Fund	847,325.11
Total Uses of Funds	$306,225,000.00

DESCRIPTION OF THE BONDS

Form and Denominations

The Bonds are issued pursuant to the Ordinance, in fully registered form, and will be dated August 15, 2005. While in the Auction Rate Mode, the Bonds shall be issued in denominations of $25,000 (each an "Authorized Denomination") or any integral multiple thereof. The Bonds of each sub-series will bear interest in an Auction Rate Mode, from and including their date of delivery to, but excluding, the date on which the Auction Rate Mode for the Bonds is changed to a Daily Rate Mode, a Weekly 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 Auction Rate Mode interest on the Bonds will be calculated at an auction rate established for the applicable Auction Period with such interest to be paid on the applicable Interest Payment Date. This Official Statement, in general, describes the Bonds only during the Auction Rate Mode.

The Bonds will mature on November 15, 2025. Interest on the Bonds in the Auction Rate Mode with an Auction Period over 180 days shall be calculated on the basis of a 360-day year composed of twelve 30-day months. Interest on the Bonds that are issued in the Auction Rate Mode with an Auction Period of 180 days or less shall be calculated on the basis of a 360-

day year for the actual number of days elapsed to the Interest Payment Date. See "Auction Rate and Multi-Modal Provisions" below for a more detailed description of the terms and provisions pertaining to the Bonds.

Redemption Provisions

Optional Redemption. The Bonds are subject to optional redemption by the City, in whole or in part, on any Interest Payment Date immediately following an Auction Period, at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date; provided, however, that in the event of a partial redemption of the Bonds, the aggregate principal amount of the Bonds which will remain outstanding must equal at least $10,000,000 unless otherwise consented to by the Broker-Dealer.

Mandatory Sinking Fund Redemption. The Bonds are subject to mandatory sinking fund redemption in part 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 of each year set forth below the principal amount specified for each of the years shown below:

Bonds Maturing November 15, 2025

Redemption Date (11/15)	Principal Amount	Redemption Date (11/15)	Principal Amount
2005	$ 5,375,000	2016	$ 2,850,000
2006	9,550,000	2017	2,975,000
2007	10,000,000	2018	18,650,000
2008	10,475,000	2019	21,800,000
2009	10,975,000	2020	21,725,000
2010	11,500,000	2021	20,900,000
2011	12,050,000	2022	21,800,000
2012	6,125,000	2023	22,750,000
2013	15,350,000	2024	23,725,000
2014	16,075,000	2025	24,750,000
2015	16,825,000		

In connection with any mandatory sinking fund redemption, the City shall designate, in its sole discretion, one or more sub-series 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 such sub-series to be redeemed.

See "Auction Rate and Multi-Modal Provisions" below and "APPENDIX G – MULTI-MODAL PROVISIONS – EXHIBIT I – AUCTION PROCEDURES" for a detailed description of the provisions, Interest Payment Dates, establishment of interest rate modes, auction procedures and other terms pertaining to the Bonds.

Auction Rate and Multi-Modal Provisions

Determination of Interest Rates and Auction Periods. The Initial Auction Rate for each sub-series of the Bonds will be established by the Underwriter and accepted by an Authorized Representative of the City and will apply to the period commencing on the date of initial delivery of the Bonds to and including the respective Initial Auction Dates specified on the inside cover page of this Official Statement. Thereafter, the Bonds of each sub-series will bear interest at an Auction Period Rate (as defined below) determined on each Auction Date for each Auction Period pursuant to the Auction Procedures set forth in "APPENDIX G – MULTI-MODAL PROVISIONS – EXHIBIT I – AUCTION PROCEDURES." The Auction Period applicable to each sub-series of the Bonds will be the Auction Period for such sub-series set forth on the inside cover page of this Official Statement until the length of such Auction Period is changed to a daily, seven-day, 28-day, 35-day or a Special Auction Period, as described below under "Change in Length of Auction Period." All references to the time herein are to New York City time.

"Auction Period Rate" means, with respect to Bonds of each sub-series, the rate of interest to be borne by the Bonds of such sub-series during each Auction Period determined in accordance with the section entitled "Determination of Auction Period Rate" in APPENDIX G – MULTI-MODAL PROVISIONS – EXHIBIT I – AUCTION PROCEDURES"; provided, however, in no event may the Auction Period Rate or the Auction Rate exceed the Maximum Rate.

"Auction Rate" means, for each sub-series of Bonds for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate, provided, however, if all of such Bonds are subject to Submitted Hold Orders, the All Hold Rate with respect to such Bonds and (ii) if Sufficient Clearing Bids do not exist, the Maximum Auction Rate with respect to such Bonds.

Auction Date. An Auction to determine the interest rate for the Bonds for each Auction Period will be held on the Initial Auction Date and each Auction Date thereafter. In the event of a conversion from an Auction Period then applicable to another Auction Period, Auctions will be held on each Auction Date for each new Auction Period. The day of the week on which Auctions are held may be changed by the Auction Agent as provided in "APPENDIX G – MULTI-MODAL PROVISIONS – EXHIBIT I – AUCTION PROCEDURES – Definitions" and "– Changes in Auction Period or Auction Date."

Auction Agent. The City, the Paying Agent/Registrar and the Auction Agent will enter into the Auction Agreement with Wells Fargo Bank, N.A. The Auction Agreement will provide, among other things, that the Auction Agent will determine the Auction Rate for each Auction in accordance with the Auction Procedures as described in "APPENDIX G – MULTI-MODAL PROVISIONS –EXHIBIT I – AUCTION PROCEDURES

Auction Procedures. The procedures for submitting Orders prior to the Submission Deadline on each Auction Date and the particulars with regard to the determination of the Auction Period Rate (collectively, the "Auction Procedures") are described in "APPENDIX G – MULTI-MODAL PROVISIONS – EXHIBIT I – AUCTION PROCEDURES."

Interest Payment Date. Interest on the Bonds of each sub-series will be payable on the applicable Initial Interest Payment Date and on each Interest Payment Date thereafter. In the event of a conversion from the Auction Period then applicable to the Bonds to another Auction Period, interest on the Bonds will be payable on each Interest Payment Date (as defined in "APPENDIX G – MULTI-MODAL PROVISIONS – EXHIBIT I – AUCTION PROCEDURES – Definitions") for such new Auction Period.

Change in the Length of the Auction Period. The City may from time to time on any Interest Payment Date for an Auction Period, change the length of the Auction Period with respect to all of the Bonds of any sub-series among a daily, seven-day, 28-day, 35-day or a Special Auction Period. Any such changed Auction Period shall be for a period of one day, seven days, 28 days, 35 days or, in the case of a Special Auction Period, a number of days greater than 180 but less than 365, that is not another Auction Period and shall be for all the Bonds of a subseries in an Auction Rate Mode. No such change shall be effective unless Sufficient Clearing Bids existed at the Auction before the date on which the notice of the proposed change was given and the Auction immediately preceding the proposed change. On the date of that change, any Bonds of each sub-series which are not the subject of a specific Hold Order or Bid will be deemed to be subject to a Sell Order. In the event of a failed conversion to another Auction Period due to the lack of Sufficient Clearing Bids, the Bonds of each sub-series will automatically convert to a seven-day Auction Period and will bear interest for the next Auction Period at the Maximum Auction Rate. In connection with a conversion from one Auction Period to another Auction Period, written notice of such conversion will be given in accordance with the Auction Procedures; however, the Bonds of each sub-series will not be subject to mandatory tender on such conversion date. See "APPENDIX G – MULTI-MODAL PROVISIONS – EXHIBIT I – AUCTION PROCEDURES – Changes in Auction Period or Auction Date."

Record Date. The record date for the Bonds will be the opening of business on the Business Day next preceding an Interest Payment Date. In the event of non-payment of interest on the Bonds 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 first class United States mail, 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 next preceding the date of mailing of such notice.

Changes in Mode. The Bonds are initially issued in the Auction Rate Mode. Any Mode, other than a Fixed Rate Mode, may be changed to any other Mode. Any Bonds of a sub-series converted to the Fixed Rate Mode will not be changed to any other Mode.

Notice of Intention to Change Mode. The City shall give written notice to the Paying Agent/Registrar, the Insurer, the Auction Agent, the Remarketing Agent (if any), the Broker-Dealer and the Auction Agent (the "Notice Parties") of its intention to effect a change in the Mode from the then prevailing Mode (the "Current Mode") to another Mode (the "New Mode") specified in such written notice, together with the proposed effective date of such change in the Mode (the "Mode Change Date"). Such notice shall be given at least 20 days prior to the Mode Change Date.

General Provisions Applying to Changes from Auction Rate Mode.

(1) The Mode Change Date must be a Business Day that is an Interest Payment Date following the last day of an Auction Period.
(2) On or prior to the date the City provides notice to the Notice Parties, the City must 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.
(3) No change in Mode will become effective unless all conditions precedent thereto have been met and the following items have been delivered to the City by 11:00 a.m., or such later time as is acceptable to the City and the Auction Agent, on the Mode Change Date:
    (i) a Favorable Opinion of Bond Counsel dated the Mode Change Date,
    (ii) except in the case of a change to Fixed Rate Mode, a Liquidity Facility providing for the purchase of Bonds upon optional or mandatory tender for purchase,
    (iii) if required a Tender Agency Agreement and a Remarketing Agreement,
    (iv) a certificate of an authorized officer of the Tender Agent to the effect that all of the Bonds of a sub-series tendered or deemed tendered, unless otherwise redeemed, have been purchased at a price at least equal to the principal amount thereof, and
    (v) written consent of the Insurer.
(4) If all conditions to the Mode change are met, the interest period for the New Mode shall commence on the Mode Change Date and the interest rate shall be determined by the Remarketing Agent.
(5) 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 a sub-series that are the subject of the Mode change notice:
    (i) will not be subject to mandatory tender for purchase,
    (ii) will continue to be in the Auction Rate Mode,
    (iii) will bear interest at an Auction Period Rate which for (a) the Auction Period commencing on the failed Mode Change Date shall be equal to the Maximum Auction Rate as determined on the Auction Date for such Auction Period and (b) each Auction Period thereafter will be determined in accordance with the Auction Procedures; and
    (iv) will be in seven-day Auction Periods on and after the failed Mode Change Date until the length of the Auction Period is changed as described above.

Mandatory Tender for Purchase of Bonds of a Sub-series on a Mode Change Date. The Bonds to be changed to any Mode from any other Mode are subject to mandatory tender for purchase on the Mode Change Date at the purchase price equal to the principal amount thereof (the "Purchase Price"). The Purchase Price for mandatory tender for purchase on a Mode Change Date is payable only from the proceeds of the remarketing thereof and any funds advanced by the City for such purpose at its option. Although the City has the option to purchase Bonds that are subject to mandatory tender for purchase and that have not been remarketed on the Mode Change Date, it is not obligated to do so. If any of the Bonds subject to mandatory tender for purchase on a Mode Change Date are not purchased, then the Existing Owners of all of the Bonds will continue to hold such Bonds in a seven-day Auction Period at the Maximum Auction Rate for the Auction Period commencing on the failed Mode Change Date.

Notice of Mandatory Tender for Purchase. The Paying Agent/Registrar shall, at least 15 days prior to any Mode Change Date for a sub-series, give notice of the mandatory tender for purchase of the Bonds of each sub-series on such date. Notice of any mandatory tender 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 United States mail, first-class postage prepaid, to each Owner at the respective addresses shown on the registry books. Each notice for mandatory tender for purchase will identify the reason for the mandatory tender for purchase, and specify the CUSIP number, the Mode Change 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 Mode Change Date to such Owner. Each notice will also specify the conditions that have to be satisfied pursuant to the Auction Procedures in order for the New Mode to become effective (as described above), as well as the consequences that the failure to satisfy any of such conditions would have. In the event a mandatory tender of Bonds of a sub-series 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 described above will be conclusively presumed to have been duly given, whether or not the Owner receives the notice, and the failure of such Owner to receive any such notice will not affect the validity of the action described in such notice. Failure by the Paying Agent/Registrar to give a notice as provided under this caption would not affect the obligation of the Tender Agent to purchase the Bonds subject to mandatory tender for purchase on the Mode Change Date.

Remarketing of Bonds. The Remarketing Agent for Bonds being changed to a New Mode will offer for sale and use its best efforts to find purchasers for all Bonds required to be tendered for purchase.

Notice of Remarketing; Registration Instructions; New Bonds. (i) The Remarketing Agent will notify the Tender Agent not later than 11:45 a.m. on the Mode Change Date of the registration instructions as may be necessary to re-register Bonds; and (ii) unless otherwise permitted by DTC, the Tender Agent will authenticate and have available for delivery to the Remarketing Agent prior to 12:30 p.m. on the Mode Change Date new Bonds of a sub-series for the respective purchasers thereof.

Transfer of Funds. The Remarketing Agent will at or before 11:45 a.m. on the Mode Change Date notify the Tender Agent, Paying Agent/Registrar and the City of the amount of tendered Bonds that were not successfully remarketed and confirm to the Tender Agent, Paying Agent/Registrar and the City the transfer of the Purchase Price of remarketed Bonds to the Tender Agent in immediately available funds at or before 12:00 noon on the Mode Change Date.

Source of Funds for Purchase of Bonds. On or before the close of business on the Mode Change Date with respect to the Bonds of a sub-series, the Tender Agent will purchase those Bonds from the Owners at the Purchase Price. Funds for the payment of that Purchase Price will be derived solely from remarketing proceeds relating to such sub-series of the remarketed Bonds or any funds advanced by the City at its option. Although the City has the option to purchase Bonds that are subject to mandatory tender for purchase and that have not been remarketed on the Mode Change Date, the City is not obligated to do so. If any of the Bonds subject to mandatory tender for purchase on a Mode Change Date are not purchased, then the existing Owners of all of the Bonds will continue to hold such Bonds in a seven-day Auction Period at the Maximum Auction Rate for the Auction Period commencing on the failed Mode Change Date.

Delivery of Remarketed Bonds. Except as otherwise required or permitted by the Book-Entry-Only System of DTC, remarketed Bonds sold by a Remarketing Agent will be delivered by the Remarketing Agent to the purchasers of those remarketed Bonds by 3:00 p.m. on the Mode Change Date.

Delivery and Payment for Purchased Remarketed Bonds; Undelivered Bonds. Except as otherwise required or permitted by the Book-Entry-Only System of DTC, remarketed Bonds purchased as set forth above will be delivered (with all necessary endorsements) at or before 12:00 noon on the Mode Change Date at the office of the Tender Agent in New York, New York; provided, however, that payment of the Purchase Price of any remarketed Bond purchased will be made only if such Bond so delivered to the Tender Agent conforms in all respects to the description thereof in the notice of tender. Payment of the Purchase Price will be made by wire transfer in immediately available funds by the Tender Agent by the close of business on the Mode Change Date, or, if the Owner has not provided or caused to be provided wire transfer instructions, by check mailed to the Owner at the address appearing in the books required to be kept by the Paying Agent/Registrar pursuant to the Ordinance. If the Bonds to be purchased are not delivered by the Owners to the Tender Agent by 12:00 noon on the Mode Change Date, the Tender Agent shall hold any funds received for the purchase of those Bonds in trust in a separate account uninvested, and will pay such funds to the former Owners upon presentation of the Bonds subject to tender. Undelivered Bonds are deemed tendered and cease to accrue interest as to the former Owners on the Mode Change 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 so held by the Tender Agent that remain unclaimed by the former holder 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 for any undelivered Bond which may then be remarketed by the Remarketing Agent.

Special Considerations Relating to the Bonds Bearing Interest at an Auction Mode Rate

The Auction Agreement provides that the Auction Agent may resign from its duties as Auction Agent by giving at least 90 days' notice, or 45 days' notice if it has not been paid, to the City and does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place if its fee has not been paid. Each Broker-Dealer Agreement will provide that the Broker-Dealer thereunder may resign upon 30 days' notice or immediately, in certain circumstances, and do not require, as a condition to the effectiveness of such resignation, that a replacement Broker-Dealer be in place. For any Auction Mode during which there is no duly appointed Auction Agent, or during which there is no duly appointed Broker-Dealer, it will not be possible to hold Auctions, with the result that the interest rate on the Bonds will be determined as follows: (i) if the preceding Auction Mode was a period of 35 days or less, the new Auction Mode will be the same as the preceding Auction Mode and the Auction Mode Rate for the new Auction Period will be the same as the Auction Mode Rate for the preceding Auction Period, and (ii) if the preceding Auction Period was a period of greater than 35 days, the new Auction Period will be a seven-day Auction Period and the Auction Mode Rate for the new Auction Period will be the same as the Auction Mode Rate for the preceding Auction Period.

Initially, Morgan Stanley & Co. Incorporated is the only Broker-Dealer. The City may retain other Broker-Dealers from time to time and the City and Bond Insurer may terminate any Broker-Dealer at any time. The Broker-Dealer Agreements will provide that a Broker-Dealer may submit Orders in Auctions for its own account. In the Broker-Dealer Agreements, the Broker-Dealers agree to handle customer orders in accordance with their respective duties under applicable securities laws and rules. If a Broker-Dealer submits an Order for its own account in any Auction, it will have an advantage over other Bidders in that it would have knowledge of other Orders placed through it in that Auction. The Broker-Dealer, however, would not have knowledge of Orders submitted by other Broker-Dealers (if any) in that Auction. As a result of bidding by the Broker-Dealer in an Auction, the Auction Mode Rate may be higher or lower than the rate that would have prevailed had the Broker-Dealer not bid. The Broker-Dealer may also bid in an Auction in order to prevent what would otherwise be (a) a failed Auction, (b) an "all-hold" Auction (if it holds Bonds for its own account), or (c) the implementation of an Auction Mode Rate that the Broker-Dealer believes, in its sole judgment, does not reflect the market for such securities at the time of the Auction. The Broker-Dealer may, but is not obligated to, advise beneficial owners of the Bonds that the rate that will apply in an "all hold" Auction is often a lower rate than would apply if beneficial owners submit bids, and such advice, if given, may facilitate the submission of bids by existing beneficial owners that would avoid the occurrence of an "all hold" Auction. The Broker-Dealer may, but is not obligated to, encourage additional or revised investor bidding in order to prevent an "all-hold" Auction.

The Auction Agent will pay to each Broker-Dealer from funds provided by the City, a service charge that will be based on the rate equal to the percentage of the stated value of the Bonds held by such Broker-Dealer and such Broker-Dealer's customers upon settlement in an Auction calculated on an annualized basis. A Broker-Dealer may share a portion of such fee with non-participating broker-dealers that submit Bids to the Broker-Dealer that are fulfilled at an Auction.

During an Auction Period, a beneficial owner of a Bond may sell, transfer or dispose of a Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures (see "APPENDIX G – MULTI MULTI-MODAL PROVISIONS – EXHIBIT I – AUCTION PROCEDURES") or through a Broker-Dealer. The ability to sell a Bond in an Auction may be adversely affected if there are not sufficient buyers willing to purchase all the Bonds at a rate equal to or less than the Maximum Interest Rate. The Broker-Dealer has advised the City that it intends initially to make a market in the Bonds between Auctions; however, the Broker-Dealer is not obligated to make or maintain such markets, and no assurance can be given that secondary markets therefor will develop or be maintained. The Broker-Dealer may, in its own discretion, decide to sell the Bonds in the secondary market to investors at any time and at any price, including at prices equivalent to, below, or above the par value of the Bonds.

A beneficial owner may not be able to sell some or all of its Bonds at an Auction if the Auction fails. An Auction will fail if there are more Bonds offered for sale than there are Potential Owners for those Bonds. Also, if a beneficial owner places an order to retain Bonds at an Auction only at a specified rate, and that specified rate exceeds the rate set at the Auction, the beneficial owner will not retain its Bonds. Finally, if a beneficial owner submits a Hold Order (an order at an Auction to retain Bonds without regard to the rate set at the Auction) and the Auction sets a below-market rate, such beneficial owner may receive a below-market rate of return on its Bonds.

As noted above, if there are more Bonds offered for sale than there are buyers for those Bonds in any Auction, the Auction will fail and a beneficial owner may not be able to sell some or all of its Bonds at that time. The relative buying and selling interest of market participants in the Bonds and in the auction rate securities market as a whole will vary over time, and such variations may be affected by, among other things, news relating to the issuer or obligor with respect to the auction rate securities, the attractiveness of alternative investments, the perceived risk of owning the security (whether related to credit, liquidity or any other risk), the tax treatment accorded the auction rate securities, the accounting treatment accorded auction rate securities, including recent clarifications of U.S. generally accepted accounting principles relating to the treatment of auction rate securities, reactions to regulatory actions or press reports, financial reporting cycles and market sentiment generally. Investor demand for auction rate securities may shift in response to any one or more of those circumstances or the occurrence of other similar events. Any such shift in investor demand may be of short duration or could continue for an extended period of time.

Changes to the Auction Periods and Auction Dates do not require the amendment of the Auction Procedures.

See the Auction Procedures, attached to this Official Statement as "APPENDIX G – MULTI-MODAL PROVISIONS – EXHIBIT I – AUCTION PROCEDURES, for a more extensive discussion of the provisions applicable to the Bonds while bearing interest at the Auction Rate Mode.

The Securities and Exchange Commission (the "Commission") has requested information from a number of broker-dealers regarding certain of their practices in connection with auction rate securities. The Broker-Dealer has advised the City that (i) the Broker-Dealer, as a participant in the auction rate securities markets, has received a letter from the Commission requesting that it voluntarily conduct an investigation regarding certain practices and procedures in connection with those markets and (ii) the Broker-Dealer has cooperated with the Commission's inquiry and has provided the requested information to the Commission, and expects to continue to cooperate with the Commission with respect to this inquiry. No assurance can be given as to whether the results of this process will affect the market for the Bonds or the Auctions therefor.

Book-Entry-Only System

So long as the Bonds are registered in the name of CEDE & CO., as nominee of DTC, and less than all of such Bonds within a maturity are being redeemed, DTC's current practice is to determine by lot the amount of the interest of each DTC participant in such maturity to be called for redemption, and each DTC participant is to then select by lot the ownership interest in each maturity to be redeemed.

The City has elected to utilize the Book-Entry-Only System of DTC, as described under this heading. The obligation of the City is to timely pay the Paying Agent/Registrar the amount due under the Ordinance. The responsibilities of DTC, the Direct Participants and the Indirect Participants to the Beneficial Owner of the Bonds are described herein.

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 Security certificate will be issued for each maturity of each sub-series of the Securities, in the aggregate principal amount of the Securities, 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 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, 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 Direct Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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 Paying Agent/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 an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue 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, distributions, and dividend 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 the 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, distributions, and dividend 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.

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.

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 system has been obtained from sources that the City believes to be reliable, but neither the City nor the Underwriter take any responsibility for the accuracy thereof.

Registration, Transfer and Exchange

Registration and Payment. The Bonds will be initially issuable only in the name of Cede & Co., as nominee of DTC which will act 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. The last assignee's claim of title to the Bond must be proved to the satisfaction of the Paying Agent/Registrar.

Successor Paying Agent/Registrar. Wells Fargo Bank, N.A. is the initial 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, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous 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 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. Neither the City nor the Paying Agent/Registrar shall be required to issue, transfer or exchange any Bond or portion thereof, called for redemption prior to maturity, within 45 days prior to the date fixed for redemption.

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Bonds is Wells Fargo Bank, N.A. Interest on and principal of the Bonds will be payable, and transfer functions will be performed at the Designated Payment/Transfer Office of the initial 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 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, first-class 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 issuance of the Bonds, a surety bond in the amount equal to the Debt Service Reserve Fund Requirement issued by Financial Security Assurance shall be 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 Financial Security Assurance ("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 Financial Security Assurance ("FSA") for use in this Official Statement. A specimen of FSA's policy is included as Appendix E hereto.

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

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 March 31, 2005, Financial Security's total policyholders' surplus and contingency reserves were approximately $2,321,918,000 and its total unearned premium reserve was approximately $1,672,672,000 in accordance with statutory accounting principles. At March 31, 2005, Financial Security's total shareholder's equity was approximately $2,726,667,000 and its total net unearned premium reserve was approximately $1,356,678,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds. 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 Official Statement, 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 Official Statement.
Financial Security Assurance

THE INTEREST RATE SWAP AGREEMENT

In connection with the issuance of the Bonds, the City has entered into an interest rate swap agreement (the "Interest Rate Swap Agreement") with Morgan Stanley Capital Services, Inc., New York, (the "Counterparty") an affiliate of Morgan Stanley & Co. Incorporated, to enable the City to substantially fix its interest obligation on the debt represented by Bonds. Under the Interest Rate Swap Agreement, from the effective date of the Interest Rate Swap Agreement (which coincides with the date of delivery of the Bonds) until November 15, 2025, 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 at a fixed 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 (as to that agreement only) on the 1st day of each month, commencing in October 2005 and ending in November 2025.

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. The Interest Rate Swap Agreement does not provide a source of security or other credit for the Bonds. The City's obligations under the Interest Rate Swap Agreement to make scheduled payments are payable on a parity with the City's obligation to pay principal of and interest on the Bonds. The City's obligation to make scheduled payments under the Interest Rate Swap Agreement are insured by a financial guaranty policy issued by the Insurer.

If any 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 affected Interest Rate Swap Agreement may, with certain exceptions, be terminated at the option of the other party. Accordingly, no assurance can be given that the Interest Rate Swap Agreement will continue to be in existence. If the Interest Rate Swap Agreement is terminated under certain market conditions, the City may owe a termination payment to the Counterparty or the City may 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 that any Bonds are redeemed pursuant to an optional redemption. If such optional redemption occurs, 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 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 make such termination payment.

DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 09/30	Outstanding Prior Lien Bonds (a)	The Bonds Principal	The Bonds Interest (b)	Estimated Debt Service Series A Revenue Notes (c)	Estimated Total Combined Debt Service Requirements
2006	$ 2,771,875	$ 5,375,000	$ 12,714,615	$ 1,680,000	$ 22,541,490
2007	2,776,800	9,550,000	11,880,086	1,680,000	25,886,886
2008	4,525,025	10,000,000	11,478,734	1,680,000	27,683,759
2009	4,531,325	10,475,000	11,058,347	1,680,000	27,744,672
2010	4,540,625	10,975,000	10,617,913	1,680,000	27,813,538
2011	4,541,625	11,500,000	10,156,420	1,680,000	27,878,045
2012	4,548,450	12,050,000	9,672,854	1,680,000	27,951,304
2013	10,833,825	6,125,000	9,375,393	1,680,000	28,014,218
2014	2,201,875	15,350,000	8,830,381	1,680,000	28,062,256
2015	2,201,275	16,075,000	8,185,220	1,680,000	28,141,495
2016	2,200,275	16,825,000	7,509,884	1,680,000	28,215,159
2017	17,509,281	2,850,000	7,278,060	1,680,000	29,317,342
2018	17,476,706	2,975,000	7,158,584	28,280,000	55,890,290
2019	2,341,513	18,650,000	6,533,599	-	27,525,112
2020	73,500	21,800,000	5,676,711	-	27,550,211
2021	1,036,750	21,725,000	4,796,007	-	27,557,757
2022	-	20,900,000	3,942,478	-	24,842,478
2023	-	21,800,000	3,066,855	-	24,866,855
2024	-	22,750,000	2,153,163	-	24,903,163
2025	-	23,725,000	1,200,182	-	24,925,182
2026	-	24,750,000	206,095	-	24,956,095

(a) Excludes the Refunded Bonds.

(b) 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".

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

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 46th largest airport in the United States based on 2004 enplanements.

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 to be 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 five additional gates. Any additional gate expansion beyond that described in the previous sentence would be accomplished through construction of a new south terminal and possible other satellite terminals. No such expansion is currently contemplated.

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 Maintenance facilities. The airline/cargo fuel farm tank capacity is 1,200,000 gallons. The City has cargo development agreements for five buildings and 1,116,422 square feet of ground space. The City has awarded a cargo development agreement for up to 200,000 square feet of additional cargo area.

The City has adopted height and compatibility ordinances for the areas surrounding ABIA and has completed its Noise Study guidelines. The FAA approved the noise study as submitted on August 10, 1994 and again in November 2000. Land use measures include acquisition of aviation easements with sound insulation, where possible, or property acquisition when sound insulation is not feasible. The scope of noise mitigation included the soundproofing of approximately 225 single-family residence units, 320 multifamily residence units, and 185 commercial lodging units. It also included the relocation of four schools at a cost of $47.5 million. The total program cost is approximately $71.4 million.

Capital Program

The Airport's Five Year Capital Improvement Program beginning FY 2004 totaling $123,551,000 is funded primarily from cash by Capital Fund contributions (45%), and anticipated Federal Aviation Administration and Transportation Security Administration grant funding (52%). The projects for the five year program fall into five categories: Airfield/Apron - $15,474,000; Terminal - $58,750,000; Parking and Roadways - $18,445,000; Noise Mitigation - $23,915,000; and $6,967,000 – for miscellaneous issues including building roof repairs, equipment, environmental impact statement update and Aircraft Rescue and Fire Fighting ("ARFF") building expansion.

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 entered into Airline Use and Lease Agreements with seven major passenger air carriers. The initial term of the Airline Use and Lease Agreements ran from May 23, 1999, the opening date of ABIA, through September 30, 2003, and the agreements have been automatically extended for one additional term of five years ending September 30, 2008. The Airline Use and Lease Agreements specify the methodologies for setting terminal rents, landing fees, apron fees, terminal equipment fees and other charges to be paid by the signatory airlines.

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."

United Air Lines, Inc. ("United"), one of the ABIA's signatory airlines, filed for relief under Chapter 11 of the Bankruptcy Code on December 9, 2002 and continues to operate flights out of ABIA as debtor-in-possession. The City has asserted claims against United, primarily for rent for the month of December 2002, in the amount of $78,328.89. United leases two gates at ABIA, and as yet, has not assumed or rejected its ABIA Use and Lease Agreement.

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.

Charles W. Gates, Director, Finance and Administration. Mr. Gates is responsible for Finance, Business Development, and Network Services. Mr. Gates came to Austin from Dayton, Ohio where he was Superintendent of Aviation Administration for the City of Dayton. He is a graduate of the University of Dayton with a Bachelor of Science in Business Administration in Accounting. He is actively involved in committee work in the Airports Council International and was appointed to the Board of Directors in January 1995. He is also active in the American Association of Airport Executives, the Airport Minority Advisory Council, the National Forum for Black Public Administrators, and served on the Board of Directors of the Austin Urban League. In June 1991, Mr. Gates received the National Achievers Award from the Airport Minority

Advisory Council for outstanding professional achievement as an aviation official. Prior to this position, Mr. Gates served as Director of Aviation.

Bruce Mills, Assistant Director, Aviation Security and Operations. After retiring from a long and distinguished career with the Austin Police Department ("APD"), Mr. Mills is responsible for the Parking Operation and oversees all law enforcement activities to include foreign and domestic terrorism prevention/response, aircraft emergencies/accidents response, investigations to include counter drug, crime prevention, intelligence gathering and medical first responder activities. Additionally, he is responsible for the ARFF who are members of the Austin Fire Department tasked with fire fighting prevention and operations. In 1973 Mr. Mills began a career in law enforcement with APD as a Patrol Officer, working his way through the ranks and ultimately obtaining an Interim Chief of Police position from February 1997 – November 1997. Some of his accomplishments and experience include, Special Crimes, Homicide, Cadet Training, Uniform patrol, Crime Analysis, Criminal Investigations and Organized Crime Division. As a Deputy Chief of the Community Response Bureau he was responsible for planning, directing and coordinating the activities of personnel in areas such as Special Weapons and Tactics (SWAT), Explosive Ordinance Detail (EDO), Narcotics, Vice, Walking Beat, Mounted Patrol and Victims Services. During his career, he was awarded many distinguished honors and decorations to include the Medal of Valor and various certificates for Merit, Distinction and Appreciation. In 1990 Chief Mills received a Bachelor of Liberal Studies, Criminal Justice, from St. Edward's University (Austin, Texas) graduating Summa cum Laude. In 1993, he received his Master of Science in Criminal Justice Administration from Southwest Texas State University (San Marcos, Texas). He is also a graduate of the Southern Police Institute School of Justice Administration and the Austin Police Department's Police Science and Law Enforcement Academy.

Patti Edwards, Assistant Director, Aviation Maintenance. Ms. Edwards is responsible for all maintenance, operation and custodial activities, which include buildings, grounds, airfield, roadways, motor pool and unimproved areas. She has been employed by the City's Aviation Department for over nine years. She has been in her current acting position since November 2001. Ms. Edwards has seventeen years experience in maintenance, landscape and construction. She is an active member of BOMA and AAAE.

Jamy Kazanoff, Assistant Director, Aviation Business Development. Ms. Kazanoff is responsible for Information Services, airport marketing, business development and community relations for ABIA. She oversees the areas of properties and contracts management, advertising revenue, air cargo and 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 five years. Ms. Kazanoff has 19 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 on the steering group and the ACI International Program Steering Group. She is a graduate of The University of Texas at Austin with a Bachelor of Journalism degree.

Barbara E. Tipple, CPA, Chief Financial Officer. 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 1999. 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.

AIRPORT STATISTICAL DATA

ABIA is the principal air carrier airport in the Austin Metropolitan Statistical Area ("MSA"), consisting of Hays, Travis, Bastrop, Caldwell and Williamson Counties. The Austin MSA 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 MSA 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). In the following analysis, economic and population data for the Austin MSA are used to represent the Airport service region.

Operations at and the revenues generated by ABIA operations have been negatively impacted by a variety of factors, including the events of September 11, 2001, hostilities in the Middle East, and the general downturn in the national economy. 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 Year ended September 30, 2003, the Airport System transferred $7,332,360 to the Airport Operating Fund and for the Fiscal Year ended September 30, 2004, the Airport System transferred $7,384,492 to the Airport Operating Fund. The moneys transferred were originally intended to be used to pay for ongoing capital improvement projects at the Airport. Anticipated capital improvement projects at the Airport have been scaled back by approximately 50%; reduction in the projects undertaken has not adversely affected ongoing operations at the Airport. 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 2002 Actual	Fiscal Year 2003 Actual	Fiscal Year 2004 Actual	Fiscal Year 2005 Budgeted
$6,992,897	$7,332,360	$7,384,492	$7,326,653

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.

Passenger Airlines	All-Cargo Airlines
America West Airlines	Airborne Express
American Airlines	Ameristar Jet Charter Inc.,
Atlantic Southeast ASA	Amerflight
Continental Airlines	Baron Aviation
Casino Express	Berry Aviation
Delta Air Lines	Custom Transport
Frontier	DHL-Airways, Inc.
Mesa Airlines	Federal Express
Miami Air International	Lone Star Overnight
Northwest Airlines	Martinaire, Inc.
Pinnacle Airlines	Suburban Air Freight
Skywest Airlines	Telesis Express
Southwest Airlines	United Parcel Service
Transtate Airlines	UPS Supply Chain Solutions
Transmeridian	USA Jet Airlines Inc.
United Airlines	

Source: City of Austin Department of Aviation.

The following table presents the airlines' shares of enplaned passengers for Fiscal Years 1980, 1985, 1990, 1999, 2000, 2001, 2002, 2003 and 2004.

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

	Share of Enplaned Passengers								
Airline	Fiscal Year 1980	Fiscal Year 1985	Fiscal Year 1990	Fiscal Year 1999	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004
Southwest	40.3%	35.0%	34.9%	32.7%	37.9%	38.8%	37.6%	37.0%	36.6%
American	-	22.1%	20.8%	28.3%	24.1%	23.0%	24.1%	25.2%	25.2%
Delta	4.0%	10.2%	14.8%	12.1%	10.8%	9.5%	10.8%	8.9%	8.4%
Continental	10.0%	8.3%	8.7%	10.3%	10.0%	10.3%	11.2%	11.4%	11.6%
America West	-	3.4%	5.2%	3.7%	3.8%	3.9%	3.5%	2.9%	2.2%
United	-	3.7%	4.1%	6.2%	5.6%	5.9%	5.8%	8.1%	2.1%
Northwest	-	-	2.8%	3.2%	3.1%	3.2%	3.0%	3.4%	2.6%
TWA	-	2.0%	2.5%	2.8%	3.1%	3.2%	0.3%	-	-
USAir (b)	-	1.4%	1.1%	-	-	-	-	-	-
American Eagle	-	-	-	-	0.6%	-	-	-	-
Air Wisconsin	-	-	-	-	-	-	-	-	1.6%
Mesa Airlines	-	-	-	-	-	-	-	-	2.8%
Pinnacle	-	-	-	-	-	-	-	-	1.5%
Allegro	-	-	-	0.3%	-	-	0.3%	-	-
Sun Country	-	-	-	0.2%	0.2%	0.2%	-	-	-
Casino Express	-	-	-	0.1%	0.1%	-	-	-	0.1%
Air Canada	-	-	-	-	0.1%	-	-	-	-
Braniff	25.9%	0.4%	-	-	-	-	-	-	-
Eastern	8.7%	2.2%	-	-	-	-	-	-	-
Pan American	-	1.0%	1.0%	-	-	-	-	-	-
Texas International	10.1%	-	-	-	-	-	-	-	-
TranStar	-	9.2%	-	-	-	-	-	-	-
Vanguard	-	-	-	-	-	0.8%	1.2%	-	-
Frontier							1.4%	1.8%	2.2%
Sub-Total	99.0%	98.9%	95.9%	99.9%	99.2%	98.0%	99.3%	98.7%	96.9%
Commuters	1.0%	1.1%	4.1%	0.1%	0.8%	2.0%	0.7%	1.3%	3.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.00%

(a) Robert Mueller Municipal Airport closed and Austin-Bergstrom International Airport opened on May 23, 1999.
(b) Discontinued service during FY1997.
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)			
Fiscal Year	Freight and Express (b)	Mail	Total	Annual Increase/(Decrease)
1982	2,249	1,694	3,943	0.5%
1983	2,543	1,971	4,514	14.5%
1984	3,806	2,643	6,449	42.9%
1985	3,405	3,208	6,613	2.5%
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)%

(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
(For Fiscal Years Ended September 30)

	Percentage of Total Enplaned Freight					
All-cargo Airlines	1999	2000	2001	2002	2003	2004
Federal Express	32.6%	31.8%	23.8%	37.6%	40.2%	43.6%
Burlington/ATI (a)	7.0%	5.2%	2.2%	0.7%	0.0%	0.0%
Airborne Express	15.4%	14.9%	11.5%	15.5%	17.4%	17.9%
Menio Worldwide Forwarding (b)	5.5%	5.0%	3.8%	1.0%	2.3%	2.9%
Baron Aviation	1.4%	1.0%	0.9%	1.2%	1.5%	1.7%
UPS	10.4%	7.3%	8.0%	10.2%	11.0%	12.0%
Eagle	10.5%	-	0.0%	0.0%	0.0%	-
Express One	-	14.1%	25.8%	2.7%	0.0%	-
DHL/Astar	-	0.0%	2.6%	5.6%	5.4%	6.2%
Custom Air	-	-	-	7.0%	9.7%	1.6%
Quest				8.6%	0.0%	-
Other (c)	6.9%	11.9%	9.5%	2.3%	3.8%	2.6%
Subtotal	89.7%	91.2%	88.1%	92.5%	91.3%	88.5%
Passenger Airlines	10.3%	8.8%	11.9%	7.6%	8.7%	11.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

(a) Prior to July 2000 Air Transport International (ATI) was Burlington Air Express (BAX).
(b) Prior to January 2004, Menio Worldwide Forwarding operated as Emery Worldwide.
(c) Air Cargo Carriers, Ameriflight, Kalitta Air, Long Star Overnight, Martinaire Partners, Mid-Atlantic Freight, Suburban Air, Telesis Express and Berry Aviation.

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, 2004

Rank	City of Origin or Destination (a)	Air Miles from Austin	Percent of Scheduled Airline Passengers	Daily Scheduled Nonstop Departures (b)
1	Dallas – Fort Worth (c)	187	8.7	27
2	Los Angeles (d)	1,216	5.4	4
3	Washington, DC (e)	1,302	4.7	2
4	Chicago (f)	970	4.0	11
5	New York (g)	1,509	3.9	2
6	Las Vegas	1,083	3.8	4
7	Houston (h)	147	3.7	19
8	San Jose	1,467	3.5	3
9	Denver	768	3.2	7
10	Phoenix	867	3.1	8
11	Baltimore	1,337	2.7	2
12	Atlanta	810	2.4	8
13	El Paso	524	2.1	4
14	San Francisco (i)	1,496	2.0	1
15	San Diego	1,157	1.9	1
16	Orlando	992	1.7	1
17	Seattle	1,761	1.7	0
18	Lubbock	336	1.6	2
19	Nashville	752	1.4	2
20	Miami (j)	1,105	1.2	0
21	New Orleans	456	1.2	0
22	Minneapolis	1,037	1.2	3
23	Detroit	1,144	1.2	1
24	Portland	1,706	1.2	0
25	St. Louis	715	1.2	0
26	Boston	1,692	1.2	0
27	Raleigh/Durham	1,164	1.1	2
28	Harlingen	283	1.1	1
29	Philadelphia	1,426	1.1	0
30	Tampa	928	1.1	1
31	Albuquerque	612	1.1	0
32	Sacramento	1,474	1.0	0
	Cities Listed		76.4%	116
	Other Cities		23.6%	14
			100.0%	130

(a) Cities with 1% or more of total inbound and outbound passengers in 10% sample.
(b) Official Airline Guide, April 2005.
(c) Dallas/Ft. Worth International Airport and Dallas Love Field.
(d) Los Angeles International, Burbank-Glendale-Pasadena, Long Beach, Ontario International and John Wayne (Orange County) airports.
(e) Washington Dulles International and Washington Ronald Reagan National airports.
(f) Chicago O'Hare International and Midway airports.
(g) John F. Kennedy International, LaGuardia and Newark International airports.
(h) Houston Intercontinental and William P. Hobby airports.
(i) San Francisco and Oakland International airports.
(j) Miami and Ft. Lauderdale-Hollywood International airports.

Sources: US Department of Transportation "Origin-Destination Survey of Domestic Passengers" Official Airline Guide, April 2005, Prepared by BACK Aviation Solutions.

HISTORICAL AIRLINE TRAFFIC

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

Fiscal Year	Enplaned Passengers	Annual Percent Increase/(Decrease)	Aircraft Departures Annual	Aircraft Departures Daily	Passenger Enplaned Per Departure
1980	886,947		20,724	57	43
1981	954,104	7.6%	19,832	54	48
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

(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 1980 through Fiscal Year 2004 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)

Fiscal Year	Air Carrier	Air Taxi/Commuter	General Aviation	Military	Total Operations
1980	32,951	18,630	130,403	11,599	193,583
1981	34,375	15,053	132,524	8,319	190,271
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

(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.
1994-2004: 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 1980 through Fiscal Year 2004 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 1980 – 2004
(in 1,000-pound units)

Fiscal Year	Passenger Airlines	All-cargo Airlines	Total	Percent Increase/(Decrease)
1980	1,730,919	21,970	1,752,889	N/A
1981	2,164,812	34,765	2,199,577	25.5%
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)%

(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, 2004 are included as APPENDIX B hereto. The following table represents the historical operating results of the Airport enterprise fund for Fiscal Year 2000 through 2004 based on the published financial statements of the City, as reported on by the City's certified public accountants.

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)

	2000	2001	2002	2003	2004
Revenue					
User Fees and Rental	$ 60,518	$ 68,528	$ 64,418	$ 63,479	$ 65,361
Operating Revenues	60,518	68,528	64,418	63,479	65,361
Expenses					
Operating Expenses before Depreciation	33,325	39,363	37,265	40,786	38,517
Depreciation	16,054	15,188	16,210	15,962	16,054
Total Operating Expenses	49,379	54,551	53,475	56,748	54,571
Operating Income before Nonoperating Revenues (Expenses) and Operating Transfers	11,139	13,977	10,943	6,731	10,790
Nonoperating Revenues (Expenses)					
Interest and other revenues	8,112	6,083	4,039	2,484	1,916
Unrealized Gain on Investments	-	-	-	-	-
Interest on Revenue Bonds and Other Debt	(26,199)	24,340)	(23,648)	(23,236)	(22,497)
Interest Capitalized during Construction	-	1,237	435	685	953
Capital Contributions	-	9,568	-	-	-
Passenger Facility Charges (1)	9,408	9,999	8,359	8,214	10,555
Amortization of Bond Issue Cost	(109)	(105)	(105)	(105)	(131)
Other Nonoperating Expenses	(416)	(120)	(207)	(160)	(1,577)
Total Nonoperating Revenues (Expenses)	(9,204)	2,324	(11,127)	(12,118)	(10,781)
Income before Operating Transfers	1,935	16,302	(184)	(5,387)	9
Capital Contributions	-	-	8,905	7,524	6,117
Operating Transfers:	-	-			
Operating Transfers In	-	-	-	-	-
Operating Transfers Out	-	(133)	(50)	(48)	-
Income before Extraordinary Loss	1,935	16,169	8,671	2,089	6,126
Extraordinary Loss – Bond Debt Extinguishment	-	-	-	-	-
Net Income	1,935	16,169	8,671	2,089	6,126
Add depreciation transferred to contributors	2,278	2,467	-	-	-
Net increase in retained earnings	4,213	18,636	8,671	2,089	6,126
Retained earnings at beginning of year, as previously reported	139,699	143,911	162,547	321,104	323,193
Prior Period Adjustment	-	-	-		
Retained Earnings/Net Assets at beginning of year, as restated (2)	$139,699	$143,911	$162,547	$321,104	$323,193
Retained Earnings/Net Assets at end of year (2)	$143,911	$162,547	$321,104	$323,193	$329,319

(1) PFC Revenue reported as non-operating revenue beginning FYE 2000.
(2) City of Austin implemented GASB 34 effective FYE 2002.

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

	Fiscal Year 2000 Actual	Fiscal Year 2001 Actual	Fiscal Year 2002 Actual	Fiscal Year 2003 Actual	Fiscal Year 2004 Actual
Airline Revenue					
Landing Fees	$11,907,116	$15,772,043	$12,497,134	$16,715,190	$16,634,349
Terminal Rental & Other Fees	11,712,874	12,896,688	15,089,328	12,963,504	15,095,918
Total Airline Revenue	$23,619,990	$28,668,731	$27,586,462	$29,678,694	$31,730,267
Non-Airline Revenue					
Parking	$20,701,007	$23,172,282	$21,413,969	$17,857,135	$17,880,828
Other Concessions	10,838,202	11,396,771	10,502,221	10,891,417	10,876,603
Other Rentals and Fees	5,358,302	5,290,658	4,915,102	5,047,378	4,878,253
Total Non-Airline Revenue	$36,897,511	$39,859,711	$36,831,292	$33,795,930	$33,635,684
Total Revenue	$60,517,501	$68,528,442	$64,417,754	$63,474,624	$65,365,951

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, escalating security costs, and the outbreak of SARS. All of this has had an impact on the operational levels at airports across the country, including ABIA. 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 Official Statement, prospective investors should carefully review all investment considerations set forth throughout this Official Statement, 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, 2004, Passenger Facility Charge collections and interest earned on collections totaled $90.94 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. 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) $3.00 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. Passenger traffic fell after September 11, 2001, and continues to be affected by the recent downturn in the economy and hostilities in the Middle East. There can be no assurance as to what passenger traffic, and ABIA revenues, will be in the future. In addition to its other effects, these circumstances will result in a reduction of PFC collections at ABIA compared to what would have been otherwise collected based on traffic that existed prior to September 11, 2001.

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, the full extent of which cannot be predicted. Major carriers have either filed or announced the possibility of filing for federal bankruptcy protection, including US Airways and United. 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.

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, increasing numbers of carriers have already declared or are threatened with bankruptcy. Currently, United is the only active airline at ABIA operating in bankruptcy. The City believes that United plans to reorganize and continue operations, although

United has not yet taken action to assume or reject its Airline Use and Lease Agreement.

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 precedency 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.

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.

As a result of the present condition of the airline industry, additional bankruptcy filings, liquidations or major restructuring by members of the airline industry remain possible. In response to mounting losses, Air Canada, US Airways and United Airlines filed for bankruptcy protection, although US Airways emerged from bankruptcy on March 31, 2003 and reentered in 2005. At one point, United warned that it may have to cease operations and liquidate if costs are not further reduced but has continued to operate under bankruptcy protection. To lower costs, Delta Airlines has implemented a restructuring of its airport hub operations to reduce costs and a new fare structure to increase revenues.

Similarly, no assurances can be given regarding the future financial viability of American Airlines. American, like most other domestic carriers, is experiencing extreme financial distress. American has announced cutbacks throughout its system, including at ABIA. At one point, American retained bankruptcy counsel and considered filing for Chapter 11 bankruptcy protection. If American reduces or eliminates its activity at ABIA, its current level of activity may not be replaced by other carriers. American has received major concessions from its employee unions and others, which have currently reduced, but not eliminated, the possibility of American seeking bankruptcy protection. In the future Delta and Northwest may consider the filing of Chapter 11 bankruptcy protection if cost cutting and revenues fail to reduce losses.

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 emplanements. 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.

Limitations of Remedies

The Bonds are not subject to acceleration under any circumstances or for any reason, including without limitation on the occurrence or continuance of an Event of Default. Upon the occurrence or continuation of an Event of Default, a Bondholder would only be entitled to principal and interest payments on the Bonds as they come due. Under certain circumstances, Owners of the Bonds may not be able to pursue certain remedies or enforce covenants contained in the Ordinance.

For purposes of exercising the rights of Owners upon the occurrence of an event of default under the Ordinance, the Bond Insurer shall 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 are entitled to take pursuant to the Ordinance.

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

In the opinion of Bond Counsel, assuming compliance with certain covenants and based on certain representations and prior to the first change of interest rate modes for which an opinion of nationally recognized bond counsel is required under the Ordinance, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, except with respect to interest on any Bond during any period while it is held by a "substantial user" of the projects financed by the Refunded Bonds or a "related person" within the meaning of Section 147(a) of the Code. The Bonds are "private activity bonds" under the Code and, therefore, interest on the Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations. The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include, among other things, limitations on the use of the bond-financed project, limitations on the use of bond proceeds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States, and a requirement that the issuer file an information report with the Internal Revenue Service. The City has covenanted in the Ordinance that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Ordinance 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, will rely on representations by the City, the Financial Advisor and the Underwriter with respect to matters solely within the knowledge of the City, the Financial Advisor and the Underwriter, respectively, which Bond Counsel has not independently verified. If the City fails to comply with the covenants in the Ordinance or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Bonds could become includable in gross inform for federal income from the date of original delivery of the Bonds, regardless of the date on which the event causing such includability occurs.

The Code imposes an alternative minimum tax on the "alternative minimum taxable income" of an individual, if the amount of such alternative minimum tax is greater than the amount of such individual's regular income tax. Generally, the alternative minimum tax rate for individuals is 26 percent of such taxable excess as does not exceed $175,000 plus 28 percent of so much of such taxable excess as exceeds $175,000. The Code also imposes a 20 percent 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 an individual or corporation will include items of tax preference under the Code, such as the amount of interest received on "private activity bonds," such as the Bonds, issued after August 7, 1986. Accordingly, Bond Counsel's opinion will state that interest on the Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations and the environmental tax imposed on corporations. Under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on Bonds, received or accrued during the year.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or the acquisition, ownership or disposition of, the Bonds. As described above under "DESCRIPTION OF THE BONDS -- Auction Rate and Multi-Modal Provisions -- General Provisions Applying to Changes from Auction Rate Mode," certain changes of interest rate modes are conditioned on delivery of an opinion to the effect that each such change will not adversely affect the excludability of interest on the Bonds from gross income for federal income tax purposes. The delivery of such opinions will depend on facts and law that exist on such future date or dates, if any. Therefore, Bond Counsel's opinions will express no opinion regarding the excludability of interest on the Bonds from gross income for federal income tax purposes on and after the date or dates, if any, of any such changes. Further, Bond Counsel will express no opinion on its ability to render the opinion required in connection with such changes.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, 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 profit 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 opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel’s knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions 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 opinions 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 expected to be rated “AAA” by S&P, and “AAA” by Fitch as a result of the municipal bond insurance policy by Financial Security. 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

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (iii) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State 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), 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.

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.

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Investment Authority and Investment Practices of the City

Available City funds are invested as 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 is 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 that are issued by a state or national bank domiciled in the State of Texas, a savings bank domiciled in the State of Texas, or a state or federal credit union domiciled in the State of Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by Obligations described in clauses (1) through (6) or in any other manner and amount provided by law for 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; and (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. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by Obligations, including letters of credit, 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.

Effective September 1, 2003, a political subdivision 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.

The City may invest in such Obligations directly or through government investment pools that invest solely in such Obligations provided that the pools are rated no lower than AAA or AAAm or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers 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 up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. 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.

Under Texas 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, maturity, and the quality and capability of investment management; and that include a list of authorized investments for City funds, the 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 fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, the City's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the City's investment officers must submit an investment report to the City Council detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and 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 strategies and (b) Texas law. No person may invest City funds without express written authority from the City Council.

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 family relationships 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, (3) require the registered principal 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) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the City's investment policy, (5) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (6) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (8) provide specific investment training for the Treasurer, the Chief Financial Officer (if not the Treasurer) and the investment officer.

Legal Opinions and No-Litigation Certificate

The City will furnish a complete transcript of proceedings had 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, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX EXEMPTION" herein, including the alternative minimum tax on corporations. The customary closing papers, including a certificate to the effect that no litigation of any material nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would materially affect the provision made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in their capacity as Bond Counsel, such firm has reviewed the information in the Official Statement under the captions, "INTRODUCTION," "DESCRIPTION OF THE BONDS" (except the information included therein under the sub-captions "Special Considerations Relating to the Bonds Bearing Interest at an Auction Rate Mode", "Auction Agent", and "Book-Entry-Only System"), "SECURITY FOR THE BONDS", "TAX EXEMPTION", the sub-captions "Legal Investments and Eligibility to Secure Public Funds in Texas," "Legal Opinions and No-Litigation Certificate," "Continuing Disclosure of Information," (except the information included therein under the subheading "Compliance with Prior Undertakings") under the heading "OTHER RELEVANT INFORMATION" and APPENDICES C, D and G to verify that the information relating to the Bonds and the Ordinance contained under such captions accurately and fairly reflects the provisions thereof and, insofar as such information relates to matters of law, is accurate. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. Certain additional legal matters will be passed upon for the Underwriters by Locke Liddell & Sapp LLP. The opinion of Bond Counsel will accompany the Bonds deposited with DTC in connection with the use of the Book-Entry-Only System.

Financial Advisor

Public Financial Management ("PFM"), Austin, Texas, is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. 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.

Underwriting

Morgan Stanley & Co. Incorporated (the "Underwriter") agreed, subject to certain conditions, to purchase the Bonds from the City at an aggregate discount of $1,163,500.50 from the initial offering price of the Bonds. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds and such public offering prices may be changed, from time to time, by the Underwriter.

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 Official Statement 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 2005. 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 Municipal Advisory Council 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. The City has complied with all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

Verification of Arithmetical and Mathematical Computations

The arithmetical accuracy of certain computations included in the schedules provided by the Underwriter relating to (a) computation of forecasted receipts of principal and interest on the federal securities and the forecasted payments of principal and interest to redeem the Refunded Bonds, and (b) computation of the yields on the Bonds and the Federal Securities was examined by The Arbitrage Group, Inc., certified public accountants. Such computations were based solely on assumptions and information supplied by the City. The Arbitrage Group, Inc. has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based and, accordingly, has not expressed an opinion on the data used for the reasonableness of the assumptions, or the achievability of the forecasted outcome. Such verification will be relied upon by Bond Counsel in rendering their opinion with respect to the tax exemption of interest on the Bonds and with respect to defeasance of the Refunded Bonds.

Forward - Looking Statements

The statements contained in this Official Statement and in any other information provided by the City that are not purely historical are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no 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 Official Statement 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 Official Statement 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 Official Statement, and the execution and delivery of this Official Statement, were authorized by the City Council.

/s/Will Wynn
Mayor
City of Austin, Texas

ATTEST:

/s/Shirley A. Brown
City Clerk
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 Council Members. The Mayor and Council Members are elected at large for three-year staggered terms with a maximum of two consecutive terms. A petition signed by a minimum 5% of voters waives the term limit for a Council Member. 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 a population of 683,551 in 2004. Over the past ten years, Austin's population has increased by approximately 160,000 residents, an increase of 30.6 percent. Geographically, Austin consists of approximately 290 square miles. According to the 2000 Census, Austin has a median household income of $42,689 and a per capita income of $24,163.

Austin is frequently recognized as a great place to live and/or work, with one of the most recent commendations in *Forbes Magazine*, which listed Austin as one of its "top ten places for business". In October 2004, *Fortune Magazine* recognized Austin as one of its "five dream retirement towns". *MovieMaker* magazine ranks Austin number one in its "top ten cities for moviemakers to live and make movies" in 2004, moving Austin up from number four in its 2003 ranking. In the latest data from the FBI "2003 Crime in the U.S." report, Austin is ranked the third safest city among cities with a population of 500,000 or more with respect to violent crime.

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. In October 2004, the Parks and Recreation Department received the National Recreation and Parks Association's 2004 Gold Medal Award as the best parks and recreation system in the nation.

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.

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 40.6 percent of adults holding a bachelor's or advanced degree. With its seven institutions of higher learning and more than 113,000 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.

During the 1990s, over 280,000 jobs were created in Austin; unemployment dropped to less than 2 percent in 2000. 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. Due to the influence of the technology sector in the Austin area, the economic downturn had a more severe impact locally than in other regions of the State of Texas.

The Austin area economy is beginning to see a sustained improvement over conditions from the previous years. The unemployment rate for the Austin MSA has improved from 4.8 percent in December 2003 to 4.0 percent in December 2004. The average annual unemployment rate has also improved from 5.7 percent in 2003 to 4.5 percent in 2004. The statewide average unemployment rate for Texas was 6.8 percent in 2003 and 5.9 percent in 2004.

Sales tax revenue has shown a steady improvement from the previous year. Sales tax growth for fiscal year 2004 averaged a

6.6 percent increase over fiscal year 2003, with 11 months of positive growth as compared to only two months in the previous year. The growth rate is the second highest among major Texas cities. As a sign of sustained improvement, initial sales tax revenue for fiscal year 2005 has increased from comparative periods in fiscal year 2004.

Single family residential building permits increased by approximately 600 permits from fiscal year 2003, which represents an approximate 20 percent increase over the previous year. Property tax revenue increased by approximately $7.4 million from the previous year, although assessed valuation within the City decreased approximately $1.8 billion, or 3.5% from the prior year. Property taxes for 2004 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. These financial statements include the impact of estimated refunds for the pending lawsuits.

Total passenger traffic for the City's airport increased by 8% in calendar year 2004 as compared to the previous year. Total air cargo also increased 1% for the same time period. Overall collections from the hotel occupancy and vehicle rental taxes declined slightly in the current year, but avoided the significant decreases that occurred in fiscal year 2002, which reflected the effect of the 9/11 tragedy. The first quarter collections for fiscal year 2005 indicate a significant increase from comparative periods in fiscal year 2004, with an increase of 11.7 percent in hotel occupancy taxes and an increase of 13.5 percent in vehicle rental taxes.

City management implemented cost savings efforts beginning in 2002 and throughout the 2003 and 2004 budget years. During the 2004 budget process, a structurally balanced budget was achieved. As part of this process, an emphasis was placed on permanent reductions rather than one-time reductions that would have to be re-addressed in the future. Overall, 519 job positions were eliminated, with 344 of such positions being funded from the General Fund. Of those 519 positions 206 were filled, and ultimately 91 of these positions were subject to lay off. Other budgetary accomplishments include maintaining the effective tax rate, ensuring that no public facilities closed, maintaining utility transfer rates in accordance with covenants associated with the City's revenue debt and placing no reliance on "one-time" funds to be utilized as revenue funding sources.

Economic indicators indicate that the conditions are good for the continuing economic recovery in Austin and surrounding areas. 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.

Economic Growth and Development

A renewed effort has begun to attract new businesses and jobs to the Austin area. The City has developed and adopted a formal Economic Development Policy to guide Austin's economic recovery, including making significant changes to the Land Development Code to assist small business owners with redevelopment and expansion. In addition, the City has streamlined the development process for development review, permitting and inspections through the implementation of the One Stop Development Shop. The City was recognized for the progress made in this area at the 21st Annual Perryman Economic Outlook Conference.

The redevelopment of Robert Mueller Municipal Airport is underway. The City has recently 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 first major project, a new Children's Hospital, has already begun. 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.

The annexation of Robinson Ranch protects the ability to plan the last major growth corridor north of Austin, as well as preserving a significant amount of future tax base. The agreement sets out future development rights and environmental protections for almost 6,000 acres. The present value of the 25-year all funds analysis of tax revenue from this area exceeds $160 million.

The City's Street Smart Team re-engineered the process for major urban road reconstruction projects. The revised process has allowed completion of reconstruction projects for both Lamar Blvd. and Cesar Chavez in significantly less time than typical projects of this nature. As a result, traffic impacts on citizens and financial impacts on surrounding businesses were reduced.

Austin's new City Hall and public plaza, built on 1.75 acres at the previous site of the Municipal Annex, was opened in December 2004. City Hall is approximately 115,000 square feet and houses offices, meeting facilities and a state-of-the-art City Council Chamber. The new City Hall has received awards including the Texas Construction Best of 2004 Award for Best Public Building Project in the State of Texas and the Austin Business Journal's 2005 best overall award for commercial real estate.

Public Health and Housing

In May 2004, voters of Travis County elected to create the Travis County Hospital District. As required under State law, title to City-owned Brackenridge Hospital and the Austin Women's Hospital effectively passes from the City with the formation of the District. Title to the clinic facilities that operate under the Federally Qualified Health Center (FQHC) designation will not transfer to the District until the District receives federal approval for the transfer.

The creation of the District creates a more equitable property tax structure within Travis County. It also allows the possibility of future expansion of the tax base to surrounding counties in order to support regional trauma and indigent health care. The City of Austin reduced the fiscal year 2005 property tax rate in proportion to the amount of services that were transferred to the District. Under applicable State law, the property tax rate of the District cannot exceed $0.25 per $100 assessed valuation per State legislation.

The District has assumed the City's lease agreement with the Daughters of Charity to operate Brackenridge Hospital, as well as the City's agreement with the University of Texas Medical Branch at Galveston to operate the Austin Women's Hospital. The City will continue to operate the FQHC clinic facilities through an interlocal agreement approved by the District. In order to ensure the future financial viability of the newly created district, the City contributed $10.7 million toward the establishment of the District's financial reserves.

The City's SMART™ Housing Program is being recognized nationally as an innovative best practice for increasing the supply of affordable, adaptable and accessible housing units. In fiscal year 2004, approximately 4,834 units were certified and 1,612 units were completed. Of these units completed, 82% were reasonably priced and all units met Green Building, accessibility, visitability and transit-oriented standards. Recently, the City's Neighborhood and Community Development Department was awarded a National Award of Excellence for their affordable housing project, Lyons Gardens. The award was given on behalf of the National Community Development Association (NCDA).

Utility Projects

Austin Energy, the City's electric utility, continues to prepare for possible deregulation. Deregulation allows Texas residents and businesses served by utilities participating in deregulation to choose the supplier from which they purchase their electricity. The local electric utility continues to deliver the electricity. Deregulation began in Texas on January 1, 2002 for all private electric utilities. These utilities, owned by stockholders, are called investor-owned utilities (IOUs). Electric cooperatives (Co-ops) and city-owned electric utilities (called municipally owned utilities or MOUs) such as Austin Energy can participate, or "opt-in," by a vote of their board or City Council. Once the City Council votes to participate in deregulation, it cannot later withdraw. The City has not "opted-in", but does continue to prepare for that possibility.

Standard & Poor's raised its ratings on the following utility revenue bonds:

Type	Previous	Revised
Combined Utility System:		
Prior First Lien	A	A+
Prior Subordinate Lien	A-	A
Electric:		
Separate Lien	A-	A
Water and Wastewater:		
Separate Lien	A-	A

The upgrade was based on a demonstrated trend of financial performance and risk management, while reducing indebtedness and managing a large capital plan.

Austin Energy's Strategic Plan was adopted by Council in December 2003 and sets a national standard for renewable energy and energy efficiency. Among Austin Energy's numerous awards for leadership in this area is the 2004 Green Power Program of the Year given by the Environmental Protection Agency and the Department of Energy. In addition, Austin Energy received the U.S. Green Building Public Sector Leadership Award given by the U.S. Green Building Council in November 2003.

In January 2005, Austin Energy announced it was doubling the capacity of its renowned clean power program, GreenChoice. With the additional capacity, Austin Energy is on track to achieve its goal of generating 20 percent of Austin's electricity needs from renewables by the year 2020. The Austin Independent School District subscribes to 45-million kWh annually, the largest green power subscription by any public school system in the nation.

Austin Water Utility has launched the Austin Clean Water Program. The Program is the result of a mandate from the U.S. Environmental Protection Agency to eliminate overflows from the City's wastewater collection system by the end of 2007. The cost to complete this program is estimated to be $150 million. The Water Utility remains on schedule to complete the necessary requirements.

Status of City Services

The vision of the City of Austin 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 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 is high, although neighborhood policing and traffic enforcement rank very low as compared to other public safety services. The City's parks program has seen a significant increase in the number of participants in 2004; residents are generally satisfied with the services of the Parks and Recreation Department. Overall, the City had a significant improvement in the level of satisfaction with all customer services provided by City staff. Two areas of continuing dissatisfaction are traffic and the repair of City streets.

The top issues of importance to Austin residents are:

- Traffic issues (congestion, flow, planning, etc.)
- Tax related issues (too high, too many, etc.)
- Growth management (speed, planning, zoning, etc.)
- Economic issues (protection, conservation, control, balance, etc.)
- Roadway development (planning, maintenance, inconvenience, etc.)

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

Employment by Industry in the Austin Metropolitan Area (a)

Employment Characteristics

Industrial Classification	1990	% of Total	2000	% of Total	2003	% of Total	2004	% of Total	May 31, 2005	% of Total
Manufacturing	49,300	12.9%	84,662	12.9%	60,483	9.1%	57,000	8.7%	57,500	8.4%
Government	110,400	28.8%	137,171	20.9%	148,433	22.3%	144,900	22.0%	150,800	22.0%
Trade, transportation & utilities	90,500	23.6%	171,771	26.2%	113,183	17.0%	114,200	17.3%	138,100	20.2%
Services and miscellaneous	97,200	25.3%	190,048	28.9%	265,342	40.0%	263,800	40.0%	258,500	37.8%
Finance, insurance and real estate	23,400	6.1%	32,031	4.9%	37,850	5.7%	40,900	6.2%	40,300	5.9%
Natural resources, mining & construction	12,700	3.3%	40,487	6.2%	38,784	5.9%	38,700	5.8%	39,300	5.7%
Total	383,500	100.0%	656,170	100.0%	664,075	100.0%	659,500	100.0%	649,800	100.0%

(a) Austin-San Marcos MSA includes Travis, Bastrop, Caldwell, Hays and Williamson Counties. Information is updated periodically, data contained herein is the latest provided. Numbers for 2005 are an estimate based on Texas Workforce Commission, Bureau of Labor Statistics and U.S. Department of Labor data as of May 31, 2005.

Source: 2004 Comprehensive Annual Financial Report, Texas Workforce Commission.

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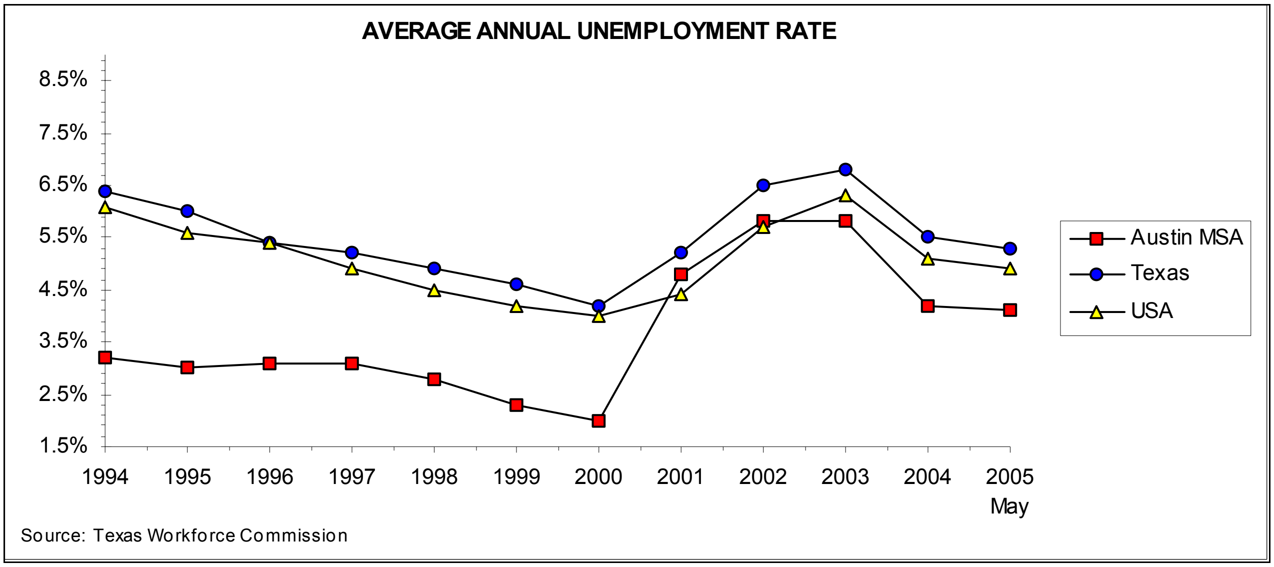
Average Annual Unemployment Rate



	Austin MSA	Texas	U.S.
1994	3.2%	6.4%	6.1%
1995	3.0%	6.0%	5.6%
1996	3.1%	5.4%	5.4%
1997	3.1%	5.2%	4.9%
1998	2.8%	4.9%	4.5%
1999	2.3%	4.6%	4.2%
2000	2.0%	4.2%	4.0%
2001	4.8%	5.2%	4.4%
2002	5.8%	6.5%	5.7%
2003	5.8%	6.8%	6.3%
2004	4.2%	5.5%	5.1%
2005 May	4.1%	5.3%	4.9%

Note:Information is updated periodically, data contained herein is latest provided.
Source: 2004 Comprehensive Annual Financial Report, Texas Workforce Commission.

City Sales Tax Collections (In Millions)

Period	Amount	Period	Amount	Period	Amount	Period	Amount	Period	Amount
1-1-01	$ 9.298	1-1-02	$ 8.723	1-1-03	$ 8.249	1-1-04	$ 8.883	1-1-05	$ 9.076
2-1-01	13.733	2-1-02	13.405	2-1-03	11.463	2-1-04	12.382	2-1-05	13.171
3-1-01	9.169	3-1-02	8.345	3-1-03	8.218	3-1-04	8.693	3-1-05	9.049
4-1-01	9.243	4-1-02	8.322	4-1-03	7.981	4-1-04	8.534	4-1-05	8.660
5-1-01	12.091	5-1-02	10.746	5-1-03	10.644	5-1-04	10.867	5-1-05	11.795
6-1-01	9.199	6-1-02	9.253	6-1-03	8.519	6-1-04	9.384	6-1-05	9.718
7-1-01	9.605	7-1-02	9.287	7-1-03	7.908	7-1-04	8.980	7-1-05	8.936
8-1-01	11.456	8-1-02	10.289	8-1-03	10.414	8-1-04	11.474		
9-1-01	9.279	9-1-02	8.695	9-1-03	8.510	9-1-04	9.157		
10-1-01	8.974	10-1-02	8.884	10-1-03	8.832	10-1-04	9.214		
11-1-01	10.260	11-1-02	10.157	11-1-03	10.686	11-1-04	11.340		
12-1-01	9.142	12-1-02	8.859	12-1-03	8.817	12-1-04	9.354		

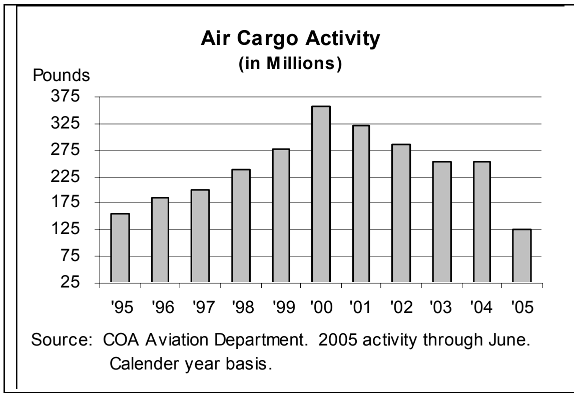
Source:City of Austin, Budget Office.

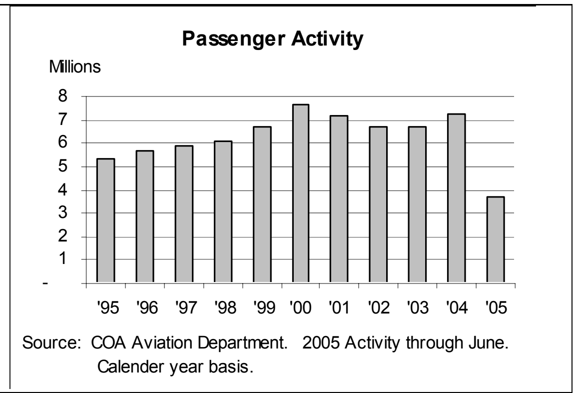
Ten Largest Employers (As of September 30, 2004)

Employer	Product or Service	Employees
The University of Texas at Austin	Education and Research	21,000
Dell Computer Corporation	Computers	16,500
Austin Independent School District	Education	10,714
City of Austin	City Government	10,617
Federal Government	Federal agency	10,200
Freescale Semiconductor, Inc.	Electronic Components	6,500
Seton Healthcare Network	Hospital	6,393
IBM Corporation	Office Machines	6,200
Texas State University – San Marcos	Education and Research	5,103
St. David's Healthcare Partnership	Hospital	5,000

Source: 2004 Comprehensive Annual Financial Report.

Transportation





Austin-Bergstrom International Airport

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

Rail facilities are furnished by Union Pacific and Longhorn Railway Company. Amtrak brought passenger trains back to the City in January 1973, as one of the infrequent stops on the Mexico City-Kansas City route. Bus service is provided by Greyhound and Kerrville Bus-Coach USA.

On January 19, 1985, the citizens of Austin and several surrounding areas approved the creation of a metropolitan transit authority ("Capital Metro") and adopted an additional one percent sales tax to finance a transit system for the area which was later reduced to three quarters of a percent, effective April 1, 1989. On June 12, 1995, the Capital Metro board approved an one quarter percent increase in the sales tax thus returning to one percent effective October 1, 1995.

The City of Austin's Austin-Bergstrom International Airport, which opened for passenger service on May 23, 1999, is served by eight major and six regional airlines with scheduled air service: American, America West (includes Mesa Airlines), Continental (includes Express Jet), Delta (includes SkyWest and Atlantic Southeast Airlines), Frontier (includes Frontier Express), Northwest (includes Pinnacle Air), Southwest, and United (includes SkyWest and Mesa,) Non-stop service is available to 33 U.S. destinations and 1 international destination.

Growth Indicators

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

Population

	Austin (1)		Travis County (1)		Texas (2)		United States (2)	
Year	Population	% Change	Population	% Change	Population	% Change	Population	% Change
1950	132,459	50.6%	160,980	45.0%	7,711,194	20.2%	151,326,000	14.5%
1960	186,545	40.8%	212,136	31.8%	9,579,677	24.2%	179,323,000	18.5%
1970	253,539	35.9%	295,516	39.3%	11,198,655	16.9%	203,302,000	13.4%
1980	345,496	36.3%	419,573	42.0%	14,228,383	27.1%	222,100,000	9.3%
1990	450,830	0.2%	576,407	0.5%	16,986,510	-2.7%	249,632,692	0.8%
1991	466,530	3.5%	585,731	1.6%	17,349,000	2.1%	252,177,000	1.0%
1992	474,715	1.8%	594,560	1.5%	17,615,745	1.5%	255,020,000	1.1%
1993	478,254	0.8%	600,427	1.0%	17,805,566	1.1%	257,592,000	1.0%
1994	507,468	6.1%	636,991	6.1%	18,291,000	2.7%	261,212,000	1.4%
1995	523,352	3.1%	656,979	3.1%	18,724,000	2.4%	262,755,000	0.6%
1996	541,889	3.5%	681,654	3.8%	19,128,000	2.2%	265,410,000	1.0%
1997	560,939	3.5%	703,717	3.2%	19,439,337	1.6%	267,792,000	0.9%
1998	608,214	8.4%	725,669	3.1%	19,759,614	1.7%	271,685,044	1.5%
1999	619,038	1.8%	744,857	2.6%	20,044,141	1.4%	272,690,813	0.4%
2000	628,667	1.6%	749,426	0.6%	20,044,141	0.0%	272,690,813	0.0%
2001	661,639	5.2%	837,206	11.7%	20,851,820	4.0%	281,421,906	3.2%
2002	671,044	1.4%	848,484	1.4%	21,779,893	4.5%	288,368,698	2.5%
2003	674,719	0.6%	865,497	2.0%	22,118,509	1.6%	290,809,777	0.9%
2004	683,551	1.3%	882,806	2.0%	22,490,022	1.7%	293,655,404	1.0%

(1) All years are estimates from the City's Neighborhood Planning and Zoning Department based on full purpose area as of December 31. Census years are modified to conform to U.S. Bureau of the Census data.

(2) U.S. Bureau of the Census official estimates as of July 31.

Connections and Permits

	Utility Connections			Building Permits		
Year	Electric	Water	Gas	Taxable	Federal, State and Municipal	Total
1990	275,840	137,936	111,114	$ 309,999,799	$48,312,493	$ 358,312,292
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

Source:2004 Comprehensive Annual Financial Report.

Wealth and Income Indicators

The Austin-Round Rock MSA compares favorably with both the state and the nation in per capita effective buying income (EBI), and per capita retail sales.

Effective Buying Income and Retail Sales

Area	Median Household EBI	Per Capita EBI	% of Households by EBI Group* A	B	C	D	Per Capita Retail Sales
City of Austin	$39,227	$21,487	21.2%	23.1%	18.7%	37.0%	$34,778
Austin-Round Rock MSA	45,171	21,873	17.2%	20.1%	18.7%	44.0%	24,864
Texas	37,554	17,796	23.4%	23.2%	18.3%	35.1%	14,246
USA	38,201	18,662	22.4%	23.3%	19.0%	35.4%	13,336

*Group A, $0 - $19,999 Group B, $20,000 - 34,999 Group C, $35,000 - 49,999 Group D, $50,000 and over
Source: 2004 Survey of Buying Power, Sales and Marketing Management.

Housing Units

The average two-bedroom apartment in the Austin MSA was $811 per month, with an occupancy rate of 92.7% for the second quarter 2005.

Residential Sales Data

Year	Number of Sales	Total Volume	Average Price
1992	8,503	$ 887,249,588	$104,345
1993	9,926	1,139,100,456	114,759
1994	10,571	1,272,585,426	120,385
1995	11,459	1,439,915,043	125,658
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	22,481	4,472,756,853	198,957
2005 May	9,613	1,973,088,492	205,252

Note:Information is updated periodically, data contained herein is latest provided.
Source: Real Estate Center at Texas A&M University.

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City-Wide Austin Office Occupancy Rate

Year	Occupancy Rate
1992	82.6%
1993	86.3%
1994	87.9%
1995	88.4%
1996	92.2%
1997	94.7%
1998	93.4%
1999	92.8%
2000	96.0%
2001	81.2%
2002	77.0%
2003	76.7%
2004 (4th Quarter)	80.8%

Source:Colliers Oxford Commercial Research Services and Trammell Crow Company.

Education

The Austin Independent School District had an enrollment of 78,892 for the fourth six-weeks of the 2005 school year. This reflects an increase of 2.0% in enrollment from the end of the 2004 school year. The District includes 107 campus buildings.

School Year	Average Daily Membership	Average Daily Attendance
1989/90	63,887	60,835
1990/91	65,952	62,632
1991/92	67,063	63,267
1992/93	68,712	63,817
1993/94	70,665	66,086
1994/95	72,298	67,706
1995/96	73,795	68,953
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 (1)	78,892	73,842

(1)Fourth Six Weeks.
Source:Austin Independent School District.

The following institutions of higher education are located in the City: The University of Texas, 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 an enrollment of 50,377 for the fall semester of 2004 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 $2.750 billion in 2003. There are more than 23,000 hotel rooms available within the Austin Metropolitan Area, as of September 2003. The substantial increase in supply of rooms contributed to decreasing occupancy rates in the last three years. Through the first three quarters of 2003 the citywide occupancy rate for the Austin area was 57.5 percent, with an average room rate of $83.75.

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 Opera House. The Texas Exposition and Heritage Center offers 6,000 seat arena seating and 20,000 square feet of banquet/exhibit hall facilities. The Austin Opera House has a concert seating capacity of 1,700 and 9,000 square feet of exhibit space.

APPENDIX B

EXCERPTS FROM THE ANNUAL FINANCIAL REPORT

111 Congress Avenue
Suite 1100
Austin, TX 78701

R. Mendoza & Company, P.C.
Certified Public Accountants
2211 South I.H.35, Suite 410
Austin, TX 78741

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and
Members of the City Council,
City of Austin, Texas:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Austin, Texas ("City"), as of and for the year ended September 30, 2004, which collectively comprise the City's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 23, 2005 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

As described in note 1e, the City has implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures,* as of September 30, 2004.

The Management's Discussion and Analysis on pages 3 through 14 and the General Fund Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Budget Basis on pages 100 through 101 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

R. Mendoza & Company, P.C.

Austin, Texas
February 23, 2005

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The Management's Discussion and Analysis (MD&A) section of the City of Austin's (the City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

The financial statements are presented in conformance with the Governmental Accounting Standards Board Statement No. 1 through Statement No. 41. During the current fiscal year, the City implemented GASB Statement No. 40, *"Deposit and Investment Risk Disclosures"*. GASB Statement No. 40 addresses disclosure of certain deposit and investment risks, including credit risk, interest risk and foreign currency risk.

FINANCIAL HIGHLIGHTS

Government-wide financial statements

The assets of the City exceeded its liabilities at the end of the fiscal year 2004, resulting in $3.7 billion of net assets. Net assets associated with governmental activities are approximately $1.4 billion, or 39% of the total net assets of the City. Net assets associated with business-type activities are approximately $2.2 billion, or 61% of the total net assets of the City. The largest portion of net assets consists of investment in capital assets, net of related debt, which is $2.9 billion, or 79% of total net assets.

Unrestricted net assets, which may be used to meet the City's future obligations, consist of $528 million, or 14% of the City's total net assets. Unrestricted net assets for governmental activities are approximately $51 million, or 4% of total net assets for governmental activities; unrestricted net assets for business activities are approximately $477 million, or 21% of total net assets for business-type activities.

Total net assets for the City of Austin increased $36.7 million, or 1% during fiscal year 2004. Of this amount, governmental activities increased $90.4 million, or 6.7% from the previous year and business-type activities decreased $53.7 million, or 2.3% from the previous year.

Total revenues for the City decreased $104.2 million; revenues for governmental activities decreased $584 thousand; revenues for business-type activities decreased $103.7 million. Total expenses for the City increased $89.8 million; expenses for governmental activities decreased $25.6 million; expenses for business-type activities increased $115.4 million.

In fiscal year 2004, the ending fund balance for the General Fund increased $13 million, or 14%. Unreserved fund balance increased $12.7 million, or 14.4%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, consisting of three components:

- government-wide financial statements,
- fund financial statements and
- notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements, including information on individual funds.

a -- Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner comparable to a private-sector business. The two government-wide financial statements are, as follows:

- The ***Statement of Net Assets*** presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Austin is improving or deteriorating.

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

- The ***Statement of Activities*** presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues for uncollected taxes and expenses for future general obligation debt payments. The statement includes the annual depreciation for infrastructure and governmental assets.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government; public safety; transportation, planning and sustainability; public health; public recreation and culture; and urban growth management. The business-type activities of the City include electric utility, water, wastewater, airport, convention and others.

The government-wide financial statements include the City as well as blended component units: the Austin Housing Finance Corporation (AHFC) and the Austin Industrial Development Corporation (AIDC). The operations of AHFC and AIDC are included within the governmental activities of the government-wide financial statements. AHFC is reported as the Housing Assistance Fund. Although legally separate from the City, these component units are blended with the City because of their governance or financial relationships to the City.

b -- Fund Financial Statements
The fund financial statements are designed to report information about groupings of related accounts which are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following three categories: governmental, proprietary and fiduciary funds. Within the governmental and proprietary categories, the emphasis is on the major funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in governmental funds, which focus on how cash and other financial assets can readily be converted to available resources and on the available balances remaining at year-end. This information may be useful in determining what financial resources are available in the near future to finance the City's future obligations. Other funds are referred to as nonmajor funds and are presented as summary data.

Because the focus of governmental fund level statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented in the government-wide statements. In addition to the governmental fund balance sheet and statement of revenues, expenditures and changes in fund balance, separate statements are provided that reconcile between the government-wide and fund level statements.

The City's General Fund is considered a major fund and information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures and changes in fund balances. In addition, the City maintains several individual governmental funds organized according to their type (special revenue, debt service, capital projects and permanent funds). Data from these governmental funds are combined into a single column labeled nonmajor governmental funds. Individual fund data for the funds are provided in the form of combining statements in the supplementary section of this report.

Proprietary funds. Proprietary funds are generally used to account for services for which the City charges customers —either outside customers or internal units or departments of the City. Proprietary fund statements provide the same type of information as shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the City's three major funds, Electric, Water and Wastewater and Austin-Bergstrom International Airport (Airport), as well as the nonmajor enterprise funds.

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

- Internal Service funds are used to report activities that provide supplies and services for many City programs and activities. The City's internal service funds include: Capital Projects Management, Employee Benefits, Fleet Maintenance, Information Systems, Liability Reserve, Support Services, Wireless Communication and Workers' Compensation. Because these services benefit governmental operations more than business-type functions, they have been included in governmental activities in the government-wide financial statements.

The nonmajor enterprise funds and the internal service funds are combined into two aggregated presentations in the proprietary fund financial statements. Individual fund data for the funds are provided in the form of combining statements in the supplementary section of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Since the resources of fiduciary funds are not available to support the City's own programs, they are not reflected in the government-wide financial statements. The accounting policies applied to fiduciary funds are much like those used for proprietary funds.

Comparison of Government-wide and Fund Financial Components. The following chart compares how the City's funds are included in the government-wide and fund financial statements:

Fund Types / Other	Government-wide	Fund Financials
General Fund	Governmental	Governmental
Special revenue funds	Governmental	Governmental - Nonmajor
Debt service funds	Governmental	Governmental - Nonmajor
Capital project funds	Governmental	Governmental - Nonmajor
Permanent funds	Governmental	Governmental - Nonmajor
Internal service funds	Governmental	Proprietary
Assets previously reported in General Fixed Asset Group	Governmental	Excluded
Infrastructure assets	Governmental	Excluded
Liabilities previously reported in General Long-Term Debt Group	Governmental	Excluded
Electric	Business-type	Proprietary
Water and wastewater	Business-type	Proprietary
Airport	Business-type	Proprietary
Other enterprise funds	Business-type	Proprietary - Nonmajor
Fiduciary funds	Excluded	Fiduciary

Basis of Reporting - The government-wide statements and fund-level proprietary statements are reported using the flow of economic resources measurement focus and the full accrual basis of accounting. The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

c -- Notes to the Financial Statements
The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

d -- Other Information
The section Required Supplementary Information (RSI) immediately follows the basic financial statements section of this report. The City adopts an annual appropriated budget for the General Fund. The RSI provides a comparison to budget and demonstrates budgetary compliance. Following the RSI are other statements and schedules, including the combining statements for nonmajor governmental and enterprise funds, internal service funds and fiduciary funds.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

a -- Net Assets
The following table reflects a summary of Net Assets compared to prior year (in thousands):

Net Assets
as of September 30
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**
Current assets	$ 498,993	529,203	934,090	1,073,730	1,433,083	1,602,933
Capital assets	2,032,289	1,868,710	5,174,870	4,965,869	7,207,159	6,834,579
Other noncurrent assets	3,233	3,138	624,169	701,942	627,402	705,080
Total assets	2,534,515	2,401,051	6,733,129	6,741,541	9,267,644	9,142,592
Current liabilities	207,830	198,161	416,793	384,841	624,623	583,002
Noncurrent liabilities	888,181	854,763	4,072,592	4,059,289	4,960,773	4,914,052
Total liabilities	1,096,011	1,052,924	4,489,385	4,444,130	5,585,396	5,497,054
Net assets:						
Invested in capital assets, net of related debt	1,333,779	1,204,877	1,569,489	1,505,479	2,903,268	2,710,356
Restricted	53,481	100,469	197,174	216,459	250,655	316,928
Unrestricted	51,244	42,781	477,081	575,473	528,325	618,254
Total net assets	$ 1,438,504	1,348,127	2,243,744	2,297,411	3,682,248	3,645,538

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by $3.7 billion at the end of the current fiscal year. However, the largest portion of the City's net assets are invested in capital assets, net of related debt (e.g. land, building, and equipment), which are $2.9 billion, or 79% of the total amount of the City's net assets. The City uses these capital assets to provide services to citizens. Capital assets are generally not highly liquid; consequently, they are not considered future available resources. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion, $251 million of the City's net assets, represents resources that are subject to external restrictions on how they may be used in the future. The remaining balance, $528 million of unrestricted net assets, may be used to meet the government's future obligations.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole, as well as for governmental and business-type activities separately.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

b -- Changes in Net Assets
Total net assets of the City increased by $36.7 million in the current year. Governmental net assets increased $90.4 million. The increase is attributable to total revenues exceeding program expenses by $58.8 million, transfers from other funds of $39.3 million and a payment in the amount of $7.7 million to the Travis County Hospital District. Business-type net assets decreased by $53.7 million, due to program expenses exceeding revenues by $11.4 million, a payment to the Travis County Hospital District in the amount of $3 million and transfers to other funds of $39.3 million.

Changes in Net Assets
September 30
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Program revenues:						
Charges for services	$ 74,661	75,469	1,279,565	1,368,616	1,354,226	1,444,085
Operating grants and contributions	52,068	55,122	--	--	52,068	55,122
Capital grants and contributions	2,546	3,956	47,570	48,325	50,116	52,281
General revenues:						
Property tax	240,536	233,130	--	--	240,536	233,130
Sales tax	117,725	110,454	--	--	117,725	110,454
Franchise fees and gross receipts tax	63,509	63,049	--	--	63,509	63,049
Grants and contributions not restricted to specific programs	81,937	94,210	--	--	81,937	94,210
Interest and other	26,799	24,975	16,582	30,430	43,381	55,405
Total revenues	659,781	660,365	1,343,717	1,447,371	2,003,498	2,107,736
Program expenses:						
General government	46,607	43,405	--	--	46,607	43,405
Public safety	292,678	292,411	--	--	292,678	292,411
Transportation, planning and sustainability	15,879	17,119	--	--	15,879	17,119
Public health	48,733	80,808	--	--	48,733	80,808
Public recreation and culture	56,408	58,199	--	--	56,408	58,199
Urban growth management	64,631	59,949	--	--	64,631	59,949
Unallocated depreciation expense - infrastructure	35,833	35,414	--	--	35,833	35,414
Interest on debt	40,199	39,296	--	--	40,199	39,296
Electric	--	--	774,702	754,393	774,702	754,393
Water	--	--	155,472	130,119	155,472	130,119
Wastewater	--	--	137,227	115,284	137,227	115,284
Airport	--	--	77,541	79,558	77,541	79,558
Convention	--	--	52,336	40,621	52,336	40,621
Other	--	--	157,842	119,763	157,842	119,763
Total expenses	600,968	626,601	1,355,120	1,239,738	1,956,088	1,866,339
Excess before special items and transfers	58,813	33,764	(11,403)	207,633	47,410	241,397
Special items - hospital district reserve	(7,700)	--	(3,000)	--	(10,700)	--
Transfers	39,264	66,926	(39,264)	(66,926)	--	--
Increase (decrease) in net assets	90,377	100,690	(53,667)	140,707	36,710	241,397
Beginning net assets	1,348,127	1,247,437	2,297,411	2,156,704	3,645,538	3,404,141
Ending net assets	$ 1,438,504	1,348,127	2,243,744	2,297,411	3,682,248	3,645,538

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

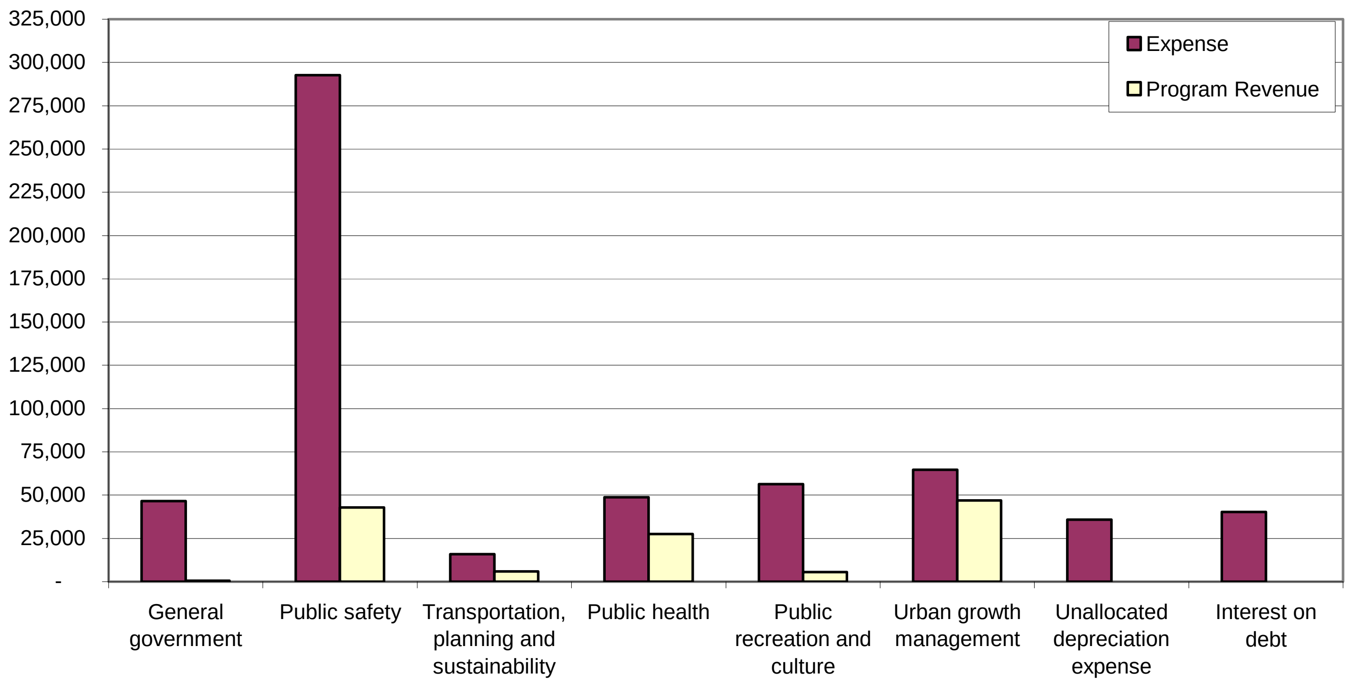
c -- Program Revenues and Expenses -- Governmental Activities

Governmental activities increased the City's net assets by $90.4 million in fiscal year 2004, a 6.7% increase of governmental net assets from the previous year. Key factors of this increase are as follows:

- The City's property tax revenue increased by $7.4 million from the previous year, as a result of an increase in the City's tax rate from 45.97 cents to 49.28 cents per $100 valuation. The total assessed valuation of real and personal property in the City had a negative growth rate of 3.5%.
- Sales tax revenue increased $7.3 million from the previous year, an increase of 6.6%.
- Grants and contributions not restricted to specific programs decreased by $12 million, primarily as a result of lower intergovernmental revenues. Grants and contributions restricted to specific programs decreased $4.5 million.
- Governmental expenses decreased $25.6 million, largely due to the transfer of the certain indigent health care costs from the Public Health program in governmental activities to the Primary Care Fund, which is a business-type activity. However, the reduction in expenses was offset by an increase of transfers to other funds in order to provide the funding source for these services.

The chart below illustrates the City's governmental expense and revenues by function: general government; public safety; transportation, planning and sustainability; public health; public recreation and culture; urban growth management; unallocated depreciation expense and interest on debt.

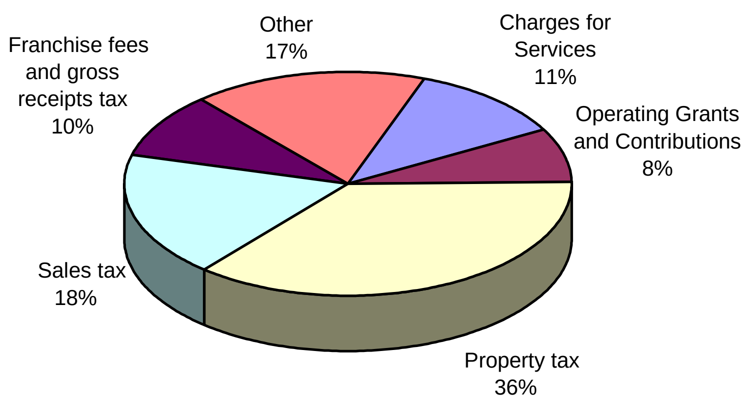
Government-wide Program Expenses and Revenues – Governmental Activities
(in thousands)



FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

General revenues such as property taxes, sales taxes and franchise fees are not shown by program, but are used to support all governmental activities. Property taxes are the largest source of general governmental revenues, followed by sales taxes and charges for services.

Government-wide Revenues by Source -- Governmental Activities



d -- Program Revenues and Expenses -- Business-type activities

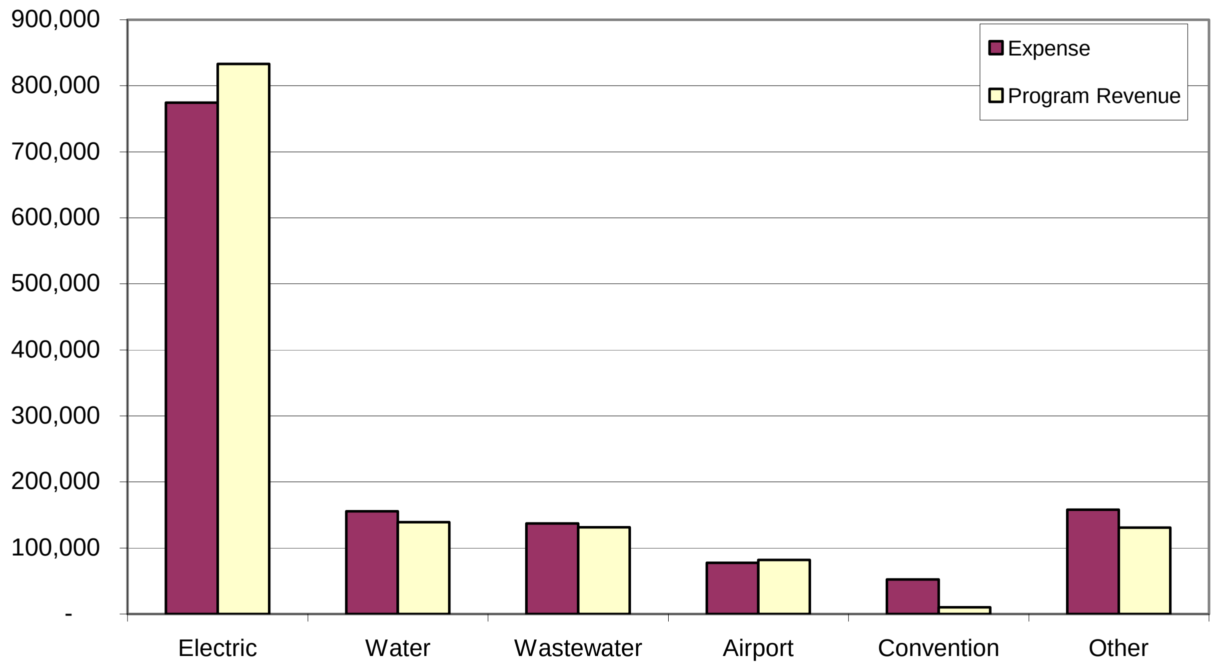
Business-type activities decreased the City's net assets by $53.7 million, accounting for a 1.5% decrease in the City's total net assets and a 2.3% decrease in business-type net assets. Key factors include:

- Electric net assets decreased $6 million. The decrease is due primarily to the recognition of $66 million previously reported as deferred depreciation. The expense recognition was required as a result of a bond defeasance and the resulting principal payment associated with the defeasance. Revenue decreased approximately 10% from the previous year due to mild weather conditions and lower fuel cost; expenses decreased by 7% from the previous year due to lower fuel costs.
- Water and Wastewater net assets decreased $43 million. The decrease is due primarily to the recognition of $38 million previously reported as deferred depreciation. The expense recognition was required as a result of a bond defeasance and the resulting principal payment associated with the defeasance. Water revenue decreased by $11.2 million from the previous year due to wetter than normal weather and reduced industrial demand.
- Airport net assets increased $6 million. Revenues increased due to an increase in passenger traffic, which was 8% higher than the previous calendar year. Expenses decreased as a result of cost containment.
- Convention net assets decreased $19 million. Revenues were 31% less than the previous year due to reduced business activity for convention space and event cancellations. Expenses increased $12 million from the previous year due to the recognition of economic development costs.
- Other business-type net assets increased by $8 million, primarily as a result of increased revenues in the Drainage Fund.

As shown in the following chart, the Electric utility, with expenses of $775 million, is the City's largest business-type activity, followed by Water ($155 million), Wastewater ($137 million), Airport ($78 million) and Convention ($52 million). For fiscal year 2004, operating revenues exceeded operating expenses for all business-type activities, except Water, Wastewater, Convention and other business-type activities. Within other business-type activities, only Hospital and Primary Care operating expenses exceeded operating revenues.

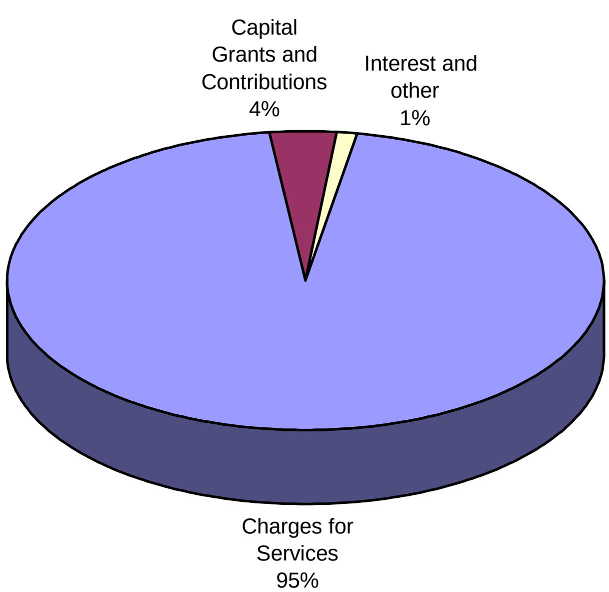
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

Government-wide Expenses and Program Revenues -- Business-type Activities
(Excludes General Revenues and Transfers)
(in thousands)



For all business-type activities, charges for services provide the largest percentage of revenues (95%), followed by capital grants and contributions (4%) and interest and other revenues (1%).

Government-wide Revenue by Source – Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND LEVEL STATEMENTS

In comparison to the government-wide statements, the fund-level statements focus on the key funds of the City. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

a -- Governmental funds

The City reports the following types of governmental funds: the General Fund, special revenue funds, debt service funds, capital project funds and permanent funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows and available resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available at the end of the fiscal year.

At the end of the year, the City of Austin's governmental funds reported combined ending fund balances of $309 million, a decrease of $36 million from the previous year. Approximately $206 million represents unreserved ending balance, which is available for future use. The remainder of fund balance is reserved and only available for commitments for the purchase of goods and services, receivables, property held for resale and certain debt service amounts. Reserved fund balance decreased $24.3 million in comparison to the prior year, primarily due to a decrease in the reservation for encumbrances of $26.7 million.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was $100.8 million, while total fund balance was $106 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 25% of total General Fund expenditures of $405 million, and total fund balance represents 26% of expenditures. The unreserved and undesignated fund balance of the General Fund is $48 million, which may be designated by City Council for specified uses for the future.

The General Fund fund balance increased by $13 million during the fiscal year; undesignated fund balance increased by $12.7 million. Significant differences from the previous year include:

- $17 million increase in revenues, primarily from property taxes, sales tax and rental income.
- Decrease of $28 million in expenditures, due primarily to the transfer of certain indigent health care costs to the Primary Care Fund, a nonmajor enterprise fund.
- $28 million increase in transfers out, to fund the indigent health care costs mentioned above.

b -- Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Overall, net assets of the City's enterprise funds, including consolidation of the internal service funds activities, decreased by $53.7 million.

Factors that contributed to the decrease in net assets are discussed in the business-type activities section of the government-wide section.

OTHER INFORMATION

a -- General Fund budgetary highlights

The original budget of the General Fund was amended twice during fiscal year 2004 by $1.3 million for increased public safety costs offset by a decrease to transfers out to other funds and a decrease in expenditures for Municipal Court.

During the year, revenues were $12.6 million more than budgeted. An increase in sales tax collections and rental income was the primary cause of the difference.

Expenditures were $8.7 million less than budgeted. Public safety accounted for approximately $6.9 million of the difference, with Police consisting of $5 million of this amount. Transfers out were approximately $1.8 million less than budgeted. The budget was not formally amended to reflect any cost containment actions. The total fund balance at year-end amounted to $52.5 million, which was $27.3 million higher than budgeted.

b -- Capital Assets

The City's capital assets for governmental and business-type activities as of September 30, 2004, total $7.2 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, equipment, vehicles, infrastructure, assets not classified, construction work in progress, nuclear fuel and plant held for future use. The total increase in the City's capital assets for the current fiscal year was $372 million (5 percent), with an increase of almost 9 percent for governmental activities and an increase of 4 percent for business-type activities. Additional information on capital assets can be found in Note 7. Capital asset balances are as follows:

Capital Assets, Net of Accumulated Depreciation
September 30
(in millions)

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land and improvements	$ 233	195	280	270	513	465
Other assets not depreciated	18	18	1	1	19	19
Building and improvements	260	226	1,402	1,355	1,662	1,581
Equipment	33	26	2,546	2,270	2,579	2,296
Vehicles	32	36	37	36	69	72
Infrastructure	1,009	919	--	--	1,009	919
Completed assets not classified	120	95	180	320	300	415
Construction work in progress	327	354	680	661	1,007	1,015
Nuclear fuel, net of amortization	--	--	18	22	18	22
Plant held for future use	--	--	31	31	31	31
Total net assets	$ 2,032	1,869	5,175	4,966	7,207	6,835

Major capital asset events during the current fiscal year include the following:

- Governmental capital assets increased $163 million. Included in this increase were $90 million in infrastructure additions, $27 million in Parkland purchases and improvements, $6 million for the St. John's Joint Use Facility and $6 million for the City's investment in the Combined Emergency Center.
- Business-type activities purchased or completed construction on capital assets of $357 million. The Electric Fund added $291 million in plant and equipment expansions or improvements to existing facilities, including the Sandhill combined cycle plant competed for $169 million. The Water and Wastewater Fund increased capital assets by $46 million, including approximately $28 million of costs associated with the Austin Clean Water Program.

OTHER INFORMATION, continued

c -- Debt Administration

At the end of the current fiscal year, the City reported $4.3 billion in outstanding debt. The table below reflects the outstanding debt at September 30. Additional information can be found in Note 10.

Outstanding Debt
General Obligation and Revenue Debt
(in millions)

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
General obligation bonds and other tax supported debt, net	$ 863	830	104	79	967	909
Commercial paper notes	--	--	316	128	316	128
Revenue notes	--	--	28	28	28	28
Revenue bonds, net	--	--	2,983	3,218	2,983	3,218
Capital lease obligations	1	1	13	15	14	16
Total	$ 864	831	3,444	3,468	4,308	4,299

During fiscal year 2004, the City's total outstanding debt increased by $9 million. The City issued new debt and refinanced portions of existing debt to take advantage of lower borrowing costs. Debt issues include the following:

- Bond debt for governmental activities increased $33 million, and will be used primarily for street improvements, right of way acquisition and utility relocation, parks and recreation facilities, emergency centers and a court settlement agreement.
- Outstanding debt for business-type functions decreased $24 million due to the payment of existing debt. In 2004, new debt was issued primarily for the Convention Center garage; closed landfill remediation; communications technology upgrades; and capital equipment and vehicles. The City issued Water and Wastewater separate lien refunding bonds to refund commercial paper; Airport prior lien revenue refunding bonds were issued to refund revenue bonds; and Convention Center hotel occupancy tax revenue refunding bonds were issued to refund revenue bonds. In addition Electric, Water and Wastewater reduced both utilities' long-term debt through a defeasance of combined utility system revenue bonds.

The general obligation bond ratings remained unchanged while the revenue bond ratings were upgraded during the year. Ratings at September 30, 2004 of the City's obligations for various debt instruments are as follows:

Debt	Moody's Investors Service, Inc	Standard and Poor's	Fitch, Inc.
General obligation bonds and other tax supported debt	Aa2	AA+	AA+
Commercial paper notes	P-1	A-1	F1+
Utility revenue bonds - prior lien	A2	A+	A+
Utility revenue bonds - subordinate lien	A2	A	A+
Utility revenue bonds - separate lien:			
Electric	A3	A	A+
Water and Wastewater	A2	A	A+
Airport system revenue bonds	NUR (1)	A-	NUR (1)
Airport variable rate bonds	P-1	NUR (1)	NUR (1)

(1) No underlying rating

OTHER INFORMATION, continued

d -- Economic Factors and Next Year's Budget and Rates

The local economy appears to have turned the corner, with job growth and local sales tax revenues increasing after a long decline. The forecast for the upcoming year indicates the City is poised to continue its trend of economic improvement, as consumer spending, tourism and job growth are predicted to show continuing increases over the next several years. Nationwide, the U.S. economy continues to grow with a steady increase in the Gross Domestic Product occurring for each quarter during 2004. Predictions indicate that the U.S. economy will continue to improve.

Due to the economic downturn in 2002 and 2003, the City has emerged as a smaller organization than the previous year. New service models were developed during the budget reduction years to maintain current service levels with reduced resources. Examples include the One Stop Shop and 311 Call Center. Structural soundness was achieved in the General Fund in fiscal year 2004, due to revenues exceeding expenditures; i.e., more resources came in than were spent. This was due to a continued policy of cost containment, better than expected revenue and City management's continuing initiative of managing current and future cost drivers.

For the upcoming 2005 budget, the City will continue to leverage and develop efficiencies in the manner it delivers services to citizens. It will be a continual challenge to maintain the level of service citizens are accustomed to receiving, in addition to managing the demand and expectations of service enhancements as economic conditions begin to improve. Although indications are favorable that the Austin area economy will continue to improve, several key factors could have a significant impact to the economic climate. A downturn in the U.S. economy, including higher-than anticipated inflation or fast-rising oil and fuel prices, could have a significant negative impact to the local economy. The City will continue to monitor the State legislative budget process to assess the impact of any enacted legislative laws that could adversely affect the City. City management will continue to view the economic recovery in a conservative manner and will be prepared to take any corrective actions to help mitigate unfavorable economic events.

The assessed valuation within the City increased by 2% for fiscal year 2005. The property tax rate for fiscal year 2005 is 44.3 cents per $100 valuation, which is the effective tax rate of 50.65 cents reduced by 6.35 cents for the services transferred from the City to the Travis County Hospital District. The tax rate consists of 27.47 cents for the General Fund, 16.83 cents for debt service. Each 1 cent of the property tax rate is equivalent to $4,994,185 of tax levy, as compared to $4,896,428 for the previous year. Rate increases for the Water and Wastewater Fund are: 9.2% for Water, 14.7% for Wastewater, for a combined increase of 11.8%.

e -- Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Financial and Administrative Services Department of the City of Austin, P.O. Box 1088, Austin, Texas 78767, or (512) 974-3344 or on the web at http://www.ci.austin.tx.us/controller/.

(In thousands)

	Governmental Activities	Business-type Activities	2004 Total (†)
ASSETS			
Current assets:			
Cash	$ 111	55	166
Pooled investments and cash	373,013	88,354	461,367
Pooled investments and cash - designated	--	27,591	27,591
Pooled investments and cash - restricted	--	275,255	275,255
Total pooled investments and cash	373,013	391,200	764,213
Investments, at fair value - designated	13,477	105,135	118,612
Investments, at fair value - restricted	--	158,725	158,725
Cash held by trustee	3,781	--	3,781
Cash held by trustee - restricted	--	8,259	8,259
Working capital advances	--	3,456	3,456
Property taxes receivable	11,331	--	11,331
Less allowance for uncollectible taxes	(1,482)	--	(1,482)
Net property taxes receivable	9,849	--	9,849
Accounts and other taxes receivable	158,171	183,979	342,150
Less allowance for doubtful accounts	(84,063)	(8,264)	(92,327)
Net accounts receivable	74,108	175,715	249,823
Receivables from other governments	10,274	1,349	11,623
Receivables from other governments - restricted	--	944	944
Notes receivable, net of allowance	9,890	--	9,890
Internal balances	(3,458)	3,458	--
Internal balances - restricted	(2,907)	2,907	--
Inventories, at cost	2,358	55,441	57,799
Real property held for resale	6,598	--	6,598
Prepaid items	628	3,119	3,747
Other assets	1,271	24,158	25,429
Other receivables - restricted	--	169	169
Total current assets	498,993	934,090	1,433,083
Noncurrent assets:			
Investments, at fair value	--	65,000	65,000
Investments held by trustee - restricted	--	99,372	99,372
Interest receivable - restricted	--	911	911
Capital assets			
Land and other nondepreciable assets	250,649	281,736	532,385
Property, plant and equipment in service	2,061,643	6,470,604	8,532,247
Less accumulated depreciation	(607,422)	(2,305,707)	(2,913,129)
Net property, plant and equipment in service	1,454,221	4,164,897	5,619,118
Construction in progress	327,419	679,559	1,006,978
Nuclear fuel, net of amortization	--	17,933	17,933
Plant held for future use	--	30,745	30,745
Total capital assets	2,032,289	5,174,870	7,207,159
Intangible assets, net of amortization	--	87,602	87,602
Other long-term assets	--	1,354	1,354
Deferred costs and expenses, net of amortization	3,233	369,930	373,163
Total noncurrent assets	2,035,522	5,799,039	7,834,561
Total assets	$ 2,534,515	6,733,129	9,267,644

(†) After internal receivables and payables have been eliminated.

(Continued)

The accompanying notes are an integral part of the financial statements.

(In thousands)

	Governmental Activities	Business-type Activities	2004 Total (†)
LIABILITIES			
Current liabilities:			
Accounts payable	$ 22,855	59,452	82,307
Accounts and retainage payable from restricted assets	--	58,732	58,732
Accrued payroll	14,611	7,157	21,768
Accrued compensated absences	30,719	15,422	46,141
Due to other governments	7,700	3,000	10,700
Claims payable	18,595	--	18,595
Accrued interest payable from restricted assets	--	58,125	58,125
Interest payable on other debt	3,615	1,139	4,754
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	52,666	3,936	56,602
General obligation bonds payable and other tax supported debt payable from restricted assets, net of discount and inclusive of premium	--	5,751	5,751
Revenue bonds payable	--	2,035	2,035
Revenue bonds payable payable from restricted assets	--	141,915	141,915
Capital lease obligations payable	475	3,422	3,897
Customer and escrow deposits payable from restricted assets	--	13,030	13,030
Nuclear fuel expense payable from restricted assets	--	33,403	33,403
Deferred credits and other liabilities	56,594	10,274	66,868
Total current liabilities	207,830	416,793	624,623
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	39,737	4,688	44,425
Claims payable	8,845	--	8,845
Capital appreciation bond interest payable	--	166,868	166,868
Commercial paper notes payable, net of discount	--	315,616	315,616
Revenue notes payable	--	28,000	28,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	810,858	94,113	904,971
Revenue bonds payable, net of discount and inclusive of premium	--	2,839,548	2,839,548
Pension obligation payable	3,102	2,804	5,906
Capital lease obligations payable	338	9,331	9,669
Accrued landfill closure and postclosure costs	--	7,612	7,612
Decommissioning expense payable from restricted assets	--	100,019	100,019
Deferred credits and other liabilities	25,293	498,986	524,279
Other liabilities payable from restricted assets	8	5,007	5,015
Total noncurrent liabilities	888,181	4,072,592	4,960,773
Total liabilities	1,096,011	4,489,385	5,585,396
NET ASSETS			
Invested in capital assets, net of related debt	1,333,779	1,569,489	2,903,268
Restricted for:			
Debt service	12,351	108,112	120,463
Capital projects	39,720	66,687	106,407
Renewal and replacement	--	11,415	11,415
Passenger facility charges	--	8,537	8,537
Convention Center operating reserve	--	2,423	2,423
Perpetual Care:			
Expendable	370	--	370
Nonexpendable	1,040	--	1,040
Unrestricted	51,244	477,081	528,325
Total net assets	$ 1,438,504	2,243,744	3,682,248

(†) After internal receivables and payables have been eliminated.

The accompanying notes are an integral part of the financial statements.

Statement of Activities
For the year ended September 30, 2004
(In thousands)

City of Austin, Texas
Exhibit A-2

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**2004 Total**
Governmental activities							
General government	$ 46,607	210	376	--	(46,021)	--	(46,021)
Public safety	292,678	37,071	5,776	--	(249,831)	--	(249,831)
Transportation, planning and sustainability	15,879	5,027	362	439	(10,051)	--	(10,051)
Public health	48,733	7,617	17,720	2,107	(21,289)	--	(21,289)
Public recreation and culture	56,408	2,716	2,904	--	(50,788)	--	(50,788)
Urban growth management	64,631	22,020	24,930	--	(17,681)	--	(17,681)
Unallocated depreciation expense	35,833	--	--	--	(35,833)	--	(35,833)
Interest on debt	40,199	--	--	--	(40,199)	--	(40,199)
Total governmental activities	600,968	74,661	52,068	2,546	(471,693)	--	(471,693)
Business-type activities							
Electric	774,702	829,018	--	4,284	--	58,600	58,600
Water	155,472	119,254	--	19,902	--	(16,316)	(16,316)
Wastewater	137,227	114,710	--	16,593	--	(5,924)	(5,924)
Airport	77,541	75,916	--	6,117	--	4,492	4,492
Convention	52,336	10,404	--	--	--	(41,932)	(41,932)
Other	157,842	130,263	--	674	--	(26,905)	(26,905)
Total business-type activities	1,355,120	1,279,565	--	47,570	--	(27,985)	(27,985)
Total	$ 1,956,088	1,354,226	52,068	50,116	(471,693)	(27,985)	(499,678)

	Governmental Activities	Business-type Activities	2004 Total
General revenues:			
Property tax	240,536	--	240,536
Sales tax	117,725	--	117,725
Franchise fees and gross receipts tax	63,509	--	63,509
Grants and contributions not restricted to specific programs	81,937	--	81,937
Interest and other	26,799	16,582	43,381
Special items - hospital district reserve payment	(7,700)	(3,000)	(10,700)
Transfers	39,264	(39,264)	--
Total general revenues and transfers	562,070	(25,682)	536,388
Change in net assets	90,377	(53,667)	36,710
Beginning net assets	1,348,127	2,297,411	3,645,538
Ending net assets	$ 1,438,504	2,243,744	3,682,248

The accompanying notes are an integral part of the financial statements.

(In thousands)

	2004		
	General Fund	**Nonmajor Governmental Funds**	**Total Governmental Funds**
ASSETS			
Cash	$ 89	5	94
Pooled investments and cash	97,002	187,228	284,230
Investments, at fair value	--	13,477	13,477
Cash held by trustee	--	3,064	3,064
Property taxes receivable	6,936	4,395	11,331
Less allowance for uncollectible taxes	(909)	(573)	(1,482)
Net property taxes receivable	6,027	3,822	9,849
Accounts and other taxes receivable	133,678	22,354	156,032
Less allowance for doubtful accounts	(94,463)	(378)	(94,841)
Net accounts receivable	39,215	21,976	61,191
Receivables from other governments	--	10,274	10,274
Notes receivable, net of allowance	--	9,890	9,890
Due from other funds	--	28,828	28,828
Advances to other funds	--	6,159	6,159
Inventories, at cost	601	--	601
Real property held for resale	--	6,598	6,598
Prepaid items	275	--	275
Other assets	--	1,271	1,271
Total assets	143,209	292,592	435,801
LIABILITIES AND FUND BALANCES			
Accounts payable	3,606	13,679	17,285
Accrued payroll	11,818	61	11,879
Accrued compensated absences	479	4	483
Due to other funds	626	30,005	30,631
Due to other governments	7,700	--	7,700
Deferred revenue	5,762	6,730	12,492
Advances from other funds	1,851	346	2,197
Deposits and other liabilities	5,080	38,863	43,943
Total liabilities	36,922	89,688	126,610
Fund balances			
Reserved:			
Encumbrances	4,658	61,517	66,175
Inventories and prepaid items	876	--	876
Notes receivable	--	9,890	9,890
Advances receivable	--	6,159	6,159
Real property held for resale	--	6,598	6,598
Debt service	--	12,168	12,168
Permanent funds	--	1,040	1,040
Unreserved, designated:			
Emergencies	15,000	--	15,000
Contingencies	4,358	--	4,358
Future use	509	--	509
Budget stabilization	33,000	--	33,000
Special revenue	--	26,010	26,010
Unreserved, undesignated:			
General Fund	47,886	--	47,886
Capital projects	--	79,152	79,152
Permanent funds	--	370	370
Total fund balances	106,287	202,904	309,191
Total liabilities and fund balances	$ 143,209	292,592	435,801

The accompanying notes are an integral part of the financial statements.

Total fund balances - Governmental funds	$ 309,191
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,991,765
Other long-term assets are not available as current-period resources and are not reported in the funds.	15,026
Long-term liabilities are not payable in the current period and are not reported in the funds.	(930,484)
Internal service funds are used by management to charge the costs of capital project management, employee benefits, fleet maintenance, information systems, liability reserve, support services, wireless communication, and workers' compensation to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	53,006
Total net assets - Governmental activities	$ 1,438,504

The accompanying notes are an integral part of the financial statements.

(In thousands)

	2004		
	General Fund	**Nonmajor Governmental Funds**	**Total Governmental Funds**
REVENUES			
Property taxes	$ 160,049	83,321	243,370
Sales taxes	117,725	--	117,725
Franchise fees and other taxes	32,964	30,545	63,509
Fines, forfeitures and penalties	16,976	4,798	21,774
Licenses, permits and inspections	15,317	--	15,317
Charges for services/goods	15,565	26,714	42,279
Intergovernmental	--	73,428	73,428
Property owners' participation and contributions	--	3,798	3,798
Interest and other	19,168	7,376	26,544
Total revenues	377,764	229,980	607,744
EXPENDITURES			
Current:			
General government	39,605	1,806	41,411
Public safety	273,259	14,893	288,152
Transportation, planning and sustainability	9,690	3,518	13,208
Public health	25,890	23,786	49,676
Public recreation and culture	45,235	5,332	50,567
Urban growth management	11,066	52,515	63,581
Debt service:			
Principal	--	48,862	48,862
Interest	--	40,109	40,109
Fees and commissions	--	14	14
Capital outlay	--	151,768	151,768
Total expenditures	404,745	342,603	747,348
Excess (deficiency) of revenues over expenditures	(26,981)	(112,623)	(139,604)
OTHER FINANCING SOURCES (USES)			
Issuance of tax supported debt	--	70,040	70,040
Bond premiums	--	28	28
Capital leases	634	12	646
Transfers in	95,894	32,980	128,874
Transfers out	(48,766)	(39,782)	(88,548)
Total other financing sources (uses)	47,762	63,278	111,040
Net change in fund balances	20,781	(49,345)	(28,564)
Special items - hospital district reserve payment	(7,700)	--	(7,700)
Net change in fund balances	13,081	(49,345)	(36,264)
Fund balances at beginning of year	93,206	252,249	345,455
Fund balances at end of year	$ 106,287	202,904	309,191

The accompanying notes are an integral part of the financial statements.

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended September 30, 2004
(In thousands)

Net change in fund balances - Governmental funds	$	(36,264)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		94,356
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		53,488
Revenues in the governmental funds are recognized when measurable and available, but are deferred in the statement of activities until earned, regardless of when collected.		(12,728)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(21,202)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.		1,377
The net revenue of certain activities of internal service funds is reported with governmental activities.		11,350
Change in net assets - Governmental activities	$	90,377

The accompanying notes are an integral part of the financial statements.

Proprietary Funds
Statement of Net Assets
September 30, 2004
(In thousands)

	Electric	Water and Wastewater	Airport
ASSETS			
Current assets:			
Cash	$ 18	11	6
Pooled investments and cash	43,224	8,341	--
Pooled investments and cash - designated	12,350	--	--
Pooled investments and cash - restricted	58,227	42,672	88,286
Total pooled investments and cash	113,801	51,013	88,286
Investments, at fair value - designated	105,135	--	--
Investments, at fair value - restricted	84,855	40,830	27,301
Cash held by trustee	--	--	--
Cash held by trustee - restricted	2,677	5,582	--
Working capital advances	3,332	--	--
Accounts receivable	125,131	38,687	4,759
Less allowance for doubtful accounts	(2,953)	(852)	(150)
Net accounts receivable	122,178	37,835	4,609
Receivables from other governments	--	--	--
Receivables from other governments - restricted	--	--	944
Due from other funds	21	--	--
Due from other funds - restricted	--	33	617
Inventories, at cost	53,858	938	--
Prepaid expenses	2,759	139	73
Other assets	24,158	--	--
Other receivables - restricted	66	99	--
Total current assets	512,858	136,480	121,836
Noncurrent assets:			
Advances to other funds	2,998	--	--
Advances to other funds - restricted	--	161	2,081
Investments, at fair value	65,000	--	--
Investments held by trustee - restricted	99,372	--	--
Interest receivable - restricted	911	--	--
Capital assets			
Land and other nondepreciable assets	37,612	136,737	59,445
Property, plant and equipment in service	3,240,039	2,167,092	622,064
Less accumulated depreciation	(1,374,273)	(707,255)	(102,067)
Net property, plant and equipment in service	1,865,766	1,459,837	519,997
Construction in progress	221,579	371,173	23,476
Nuclear fuel, net of amortization	17,933	--	--
Plant held for future use	30,745	--	--
Total capital assets	2,173,635	1,967,747	602,918
Intangible assets, net of amortization	--	87,602	--
Other long-term assets	1,352	2	--
Deferred costs and expenses, net of amortization	187,181	176,934	2,425
Total noncurrent assets	2,530,449	2,232,446	607,424
Total assets	$ 3,043,307	2,368,926	729,260

The accompanying notes are an integral part of the financial statements.

	Nonmajor Enterprise Funds	2004 Total	Governmental Activities- Internal Service Funds
ASSETS			
Current assets:			
Cash	20	55	17
Pooled investments and cash	36,789	88,354	88,783
Pooled investments and cash - designated	15,241	27,591	--
Pooled investments and cash - restricted	86,070	275,255	--
Total pooled investments and cash	138,100	391,200	88,783
Investments, at fair value - designated	--	105,135	--
Investments, at fair value - restricted	5,739	158,725	--
Cash held by trustee	--	--	717
Cash held by trustee - restricted	--	8,259	--
Working capital advances	124	3,456	--
Accounts receivable	15,402	183,979	1,339
Less allowance for doubtful accounts	(4,309)	(8,264)	(222)
Net accounts receivable	11,093	175,715	1,117
Receivables from other governments	1,349	1,349	--
Receivables from other governments - restricted	--	944	--
Due from other funds	1,164	1,185	410
Due from other funds - restricted	--	650	--
Inventories, at cost	645	55,441	1,757
Prepaid expenses	148	3,119	353
Other assets	--	24,158	--
Other receivables - restricted	4	169	--
Total current assets	158,386	929,560	93,154
Noncurrent assets:			
Advances to other funds	101	3,099	--
Advances to other funds - restricted	15	2,257	--
Investments, at fair value	--	65,000	--
Investments held by trustee - restricted	--	99,372	--
Interest receivable - restricted	--	911	--
Capital assets			
Land and other nondepreciable assets	47,942	281,736	1,737
Property, plant and equipment in service	441,409	6,470,604	55,980
Less accumulated depreciation	(122,112)	(2,305,707)	(22,688)
Net property, plant and equipment in service	319,297	4,164,897	33,292
Construction in progress	63,331	679,559	5,495
Nuclear fuel, net of amortization	--	17,933	--
Plant held for future use	--	30,745	--
Total capital assets	430,570	5,174,870	40,524
Intangible assets, net of amortization	--	87,602	--
Other long-term assets	--	1,354	--
Deferred costs and expenses, net of amortization	3,390	369,930	7
Total noncurrent assets	434,076	5,804,395	40,531
Total assets	592,462	6,733,955	133,685

The accompanying notes are an integral part of the financial statements.

(Continued)

Proprietary Funds
Statement of Net Assets
September 30, 2004
(In thousands)

	Electric	Water and Wastewater	Airport
LIABILITIES			
Current liabilities:			
Accounts payable	$ 49,055	1,482	1,271
Accounts and retainage payable from restricted assets	18,498	26,929	1,384
Accrued payroll	2,959	1,520	570
Accrued compensated absences	6,799	3,435	1,116
Claims payable	--	--	--
Due to other funds	--	--	--
Due to other governments	--	--	--
Accrued interest payable from restricted assets	26,327	18,993	8,063
Interest payable on other debt	107	835	4
General obligation bonds payable and other tax supported debt	--	--	109
General obligation bonds payable and other tax supported debt payable from restricted assets	490	4,347	--
Revenue bonds payable	--	2,035	--
Revenue bonds payable from restricted assets	89,949	40,796	7,650
Capital lease obligations payable	1,983	1,109	173
Customer and escrow deposits payable from restricted assets	7,765	2,042	614
Nuclear fuel expense payable from restricted assets	33,403	--	--
Deferred credits and other liabilities	5,042	3,515	1,269
Total current liabilities	242,377	107,038	22,223
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	2,623	1,280	262
Claims payable	--	--	--
Advances from other funds	--	4,234	--
Capital appreciation bond interest payable	82,337	84,531	--
Commercial paper notes payable, net of discount	94,984	220,632	--
Revenue notes payable	--	--	28,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	2,392	19,853	471
Revenue bonds payable, net of discount and inclusive of premium	1,168,752	1,106,769	343,996
Pension obligation payable	1,260	648	229
Capital lease obligations payable	5,203	3,714	321
Accrued landfill closure and postclosure costs	--	--	--
Decommissioning expense payable from restricted assets	100,019	--	--
Deferred credits and other liabilities	71,520	424,999	2,467
Other liabilities payable from restricted assets	--	3,035	1,972
Total noncurrent liabilities	1,529,090	1,869,695	377,718
Total liabilities	1,771,467	1,976,733	399,941
NET ASSETS			
Invested in capital assets, net of related debt	913,447	263,729	224,655
Restricted for:			
Debt service	58,528	21,836	22,009
Capital projects	--	--	56,700
Renewal and replacement	--	--	10,000
Passenger facility charges	--	--	8,537
Convention Center operating reserve	--	--	--
Unrestricted	299,865	106,628	7,418
Total net assets	$ 1,271,840	392,193	329,319
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	2,405	2,341	742
Total net assets - Business-type activities	$ 1,274,245	394,534	330,061

The accompanying notes are an integral part of the financial statements.

	Nonmajor Enterprise Funds	2004 Total	Governmental Activities- Internal Service Funds
LIABILITIES			
Current liabilities:			
Accounts payable	7,644	59,452	5,570
Accounts and retainage payable from restricted assets	11,921	58,732	--
Accrued payroll	2,108	7,157	2,732
Accrued compensated absences	4,072	15,422	5,290
Claims payable	--	--	18,595
Due to other funds	--	--	442
Due to other governments	3,000	3,000	--
Accrued interest payable from restricted assets	4,742	58,125	--
Interest payable on other debt	193	1,139	168
General obligation bonds payable and other tax supported debt	3,827	3,936	2,963
General obligation bonds payable and other tax supported debt payable from restricted assets	914	5,751	--
Revenue bonds payable	--	2,035	--
Revenue bonds payable from restricted assets	3,520	141,915	--
Capital lease obligations payable	157	3,422	161
Customer and escrow deposits payable from restricted assets	2,609	13,030	--
Nuclear fuel expense payable from restricted assets	--	33,403	--
Deferred credits and other liabilities	448	10,274	1,986
Total current liabilities	45,155	416,793	37,907
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	523	4,688	944
Claims payable	--	--	8,845
Advances from other funds	4,226	8,460	858
Capital appreciation bond interest payable	--	166,868	--
Commercial paper notes payable, net of discount	--	315,616	--
Revenue notes payable	--	28,000	--
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	71,397	94,113	24,409
Revenue bonds payable, net of discount and inclusive of premium	220,031	2,839,548	--
Pension obligation payable	667	2,804	--
Capital lease obligations payable	93	9,331	74
Accrued landfill closure and postclosure costs	7,612	7,612	--
Decommissioning expense payable from restricted assets	--	100,019	--
Deferred credits and other liabilities	--	498,986	--
Other liabilities payable from restricted assets	--	5,007	8
Total noncurrent liabilities	304,549	4,081,052	35,138
Total liabilities	349,704	4,497,845	73,045
NET ASSETS			
Invested in capital assets, net of related debt	167,658	1,569,489	18,966
Restricted for:			
Debt service	5,739	108,112	--
Capital projects	9,987	66,687	9,651
Renewal and replacement	1,415	11,415	--
Passenger facility charges	--	8,537	--
Convention Center operating reserve	2,423	2,423	--
Unrestricted	55,536	469,447	32,023
Total net assets	242,758	2,236,110	60,640
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	2,146	7,634	
Total net assets - Business-type activities	244,904	2,243,744	

The accompanying notes are an integral part of the financial statements.

Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the year ended September 30, 2004
(In thousands)

	Electric	Water and Wastewater	Airport
OPERATING REVENUES			
Utility services	$ 829,018	233,964	--
User fees and rentals	--	--	65,361
Billings to departments	--	--	--
Employee contributions	--	--	--
Operating revenues from other governments	--	--	--
Other operating revenues	--	--	--
Total operating revenues	829,018	233,964	65,361
OPERATING EXPENSES			
Operating expenses before depreciation	516,857	109,555	38,517
Depreciation and amortization	95,525	52,808	16,054
Total operating expenses	612,382	162,363	54,571
Operating income (loss)	216,636	71,601	10,790
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	12,523	1,006	1,916
Interest on revenue bonds and other debt	(102,274)	(79,296)	(22,497)
Interest capitalized during construction	--	--	953
Passenger facility charges	--	--	10,555
Amortization of bond issue cost	(711)	(534)	(131)
Cost (recovered) to be recovered in future years	(61,707)	(49,996)	--
Other nonoperating revenue (expense)	1,633	(1,682)	(1,577)
Total nonoperating revenues (expenses)	(150,536)	(130,502)	(10,781)
Income (loss) before contributions and transfers	66,100	(58,901)	9
Capital contributions	4,284	36,495	6,117
Transfers in	--	--	--
Transfers out	(76,674)	(22,068)	--
Change in net assets	(6,290)	(44,474)	6,126
Special items - hospital district reserve payment	--	--	--
Net change in net assets	(6,290)	(44,474)	6,126
Total net assets - beginning	1,278,130	436,667	323,193
Total net assets - ending	$ 1,271,840	392,193	329,319
Reconciliation to government-wide Statement of Activities			
Change in net assets	(6,290)	(44,474)	6,126
Adjustment to consolidate internal service activities	739	1,172	282
Change in net assets - Business-type activities	$ (5,551)	(43,302)	6,408

The accompanying notes are an integral part of the financial statements.

	Nonmajor Enterprise Funds	2004 Total	Governmental Activities- Internal Service Funds
OPERATING REVENUES			
Utility services	--	1,062,982	--
User fees and rentals	131,292	196,653	--
Billings to departments	--	--	196,432
Employee contributions	--	--	24,053
Operating revenues from other governments	4,209	4,209	2,090
Other operating revenues	5,166	5,166	8,525
Total operating revenues	140,667	1,269,010	231,100
OPERATING EXPENSES			
Operating expenses before depreciation	159,886	824,815	212,155
Depreciation and amortization	14,111	178,498	2,220
Total operating expenses	173,997	1,003,313	214,375
Operating income (loss)	(33,330)	265,697	16,725
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	1,137	16,582	134
Interest on revenue bonds and other debt	(15,637)	(219,704)	(651)
Interest capitalized during construction	2,701	3,654	--
Passenger facility charges	--	10,555	--
Amortization of bond issue cost	(184)	(1,560)	(4)
Cost (recovered) to be recovered in future years	--	(111,703)	--
Other nonoperating revenue (expense)	(24,407)	(26,033)	(2,171)
Total nonoperating revenues (expenses)	(36,390)	(328,209)	(2,692)
Income (loss) before contributions and transfers	(69,720)	(62,512)	14,033
Capital contributions	674	47,570	1,918
Transfers in	61,101	61,101	17
Transfers out	(1,623)	(100,365)	(1,079)
Change in net assets	(9,568)	(54,206)	14,889
Special items - hospital district reserve payment	(3,000)	(3,000)	--
Net change in net assets	(12,568)	(57,206)	14,889
Total net assets - beginning	255,326	2,293,316	45,751
Total net assets - ending	242,758	2,236,110	60,640
Reconciliation to government-wide Statement of Activities			
Change in net assets	(12,568)	(57,206)	
Adjustment to consolidate internal service activities	1,346	3,539	
Change in net assets - Business-type activities	(11,222)	(53,667)	

The accompanying notes are an integral part of the financial statements.

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2004
(In thousands)

	Electric	Water and Wastewater	Airport
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	$ 885,304	231,355	64,639
Cash payments to suppliers for goods and services	(400,113)	(54,867)	(20,073)
Cash payments to employees for services	(97,510)	(51,851)	(18,537)
Cash payments to claimants/beneficiaries	--	--	--
Cash received from other governments	--	--	--
Taxes collected and remitted to other governments	(17,728)	--	--
Net cash provided (used) by operating activities	369,953	124,637	26,029
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	--	--	--
Transfers out	(76,674)	(22,068)	--
Interest paid on revenue notes and other debt	(157)	(140)	--
Increase in deferred assets	867	--	--
Increase in due to other governments	--	--	--
Loans to other funds	(499)	(6)	(46)
Loans from other funds	--	941	617
Loan repayments to other funds	--	--	--
Loan repayments from other funds	--	27	83
Net cash provided (used) by noncapital financing activities	(76,463)	(21,246)	654
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	40,312	146,820	--
Proceeds from the sale of general obligation bonds and other tax supported debt	960	4,112	--
Proceeds from long-term loans	390	--	483
Principal paid on long-term debt	(96,695)	(36,088)	(7,327)
Proceeds from the sale of capital assets	244	--	--
Purchased interest received	2	7	315
Interest paid on revenue bonds and other debt	(82,355)	(67,777)	(22,060)
Passenger facility charges	--	--	10,555
Acquisition and construction of capital assets	(156,761)	(159,273)	(12,051)
Contributions from municipality	--	--	--
Contributions from State and Federal governments	--	--	7,033
Contributions in aid of construction	4,837	13,373	83
Bond issuance costs	--	(1,233)	(736)
Bond discounts	--	(465)	(280)
Bond premiums	--	--	4,550
Cash paid for bond defeasance	(87,928)	(51,693)	--
Bonds issued for advanced refundings of debt	--	132,475	54,250
Cash paid for bond refunding escrow	--	(130,778)	(57,783)
Cash paid for nuclear fuel inventory	(5,756)	--	--
Net cash provided (used) by capital and related financing activities	$ (382,750)	(150,520)	(22,968)

The accompanying notes are an integral part of the financial statements.

	Nonmajor Enterprise Funds	2004 Total	Governmental Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	130,348	1,311,646	241,374
Cash payments to suppliers for goods and services	(83,082)	(558,135)	(76,845)
Cash payments to employees for services	(70,477)	(238,375)	(77,981)
Cash payments to claimants/beneficiaries	--	--	(64,864)
Cash received from other governments	3,186	3,186	--
Taxes collected and remitted to other governments	--	(17,728)	--
Net cash provided (used) by operating activities	(20,025)	500,594	21,684
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	61,101	61,101	17
Transfers out	(1,623)	(100,365)	(1,079)
Interest paid on revenue notes and other debt	(6)	(303)	--
Increase in deferred assets	--	867	--
Increase in due to other governments	3,000	3,000	--
Loans to other funds	(833)	(1,384)	--
Loans from other funds	529	2,087	863
Loan repayments to other funds	(383)	(383)	(27)
Loan repayments from other funds	--	110	(394)
Net cash provided (used) by noncapital financing activities	61,785	(35,270)	(620)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	--	187,132	--
Proceeds from the sale of general obligation bonds and other tax supported debt	32,386	37,458	14,890
Proceeds from long-term loans	57	930	--
Principal paid on long-term debt	(8,911)	(149,021)	(2,774)
Proceeds from the sale of capital assets	--	244	--
Purchased interest received	350	674	--
Interest paid on revenue bonds and other debt	(14,895)	(187,087)	(640)
Passenger facility charges	--	10,555	--
Acquisition and construction of capital assets	(26,519)	(354,604)	(7,668)
Contributions from municipality	--	--	3,952
Contributions from State and Federal governments	--	7,033	--
Contributions in aid of construction	1,346	19,639	--
Bond issuance costs	(1,016)	(2,985)	--
Bond discounts	(284)	(1,029)	--
Bond premiums	5,120	9,670	--
Cash paid for bond defeasance	--	(139,621)	--
Bonds issued for advanced refundings of debt	52,715	239,440	--
Cash paid for bond refunding escrow	(62,403)	(250,964)	--
Cash paid for nuclear fuel inventory	--	(5,756)	--
Net cash provided (used) by capital and related financing activities	(22,054)	(578,292)	7,760

The accompanying notes are an integral part of the financial statements.

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2004
(In thousands)

	Electric	Water and Wastewater	Airport
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	$ (358,243)	(184,812)	(48,515)
Proceeds from sale and maturities of investment securities	449,040	230,524	48,319
Interest on investments	23,104	5,524	1,132
Net cash provided by investing activities	113,901	51,236	936
Net increase in cash and cash equivalents	24,641	4,107	4,651
Cash and cash equivalents, October 1	91,855	52,499	83,641
Cash and cash equivalents, September 30	116,496	56,606	88,292
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	216,636	71,601	10,790
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	95,525	50,308	16,054
Amortization	--	2,500	--
Change in assets and liabilities:			
Increase in working capital advances	(576)	--	--
(Increase) decrease in accounts receivable	(9,290)	(1,501)	(715)
Increase (decrease) in allowance for doubtful accounts	639	(214)	--
Decrease in receivables from other governments	--	--	--
(Increase) decrease in inventory	(8,469)	196	--
(Increase) decrease in prepaid expenses and other assets	45,568	(7)	(72)
Decrease in deferred costs and other expenses	9,985	2	--
(Increase) decrease in other long-term assets	559	--	--
Increase (decrease) in accounts payable	4,246	364	(1)
Increase (decrease) in accrued payroll and compensated absences	(202)	(141)	109
Decrease in claims payable	--	--	--
Increase in pension obligations payable	1,260	648	229
Increase (decrease) in deferred credits and other liabilities	13,868	815	(408)
Increase in customer deposits	204	66	43
Total adjustments	153,317	53,036	15,239
Net cash provided (used) by operating activities	$ 369,953	124,637	26,029

The accompanying notes are an integral part of the financial statements.

(Continued)

	Nonmajor Enterprise Funds	2004 Total	Governmental Activities- Internal Service Funds
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	(34,661)	(626,231)	--
Proceeds from sale and maturities of investment securities	43,230	771,113	--
Interest on investments	1,225	30,985	134
Net cash provided by investing activities	9,794	175,867	134
Net increase in cash and cash equivalents	29,500	62,899	28,958
Cash and cash equivalents, October 1	108,620	336,615	60,559
Cash and cash equivalents, September 30	138,120	399,514	89,517
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	(33,330)	265,697	16,725
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	14,111	175,998	2,220
Amortization	--	2,500	--
Change in assets and liabilities:			
Increase in working capital advances	--	(576)	--
(Increase) decrease in accounts receivable	(550)	(12,056)	9,305
Increase (decrease) in allowance for doubtful accounts	436	861	--
Decrease in receivables from other governments	(1,023)	(1,023)	--
(Increase) decrease in inventory	(98)	(8,371)	(28)
(Increase) decrease in prepaid expenses and other assets	(17)	45,472	(95)
Decrease in deferred costs and other expenses	3	9,990	1
(Increase) decrease in other long-term assets	--	559	(1)
Increase (decrease) in accounts payable	2,233	6,842	(989)
Increase (decrease) in accrued payroll and compensated absences	(54)	(288)	(94)
Decrease in claims payable	--	--	(6,465)
Increase in pension obligations payable	668	2,805	--
Increase (decrease) in deferred credits and other liabilities	(2,698)	11,577	1,105
Increase in customer deposits	294	607	--
Total adjustments	13,305	234,897	4,959
Net cash provided (used) by operating activities	(20,025)	500,594	21,684

The accompanying notes are an integral part of the financial statements.

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2004
(In thousands)

	Electric	Water and Wastewater	Airport
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Decrease in deferred assets/expenses	$ 73,728	23,017	--
Increase in capital appreciation bond interest payable	6,448	9,448	--
Capital assets contributed from (to) other funds	51	--	18
Increase in contributed facilities	--	25,524	--
Net decrease in the fair value of investments	12,564	4,002	--
Amortization of bond issue costs	(711)	(534)	(131)
Amortization of bond discounts and premiums	(1,998)	(856)	(211)
Amortization of deferred loss on refundings	25,736	3,989	346
Gain (loss) on disposal of assets	2,112	(1,684)	(1,559)
Deferred gain (loss) on bond refunding	12,541	(1,538)	(5,718)
Bond issuance costs, discounts, premiums and accrued interest written off due to refunding	867	2,154	225
Deferred costs (recovered) to be recovered	(61,707)	(49,996)	--
Loss on extinguishment of debt	(16,358)	(9,573)	--
Increase in deferred credits and other liabilities	4,740	19,399	--
Contributions	--	--	--

The accompanying notes are an integral part of the financial statements.

	Nonmajor Enterprise Funds	2004 Total	Governmental Activities- Internal Service Funds
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Decrease in deferred assets/expenses	14,978	111,723	--
Increase in capital appreciation bond interest payable	--	15,896	--
Capital assets contributed from (to) other funds	(629)	(560)	(2,033)
Increase in contributed facilities	--	25,524	--
Net decrease in the fair value of investments	--	16,566	--
Amortization of bond issue costs	(183)	(1,559)	(2)
Amortization of bond discounts and premiums	(99)	(3,164)	(2)
Amortization of deferred loss on refundings	538	30,609	6
Gain (loss) on disposal of assets	(24,449)	(25,580)	(2,459)
Deferred gain (loss) on bond refunding	(2,601)	2,684	--
Bond issue costs, discounts, premiums and accrued interest written off due to refunding	1,158	4,404	--
Deferred costs (recovered) to be recovered	--	(111,703)	--
Loss on extinguishment of debt	--	(25,931)	--
Increase in deferred credits and other liabilities	--	24,139	969
Contributions	3,100	3,100	--

The accompanying notes are an integral part of the financial statements.

Fiduciary Funds
Statement of Fiduciary Net Assets
September 30, 2004
(In thousands)

	Private-purpose Trust	Agency
ASSETS		
Pooled investments and cash	$ 904	3,192
Other assets	121	--
Total assets	1,025	3,192
LIABILITIES		
Accounts payable	1	35
Due to other governments	--	2,524
Deposits and other liabilities	314	633
Total liabilities	315	3,192
NET ASSETS		
Held in trust	710	
Total net assets	$ 710	

The accompanying notes are an integral part of the financial statements.

For the year ended September 30, 2004
(In thousands)

	Private-purpose Trust
ADDITIONS	
Contributions	$ 254
Interest and other	15
Total additions	269
DEDUCTIONS	
Deductions	310
Total deductions	310
Change in net assets	(41)
Total net assets - beginning	751
Total net assets - ending	$ 710

The accompanying notes are an integral part of the financial statements.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Austin, Texas (the City) is a municipal corporation incorporated under Article XI, Section 5 of the Constitution of the State of Texas (Home Rule Amendment). The City operates under a Council-Manager form of government. The City Council is composed of a Mayor and six Councilmembers, all of whom are elected at large for three-year staggered terms, and who may serve for a maximum of two consecutive terms. A petition signed by 5% of the registered voters waives the term limit for a councilmember.

The City's major activities or programs include public safety; transportation, planning and sustainability; public health; public recreation and culture; urban growth management; and general government. In addition, the City owns and operates certain major enterprise activities, including an electric utility, water and wastewater utility, airport, convention and other enterprise activities. These activities are included in the accompanying financial statements.

The Charter of the City of Austin requires an annual audit by an independent certified public accountant. The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City has implemented GASB Statement No. 1 through Statement No. 41. GASB Statement No. 40 entitled *"Deposit and Investment Risk Disclosures"* was implemented in fiscal year 2004. The more significant accounting and reporting policies and practices used by the City are described below.

As a local government, the City is exempt from federal income taxes, under Internal Revenue Code Section 115, and state sales tax.

a -- Reporting Entity

As required by generally accepted accounting principles (GAAP), these financial statements present the City, the Primary Government, and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations and therefore data from these units are combined with data of the City.

Blended Component Units -- The Austin Housing Finance Corporation (AHFC) and Austin Industrial Development Corporation (AIDC) are legally separate entities from the City. AHFC and AIDC serve all the citizens of Austin and are governed by a board composed of the City Councilmembers. The activities are reported in the Housing Assistance Fund and Austin Industrial Development Corporation Fund, nonmajor special revenue funds.

Related Organizations -- The following paragraph summarizes related organizations to which the City Council appoints board members but the City has no significant financial accountability. The City appoints certain members of the board of the Capital Metropolitan Transit Authority (Capital Metro), but the City's accountability for this organization does not extend beyond making the appointments. City Councilmembers appoint themselves as members of the board of the Austin-Bergstrom International Airport (ABIA) Development Corporation; their function on this board is ministerial rather than substantive. The City Council appoints the members of the board of Austin-Bergstrom Landhost Enterprises, Inc., and Austin Convention Enterprises, Inc.; the functions of these boards are ministerial rather than substantive. The Mayor, with consent of the City Council, appoints the Board of Commissioners for the Urban Renewal Agency, whose primary responsibility is to oversee the implementation and compliance of Urban Renewal Plans adopted by the City Council. The City's presiding officer of the municipality governing body appoints the persons to serve as commissioners of the Austin Housing Authority. All of these entities are separate from the operating activities of the City. Related organizations are not included in the City's reporting entity.

The City retirement plans (described in Note 8) and the City of Austin Deferred Compensation Plan for City employees are not included in the City's reporting entity because the City does not exercise substantial control over the entities.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

b -- Government-wide and Fund Financial Statements

Government-wide and Fund Financial Statements -- The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. Internal service fund asset and liability balances that are not eliminated in the statement of net assets are reported in the governmental activities column on the government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Certain indirect costs are included in the program expenses of most business-type activities. Program revenues include 1) charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

The fund level statements focus on the governmental, proprietary and fiduciary funds. The accounts of the City are organized on the basis of funds. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations. Major funds are determined by criteria specified by GASB; the City has not elected to present additional major funds that do not meet the minimum criteria. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All other funds are aggregated into governmental or enterprise nonmajor fund groupings.

The City’s fiduciary funds are presented in the fund financial statements by type (private-purpose and agency). By definition these assets are held for the benefit of a third party and cannot be used to address activities or obligations of the government, and are therefore not included in the government-wide statements. Reconciliation of the fund financial statements to the government-wide financial statements is provided in the financial statements to explain the differences created by the integrated approach of GASB 34.

c -- Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e. both measurable and available. Revenues, other than grants, are considered to be available when they are collectible, within the current period or soon enough thereafter to pay liabilities of the current period (defined by the City as collected within 60 days of year end). Revenues billed under a contractual agreement with another governmental entity, including federal and state grants, are recognized when billed and when all eligibility requirements of the provider have been met and are considered to be available if expected to be collected within one year. Expenditures generally are recorded when a liability is due. However, expenditures related to compensated absences and arbitrage are recorded to the extent they are normally expected to be liquidated with available financial resources. Debt service expenditures are recognized when payment is matured. The reported fund balance of governmental funds is considered a measure of available spendable resources.

Property taxes, sales taxes, franchise taxes, hotel occupancy taxes, vehicle rental taxes, EMS charges, Municipal Court fines and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The City reports the following major governmental fund:

General Fund: The primary operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund. It includes the following activities: public safety; transportation, planning and sustainability; public health; public recreation and culture; urban growth management; and general government.

Proprietary and fiduciary fund financial statements are accounted for on the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations, such as providing electric or water-wastewater services. Other revenues or expenses are nonoperating items.

The City reports the following major enterprise funds:

Electric Fund: Accounts for the activities of the City-owned electric utility, doing business as Austin Energy ™.

Water and Wastewater Fund: Accounts for the activities of the City-owned water and wastewater utility, doing business as Austin Water™.

Airport Fund: Accounts for the operations of the Austin-Bergstrom International Airport (ABIA).

In addition, the City reports the following nonmajor governmental funds:

Special Revenue Funds: Account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes, including grant funds.

Debt Service Funds: Account for the accumulation of resources for, and the payment of, general long-term debt and HUD Section 108 loan principal, interest and related costs.

Capital Projects Funds: Account for financial resources for the acquisition or construction of major capital facilities (other than those reported within proprietary funds and private-purpose funds) and funded primarily by general obligation debt, other tax supported debt, interest income and other intergovernmental revenues. A 1981 ordinance requires the establishment of a separate fund for each bond proposition approved in each bond election.

Permanent Funds: Account for resources that are legally restricted to the extent that only earnings and not principal may be used for purposes that support the City's programs. Permanent funds account for the public recreation and culture activity.

The City reports the following proprietary and fiduciary funds:

Enterprise Funds: Account for operations that are financed and operated in a manner similar to private business enterprises. Costs are financed or recovered primarily through user charges. The City has elected to follow GASB statements issued after November 30, 1989, rather than statements issued by the Financial Accounting Standards Board (FASB), in accordance with GASB Statement No. 20. The nonmajor enterprise funds account for the operations in a variety of areas: convention center, drainage, golf, hospital (both Brackenridge and Austin Women's Hospital), recreation activities, primary care clinics, solid waste and transportation.

Internal Service Funds: Account for the financing of goods or services provided by one City department or agency to other City departments or agencies or to other governmental units on a cost-reimbursement basis. These activities include, but are not limited to, capital projects management, transportation and emergency communication, employee health benefits, fleet services, information services, liability reserve (city-wide self insurance) services, support services, wireless communication services and workers' compensation coverage.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fiduciary Funds: Accounts for assets held by the City in a trustee capacity or as an agent for individuals, private organizations or other governments:

Private-purpose Trust Funds: Account for trust arrangements under which principal and income benefit individuals, private organizations or other governments. Private-purpose trust funds account for various purposes: general government, transportation, public recreation and culture and urban growth management.

Agency Funds: Account for net assets held on behalf of others and are purely custodial (assets equal liabilities).

d -- Budget

The City Manager submits a proposed budget to the City Council no later than thirty days prior to the beginning of the new fiscal year. The City Council holds public hearings, modifies the City Manager's recommendations, and adopts a final budget no later than the twenty-seventh day of September. The City Council passes an appropriation ordinance and a tax levying ordinance.

Annual budgets are legally adopted for the General Fund, certain special revenue funds and debt service funds. Annual budgets are adopted for enterprise and internal service funds, although they are not legally required. Multi-year budgets are adopted for capital projects and grant funds, where appropriations remain authorized for the life of the project, irrespective of fiscal year. Expenditures are appropriated on a modified accrual basis, except that commitments related to purchase orders are treated as expenditures in the year of commitment. Certain charges to ending fund balance are budgeted as nondepartmental expenditures.

Formal budgetary control is employed during the year at the fund and department level as a management control device for annually budgeted funds.

Budgets are modified throughout the year. The City Manager is authorized to transfer appropriation balances within a fund and department of the City. The City Council must approve amendments to the budget and transfers of appropriations from one fund and department to another. The original and final budgets for the General Fund are reported in the required supplementary information. Unencumbered appropriations for annual budgets lapse at fiscal year end.

e -- Financial Statement Elements

Pooled Investments and Cash -- Cash balances of all City funds (except for certain funds shown in Note 5 as having non-pooled investments) are pooled and invested. Investments purchased with pooled cash, consisting primarily of U.S. government obligations and U.S. agency obligations, are stated at fair value. Interest earned on investments purchased with pooled cash is allocated monthly to each participating fund based upon the fund's average daily balance. Funds that incur a negative balance in pooled cash and investments are not allocated interest earnings nor charged interest expense.

Investments -- Certain investments are required to be reported at fair value, based on quoted market prices. Realized gains or losses resulting from the sale of investments are determined by the specific cost of the securities sold. The City carries all of its investments in U.S. government and agency debt securities and money market mutual funds at fair value as of September 30, 2004. Investments in local government investment pools are carried at amortized cost, which approximates fair value. The City has implemented GASB Statement No. 40 entitled "*Deposit and Investment Risk Disclosures*".

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Accounts Receivable -- Balances of accounts receivable, reported on the government-wide statement of net assets, are aggregations of different components such as charges for services, fines, and balances due from taxpayers or other governments. In order to assist the reader, the following information has been provided regarding significant components of receivable balances as of September 30, 2004 (in thousands):

	Charges for Services	Fines	Taxes	Other Govern-ments	Other	Total
Governmental activities						
General Fund	$ 63,583	35,055	26,758	--	9,082	134,478
Nonmajor governmental funds	4,745	37	8,153	8,467	952	22,354
Internal service funds	1,339	--	--	--	--	1,339
Allowance for doubtful accounts	(61,421)	(22,642)	--	--	--	(84,063)
Total	$ 8,246	12,450	34,911	8,467	10,034	74,108

Municipal Court fines in the governmental activities, because of the nature of the fines, have a collection period greater than one year. Fines recognized that will not be collected during the subsequent year are estimated to be approximately $5.4 million.

Business-type activities are primarily comprised of charges for services.

Elimination of Internal Activities -- The elimination of internal service fund activity is needed in order to eliminate duplicate activity in making the transition from the fund level financial statements to the government-wide financial statements. In addition, the elimination of internal service fund activity requires the City to "look back" and adjust the internal service funds' internal charges. A positive change in net assets derived from internal service fund activity results in a pro rata reduction in the charges made to the participatory funds. A deficit change in net assets of internal service funds requires a pro rata increase in the amounts charged to the participatory funds.

Internal Balances -- In the government-wide statement of net assets, internal balances are the receivables and payables between the governmental and business-type activities.

Interfund Activities -- In the government-wide statement of activities, the effect of interfund activity has generally been removed from the statements. Exceptions include the chargeback of services, such as utilities or vehicle maintenance, and charges for central administrative costs. Elimination of these charges would distort the direct costs and program revenues of the various functions reported. The City recovers indirect costs that are incurred in the Support Services Fund, which is reported as an internal service fund. Indirect costs are calculated in a city-wide cost allocation plan or through indirect cost rates. These amounts are eliminated in the government-wide statement of activities.

Interfund Receivables, Payables -- During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund-level statements when they are expected to be liquidated within one year. If receivables or payables are expected to be liquidated after one year, they are classified as "advances to other funds" or "advances from other funds."

Inventories -- Inventories are valued at cost, which is determined as follows:

Fund	Inventory Valuation Method
General Fund	Average cost (predominantly); some first-in, first-out
Electric:	
Fuel oil and coal	Last-in, first-out
Other inventories	Average cost
All others	Average cost

Inventories for all funds use the consumption method and expenditures are recorded when issued. Inventories reported in the General Fund and certain special revenue funds are offset by a fund balance reserve, which indicates that they do not represent "available spendable resources."

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Restricted assets -- Restricted assets are assets whose use is subject to constraints that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

The balance of restricted assets accounts in the enterprise funds are as follows (in thousands):

	Electric	Water and Wastewater	Airport	Nonmajor Enterprise	Total Restricted Assets
Bond reserve	$ 2,001	--	--	--	2,001
Capital projects	16,275	43,470	72,245	80,614	212,604
Customer and escrow deposits	7,765	5,077	615	1,618	15,075
Debt service	84,855	40,830	15,108	5,754	146,547
Federal grants	--	--	3,642	4	3,646
Nuclear decommissioning	101,809	--	--	--	101,809
Nuclear fuel inventory replacement	33,403	--	--	--	33,403
Operating reserve account	--	--	6,901	2,423	9,324
Passenger facility charge account	--	--	10,718	--	10,718
Renewal and replacement account	--	--	10,000	1,415	11,415
	$ 246,108	89,377	119,229	91,828	546,542

Designated assets -- Designated assets are funds that have been appropriated by City Council action and are intended for specific purposes. They are not constrained by creditors, grantors, contributors, or laws or regulations of other governments nor are they constrained by law through constitutional provisions or enabling legislation.

Capital assets -- Capital assets, which include land and improvements, buildings and improvements, equipment, vehicles and infrastructure assets, are reported in the applicable governmental or business-type activity columns of the government-wide statement of net assets, and related depreciation is allocated to programs in the statement of activities. Capital assets are defined as assets with an initial individual cost of $1,000 or more and an estimated useful life of greater than one year. Assets purchased or constructed are capitalized at historical cost. Contributed or annexed capital assets are recorded at estimated fair market value at the time received, or at historical cost, if historical cost is available. Capital outlay is recorded as an expenditure in the General Fund and other governmental funds, and as an asset in the government-wide financial statements and proprietary funds. Maintenance and repairs are charged to operations as incurred, and improvements and betterments that extend the useful lives of capital assets are capitalized.

The City obtains public domain capital assets (infrastructure) through capital improvement projects (CIP) construction, or through annexation or developer contribution. Infrastructure consists of certain improvements other than buildings, including streets and roads, bridges, pedestrian facilities, drainage systems and traffic signal systems acquired after September 30, 1980.

Interest is not capitalized on governmental capital assets. For enterprise funds, except for Electric and Water and Wastewater Utility funds, interest paid on long-term debt in the enterprise funds is capitalized when it can be attributed to a specific project and when it materially exceeds the interest revenue generated by the bond proceeds issued to fund the project. Interest is not capitalized on Electric and Water and Wastewater Utility enterprise fund assets in accordance with FASB Statement No. 71.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital assets are depreciated using the straight-line method over the following estimated useful lives (in years):

		Business-type Activities			
Assets	Governmental Activities (1)	Electric	Water and Wastewater	Airport	Nonmajor Enterprise
Buildings	15-40	30-40	40-50	15-40	15-40
Equipment	7-30	7-40	10-50	10-50	7-40
Vehicles	3-20	3-15	3-20	3-15	3-15
Communication equipment	7	7	7	7	7
Furniture and fixtures	12	12	12	12	7-12
Computers and EDP equipment	3-7	3-7	3-7	3-7	3-7
Infrastructure					
Streets and roads	30	--	--	--	--
Bridges	50	--	--	--	--
Drainage systems	50	--	--	--	--
Pedestrian facilities	20	--	--	--	--
Traffic signals	25	--	--	--	--

(1) Includes internal service funds

Depreciation of assets is classified by functional components. The City considers land, arts and treasures and library collections to be inexhaustible; and therefore, these assets are reported as nondepreciable. The true value of arts and treasures and library collections is expected to be maintained over time and, thus, is not depreciated. Unallocated depreciation reported in the government-wide statement of activities consists of depreciation of infrastructure assets ($35.8 million).

In the government-wide and proprietary fund statements, the City recognizes a gain or loss on the disposal of assets when it retires or otherwise disposes of capital assets (other than debt-financed assets of the utility funds, where the gain or loss is deferred in accordance with FASB Statement No. 71).

Intangible Assets -- Proprietary Funds - Intangible assets include the amortized cost of a $100 million contract between the City and the Lower Colorado River Authority (LCRA) for a fifty-year assured water supply agreement, with an option to extend another fifty years. The City and LCRA entered into the contract in 1999, and the asset is being amortized over 40 years.

Deferred Expenses or Credits -- The City's utility systems are reported in accordance with FASB Statement No. 71, *"Accounting for the Effects of Certain Types of Regulation"*. Certain utility expenses that do not currently require funds are deferred to future periods in which they are intended to be recovered by rates. Likewise, certain credits to income are deferred to periods in which they are matched with related costs. These expenses or credits include changes in fair value of investments, contributions and gain or loss on disposition of debt-financed assets. Deferred expenses will be recovered in these future periods by setting rates sufficient to provide funds for the related debt service requirements. If rates being charged will not recover deferred expenses, the deferred expenses will be subject to write off. Retail deregulation of electric rates in the future may affect the City's current accounting treatment of its electric utility revenues, expenses and deferred amounts.

Compensated Absences -- The amounts owed to employees for unpaid vacation and sick leave liabilities, including the City's share of employment-related taxes, are reported on the accrual basis of accounting in the applicable governmental or business-type activity columns of the government-wide statements, and in the enterprise activities of the fund financial statements. The liabilities and expenditures are reported on the modified accrual basis in the governmental fund financial statements; the estimated liability for governmental funds is the amount of sick and vacation paid at termination within 60 days of year-end.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

City policies provide for the following amounts to be paid at termination: accumulated vacation pay with a maximum of six weeks and accumulated sick leave with a maximum of ninety days. Sick leave accumulated in excess of ninety days or by employees hired on or after October 1, 1986 is not payable at termination and is not included in these financial statements.

Long-Term Debt -- The debt service for general obligation bonds and other general obligation debt, including loans, issued to fund general government capital projects is paid from tax revenues, interfund transfers and intergovernmental revenues. Such general obligation debt is reported in the government-wide statements under governmental activities.

The debt service for general obligation bonds and other general obligation debt issued to fund proprietary fund capital projects is normally paid from net revenues of the applicable proprietary fund, although such debt will be repaid from tax revenues if necessary. Such general obligation debt is shown as a specific liability of the applicable proprietary fund, which is appropriate under generally accepted accounting principles and in view of the expectation that the proprietary fund will provide resources to service the debt.

Revenue bonds that have been issued to finance capital projects of certain enterprise funds are to be repaid from net revenues of these funds. Such debt is recorded in the funds. Operating revenues and interest income that are used as security for revenue bonds are reported separately from other revenues.

The City has certain contractual commitments with several municipal utility districts (MUDs) for the construction of additions and improvements to the City's water and wastewater system that serve the MUDs and surrounding areas. These additions and improvements are funded by City contract revenue bonds, whose principal and interest are payable primarily from the net revenues of Austin Water Utility.

The City defers and amortizes gains or losses realized by proprietary funds on refundings of debt and for governmental activities in the government-wide financial statements, and reports both the new debt liability and the related deferred amount on the funds' statement of net assets. The City recognizes gains or losses on debt defeasance when funds from current operations are used.

Other Long-Term Liabilities -- Capital appreciation bonds are recorded at net accreted value. Annual accretion of the bonds is recorded as interest expense during the life of the bonds. The cumulative accretion of capital appreciation bonds, net of interest payments on the bonds, is recorded as capital appreciation bond interest payable.

Landfill Closure and Postclosure Care Costs -- The City reports municipal solid waste landfill costs in accordance with GASB Statement No. 18, *"Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs"*. The liability for landfill closure and postclosure costs is reported in the Solid Waste Services Fund, a nonmajor enterprise fund.

Operating Revenues -- Revenues are recorded net of allowances, including bad debt, in the government-wide and proprietary fund-level statements. The funds listed below reduced revenues by bad debt, as follows (in thousands):

Electric Fund	$	7,732
Water and Wastewater Fund		1,199
Airport		19
Nonmajor Enterprise Funds		1,361

Electric, water and wastewater revenue is recorded when earned. Customers' electric and water meters are read and bills are rendered on a cycle basis by billing district. Electric rate schedules include fuel cost adjustment clauses that permit recovery of fuel costs in the month incurred. The City reported fuel costs on the same basis as it recognized revenue in 2003 and prior years. Austin Energy recorded unbilled revenue as earned based upon taking each day's power generation and using the billing district read dates to estimate what percentage was billed as of September 30, 2004 and what percentage will be billed thereafter over the days since the last meter read, on a billing cycle basis. The amount of unbilled revenue recorded as of September 30, 2004 for Austin Energy was $38.2 million. Austin Water recorded unbilled revenue as earned based upon an extrapolation of customer usage from the prior year, over the days since the last meter read, on an aggregate basis. The amount of unbilled revenue recorded as of September 30, 2004 for Austin Water was $16.3 million.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Interfund Revenues, Expenses and Transfers -- Transactions between funds that would be treated as revenues, expenditures, or expenses if they involved organizations external to the governmental unit are accounted for as revenues, expenditures, or expenses in the funds involved, such as billing for utility services. Transactions between funds that constitute reimbursements for expenditures or expenses are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditure or expense in the fund that is reimbursed. Transfers between funds are reported in the operations of governmental and proprietary funds.

Intergovernmental Revenues, Receivables and Liabilities -- Intergovernmental revenues and related receivables arise primarily through funding received from Federal and State grants. These revenues and receivables are earned through expenditure of money for grant purposes. Intergovernmental liabilities arise primarily from funds held in an agency capacity for other local governmental units.

Federal and State Grants, Entitlements and Shared Revenues -- Grants, entitlements and shared revenues may be accounted for within any City fund. The purpose and requirements of each grant, entitlement, or shared revenue are analyzed to determine the appropriate fund statement and revenue category in which to report the related transactions. Grants, entitlements and shared revenues received for activities normally recorded in a particular fund may be accounted for in that fund, provided that applicable legal restrictions can be satisfied.

Revenues received for activities normally recorded in other governmental funds are accounted for within the nonmajor governmental fund groupings: Federal grant funds, State grant funds, and other special revenue grant funds. Capital grants restricted for capital acquisitions or construction, other than those associated with proprietary type funds, are accounted for in the applicable capital projects funds. Revenues received for operating activities of proprietary funds or revenues that may be used for either operations or capital expenditures at the discretion of the City are recognized in the applicable proprietary fund.

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

Reservations of Fund Equity -- Reservation of fund balances of the governmental funds indicate that portion of fund equity which is not available for appropriation for expenditure or is legally restricted by outside parties for use for a specific purpose. Designations of fund balance are the representations of management for the utilization of resources in future periods.

Cash and Cash Equivalents -- For purposes of the statement of cash flows, the City considers cash and cash equivalents to be currency on hand, cash held by trustee, demand deposits with banks, and all amounts included in pooled investments and cash accounts.

Pension Costs -- State law governs pension contribution requirements and benefits. Pension costs are composed of normal cost and, where applicable, amortization of unfunded actuarial accrued liability and of unfunded prior service cost (see Note 8).

Special Items -- These are significant transactions or events within the control of the City that are either unusual in nature or infrequent in occurrence. On September 13, 2004, the City Council approved a transfer in the amount of $10.7 million to the Travis County Hospital District as a portion of an initial reserve established by the District. Although the cash was transferred on October 1, 2004, the special item and associated liability were recognized in fiscal year 2004. The total $10.7 million consists of $7.7 million from the General Fund and $3 million from Primary Care (which is reported as a nonmajor enterprise fund).

Risk Management -- The City is exposed to employee-related risks for health benefits and workers' compensation, as well as to various risks of loss related to torts, including medical malpractice; theft of, damage to, or destruction of assets; errors and omissions; and natural disasters. The City continues to be self-insured for liabilities for most health benefits, third-party and workers' compensation claims.

The City purchases commercial insurance for coverage for property loss or damage, commercial crime, fidelity bonds and airport operations. In addition, the City purchases a broad range of insurance coverage for contractors working at selected capital improvement project sites. The City does not participate in a risk pool. The City complies with GASB Statement No. 10, *"Accounting and Reporting for Risk Financing and Related Insurance Issues"* (see Note 14).

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Austin Energy has established an energy risk management program. This program was authorized by City Council and led by the Risk Oversight Committee. Under this program, Austin Energy enters into futures contracts, options, and swaps for the purpose of reducing exposure to natural gas and energy price risk. The City complies with GASB Technical Bulletin No. 2003-1, *"Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets"* (see Note 14).

f -- Comparative Data

Governments are required to present comparative data only in connection with Management's Discussion and Analysis (MD&A). Comparative data has been utilized within the MD&A to more fully understand the City's financial statements for the current period.

g -- Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

a -- Explanation of differences between the governmental fund balance sheet and the government-wide statement of net assets

Total fund balances of the City's governmental funds, $309 million, differ from the net assets of governmental activities, $1,439 million, reported in the statement of net assets. The differences result from the long-term economic focus in the government-wide statement of net assets versus the current financial resources focus of the governmental fund balance sheets. The differences are shown below (in thousands):

Total fund balances - Governmental funds		$ 309,191
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Governmental capital assets	2,576,499	
Less: accumulated depreciation	(584,734)	
Total		1,991,765
Other long-term assets are not available as current-period resources and are not reported in the funds.		
Accounts and other taxes receivable	11,800	
Deferred costs and expenses	3,226	
Total		15,026
Long-term liabilities are not payable in the current period and are not reported in the funds.		
Bonds and other tax supported debt payable, net	(836,152)	
Pension obligation payable	(3,102)	
Capital lease obligations payable	(578)	
Compensated absences	(63,739)	
Interest payable	(3,447)	
Deferred credits and other liabilities	(23,466)	
Total		(930,484)
Internal service funds		53,006
Total net assets - Governmental activities		$ 1,438,504

2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, continued

b -- Explanation of differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities

The net change in fund balances of governmental funds, $36 million deficit, differs from the change in net assets for governmental activities, $90 million, reported in the statement of activities. The differences result from the long-term economic focus in the government-wide statement of net assets versus the current financial resources focus of the governmental fund balance sheets. The differences are shown below (in thousands):

Net change in fund balances - Governmental funds		$ (36,264)
Governmental funds report capital outlay as expenditures. In the statement of activities, the cost of those assets are depreciated over the estimated useful life of the asset.		
Capital outlay	157,140	
Depreciation expense	(61,112)	
Loss on disposal of capital assets	(1,672)	
Total		94,356
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		
Property taxes	(3,357)	
Charges for services	(6,553)	
Capital assets contribution	63,398	
Total		53,488
Revenues in the governmental funds are recognized when measurable and available, but are deferred in the statement of activities until earned, regardless of when collected.		
Intergovernmental revenue	(12,728)	
Total		(12,728)
Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but are deferred and amortized throughout the period during which the related debt is outstanding in the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Issuance of long-term debt	(70,040)	
Principal repayment on long-term debt	48,862	
Deferral of debt issue costs	(24)	
Total		(21,202)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated absences	(1,924)	
Pension obligation	(3,102)	
Interest and other	6,403	
Total		1,377
Internal services. The net revenue (expense) of the internal service funds is reported with the governmental activities.		11,350
Change in net assets - Governmental activities		$ 90,377

3 – DEFICITS IN FUND BALANCES AND NET ASSETS

At September 30, 2004, the following funds reported deficits in fund balances or net assets. Management intends to recover these deficits through future operating revenues, transfers or debt issues.

Nonmajor Governmental	Deficit (in thousands)		Deficit (in thousands)
Special Revenue Funds:		**Internal Service Funds:**	
Fiscal Surety - Land Development	$ 77	CTECC	384
		Liability Reserve	775
Capital Projects Funds:			
Energy improvements - city facilities	82		
Parks/Old Bakery	184		
Police facilities	14		
Radio Trunking	5,820		
Parks - 1992	225		
Build Austin	25		
Central City Entertainment Center	1		
Capital reserve	965		
Public Works	19		
City Hall, plaza, parking garage	2,913		
Interest income fund	595		

4 – POOLED INVESTMENTS AND CASH

The following summarizes the amounts of pooled investments and cash by fund at September 30, 2004 (in thousands):

	Pooled Investments and Cash	
	Unrestricted	Restricted
General Fund	$ 97,002	--
Nonmajor governmental funds	187,228	--
Electric	55,574	58,227
Water and Wastewater	8,341	42,672
Airport	--	88,286
Nonmajor enterprise funds	52,030	86,070
Internal service funds	88,783	--
Fiduciary funds	4,096	--
Subtotal pooled investments and cash	493,054	275,255
Total pooled investments and cash	$ 768,309	

5 – INVESTMENTS AND DEPOSITS

a -- Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the City of Austin to invest its funds under a written investment policy (the "Investment Policy") that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. The investment policy defines what constitutes the legal list of investments allowed under the policy, which excludes certain investment instruments allowed under chapter 2256 of the Texas Government Code.

5 – INVESTMENTS AND DEPOSITS, continued

The City's deposits and investments are invested pursuant to the Investment Policy, which is approved annually by the City Council. The Investment Policy includes a list of authorized investment instruments, a maximum allowable stated maturity of any individual investment and the maximum average dollar weighted maturity allowed for pooled fund groups. In addition it includes an "Investment Strategy Statement" that specifically addresses each fund's investment options and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification and yield. Additionally, the soundness of financial institutions in which the City will deposit funds is addressed.

The City Treasurer submits an investment report each quarter to the Investment Committee and City Council. The report details the investment position of the City and the compliance of the investment portfolio as it relates to both the adopted investment strategy statements and Texas State law.

The City is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Obligations of the United States or its agencies and instrumentalities;
2. Direct obligations of the State of Texas;
3. Other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities;
4. Obligations of other states, cities, counties or other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent;
5. Bankers' acceptances so long as each such acceptance has a stated maturity of 270 days or less from the date of its issuance, will be liquidated in full at maturity, is eligible collateral for borrowing from a Federal Reserve Bank and is accepted by a domestic bank whose short-term obligations are rated at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency or which is the largest subsidiary of a bank holding company whose short-term obligations are so rated;
6. Commercial paper with a stated maturity of 270 days or less from the date of its issuance that is either rated not less than A-1, P-1 or the equivalent by at least two nationally recognized credit rating agencies or is rated at least A-1, P-1 or the equivalent by at least one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state thereof;
7. Collateralized repurchase agreements having a defined termination date and described in more detail in the Investment Policy;
8. Certificates of deposit issued by state and national banks domiciled in Texas that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or as further described in the Investment Policy;
9. Certificates of deposit issued by savings banks domiciled in Texas;
10. Share Certificates issued by a state or federal credit unions domiciled in Texas;
11. Money market mutual funds; and
12. Local government investment pools (LGIPs).

The City participates in two Local Government Investment Pools: TexPool and TexasDAILY. The State Comptroller oversees TexPool, with Lehman Brothers and Federated Investors managing the daily operations of the pool under a contract with the State Comptroller. Although there is no regulatory oversight over TexasDAILY, an advisory board consisting of participants or their designees, maintains oversight responsibility for TexasDAILY. Public Financial Management Asset Management LLC manages the daily operations of the pool under a contract with the advisory board.

The City invests in TexPool and TexasDAILY to provide its liquidity needs. TexPool and TexasDAILY are local government investment pools that were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. TexPool and TexasDAILY are 2(a)7 like funds, meaning that they are structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of $1.00, although this cannot be fully guaranteed. TexPool and TexasDAILY are rated AAAm and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit. At September 30, 2004 TexPool and TexasDAILY had a weighted average maturity of 23 days and 43 days, respectively. Although the TexPool and TexasDAILY portfolios had a weighted average maturity of 23 days and 43 days, respectively, the City considers the holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

5 – INVESTMENTS AND DEPOSITS, continued

The City did not participate in any reverse repurchase agreements or security lending agreements during fiscal year 2004.

All of the City's investments are insured, registered, or the City's agent holds the securities in the City's name; therefore, the City is not exposed to custodial credit risk.

The following table includes the portfolio balances of all non-pooled and pooled investment types of the City at September 30, 2004 (in thousands).

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Non-pooled investments:				
Local Government Investment Pools	$ 13,477	143,848	--	157,325
US Agency Discount Notes	--	14,883	--	14,883
US Treasury Notes	--	98,275	--	98,275
US Agency Bonds	--	169,225	--	169,225
US Agency Bonds-Step	--	2,001	--	2,001
Total non-pooled investments	13,477	428,232	--	441,709
Pooled investments:				
Local Government Investment Pools	123,517	129,454	1,356	254,327
US Agency Discount Notes	36,257	38,025	398	74,680
US Treasury Notes	9,660	10,132	106	19,898
US Agency Bonds	205,346	213,375	2,234	420,955
US Agency Bonds-Step	2,421	2,539	26	4,986
Total pooled investments (1)	377,201	393,525	4,120	774,846
Total investments	$ 390,678	821,757	4,120	1,216,555

(1) A difference of $6.5 million exists between the investment portfolio balance and book balance, primarily due to deposits in transit offset by outstanding checks.

b -- Investment categories

The risk exposures for governmental and business-type activities, individual major funds, nonmajor funds in the aggregate and fiduciary fund types of the City are not significantly greater than the deposit and investment risk of the primary government. The Investment Policy segregates the portfolios into strategic categories including:

1. Operating Funds excluding Special Projects or Special Purpose funds;
2. Debt Service Funds;
3. Special Projects Funds or Special Purpose Funds;

The City's investment policy seeks to control credit risk. Such risk shall be controlled by investing in compliance with the City's investment policy, qualifying the broker and financial institution with whom the City will transact, sufficient collateralization, portfolio diversification, and limiting maturity.

5 – INVESTMENTS AND DEPOSITS, continued

Operating Funds (excluding Special Projects or Special Purpose Funds)
As of September 30, 2004, the City of Austin's operating funds (excluding Special Projects or Special Purpose Funds) had the following investments:

	Fair Value (in thousands)				
Investment Type	**Governmental Activities**	**Business-type Activities**	**Fiduciary Funds**	**Total**	**Weighted Average Maturity (days)**
Local Government Invest Pools (LGIPs)	$ 123,517	129,454	1,356	254,327	1
US Agency Discount Notes	36,257	38,025	398	74,680	78
US Treasury Notes	9,660	10,132	106	19,898	329
US Agency Bonds	205,346	213,375	2,234	420,955	544
US Agency Bonds-Step	2,421	2,539	26	4,986	565
	$ 377,201	393,525	4,120	774,846	315

Credit Risk
As of September 30, 2004, the LGIPs (which represent approximately 33% of the portfolio) are rated AAAm by Standard and Poor's. The US Agency Discount Notes (which represent approximately 10% of the portfolio) are rated A-1+ by Standard and Poor's. The US Agency Bonds and US Agency Step Bonds (which represent approximately 55% of the portfolio) are rated AAA by Standard and Poor's. Approximately 2% of the portfolio consists of direct obligations of the US government.

Interest Rate Risk
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities will not exceed the lesser of a dollar weighted average maturity of 365 days or the anticipated cash flow requirements of the funds. Quality short-to-medium term securities should be purchased, which complement each other in a structured manner that minimizes risk and meets the City's cash flow requirements. Three years is the maximum period of time before maturity.

At September 30, 2004, nearly a third of the Investment Pool was invested in AAAm rated LGIPs (2(a)-7 like pools), with the remainder invested in short-to-medium term US Agency and Treasury obligations. Term limits on individual maturities did not exceed three years from the purchase date. The dollar weighted average maturity for all securities was 315 days, which was less than the threshold of 365 days.

5 – INVESTMENTS AND DEPOSITS, continued

Debt Service Funds
As of September 30, 2004, the City of Austin's debt service funds had the following investments:

	Fair Value (in thousands)		
	Governmental Activities	Business-type Activities	Final Maturity
General Obligation Debt Service			
TexPool (LGIPs)	$ 13,392	--	N/A
TexasDAILY(LGIPs)	85	--	N/A
Subtotal	13,477	--	
Enterprise-Utility (1)			
TexPool (LGIPs)	--	120,697	N/A
Fannie Mae Discount Notes (FNDN)	--	4,988	11/15/2004
Subtotal	--	125,685	
Enterprise-Airport			
TexPool (LGIPs)	--	15,108	N/A
Nonmajor Enterprise-Convention Center			
TexPool (LGIPs)	--	5,739	N/A
Total	$ 13,477	146,532	

(1) Includes combined pledge debt service

Credit Risk
As of September 30, 2004, TexPool and TexasDAILY are rated AAAm by Standard and Poor's, and the Fannie Mae Agency Discount Notes are rated A-1+ by Standard and Poor's.

Interest Rate Risk
Investment strategies for debt service funds have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. As a means of minimizing risk of loss due to interest rate fluctuations, securities purchased cannot have a stated final maturity date which exceeds the debt service payment date.

At September 30, 2004, portfolios in this category held investments in AAAm rated LGIPs and US Agencies with final maturities matching anticipated debt service requirements in October and/or November 2004.

Special Projects Funds
As of September 30, 2004, the City of Austin's Special Projects Funds had the following investments:

	Fair Value (in thousands)		
Capital Project Construction	Governmental Activities	Business-type Activities	Final Maturity
TexPool (LGIPs)	$ 80	--	N/A
Federal Home Loan Bank (FHLB) 2.315% of 04/28/06	1,890	--	04/28/2006
Subtotal	1,970	--	
Airport Construction			
TexPool (LGIPs)	--	2,298	N/A
Freddie Mac Discount Notes (FMCDN) of 04/05/05	--	9,895	04/05/2005
Subtotal	--	12,193	
Total special projects funds	$ 1,970	12,193	

Credit Risk
As of September 30, 2004, TexPool is rated AAAm by Standard and Poor's. The Freddie Mac Discount Notes are rated A-1+ by Standard and Poor's, and the Federal Home Loan Bank Agency Bonds are rated AAA by Standard and Poor's.

5 – INVESTMENTS AND DEPOSITS, continued

Interest Rate Risk
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities in this category not exceed the anticipated cash flow requirements of the funds.

At September 30, 2004, the portfolios held investments in a AAAm rated LGIP and US Agencies with maturities that meet anticipated cash flow requirements.

Special Purpose Funds
Austin Energy Debt Management Fund
As of September 30, 2004, the City of Austin's Special Purpose Fund (Austin Energy Debt Management Fund) had the following investments:

Business-type Activities	Fair Value (in thousands)	Weighted Average Maturity (days)
TexPool (LGIPs)	$ 6	1
US Treasuries	70,990	790
US Agencies	99,139	787
Total	$ 170,135	788

Credit Risk
At September 30, 2004, the Electric Utility Department Debt Management Fund had a minimal investment in TexPool, an LGIP rated AAAm by Standard and Poor's, with the remainder invested in short-to-medium term US Agency and Treasury obligations. The US Agency Bonds are rated AAA by Standard and Poor's. The remaining securities are direct obligations of the US government.

Interest Rate Risk
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities in this category not exceed the anticipated cash flow requirements of the funds.

At September 30, 2004, the portfolios held investments in TexPool (AAAm rated LGIP), US Treasuries and US Agencies with maturities that meet anticipated cash flow requirements and an overall dollar weighted average maturity of 788 days (2.16 years).

Austin Energy Nuclear Decommissioning Trust Funds
As of September 30, 2004, the Austin Energy's Special Purpose Fund (Nuclear Decommissioning Trust Funds, NDTF) had the following investments:

Business-type Activities	Fair Value (in thousands)	Weighted Average Maturity (years)
US Treasuries	$ 27,285	2.47
US Agencies	70,086	2.39
US Agencies-Step	2,001	4.58
Total	$ 99,372	2.46

Credit Risk
As of September 30, 2004, the US Agency Bonds and US Agency Step Bonds are rated AAA by Standard and Poor's. The remaining securities are direct obligations of the US government.

Interest Rate Risk
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy for the Decommissioning Trust Fund portfolios requires that the dollar weighted average maturity, using final stated maturity dates, shall not exceed seven years, although the portfolio's weighted average maturity may be substantially shorter if market conditions so dictate. At September 30, 2004, the dollar weighted average maturity was 2.46 years.

5 – INVESTMENTS AND DEPOSITS, continued

Investments and deposits at September 30, 2004 are as follows (in thousands):

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Non-pooled investments and deposits	$ 17,369	436,546	--	453,915
Pooled investments and deposits	379,226	395,647	4,142	779,015
Total investments and deposits	396,595	832,193	4,142	1,232,930
Unrestricted deposits	3,892	55	--	3,947
Restricted deposits	--	8,259	--	8,259
Pooled deposits	2,025	2,122	22	4,169
Investments	390,678	821,757	4,120	1,216,555
Total investments and deposits	$ 396,595	832,193	4,142	1,232,930

A difference of $10.7 million exists between bank balance and book balance, primarily due to deposits in transit offset by outstanding checks.

c -- Deposits

The September 30, 2004 carrying amount of deposits is as follows (in thousands):

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Cash				
Unrestricted	$ 111	55	--	166
Cash held by trustee				
Unrestricted	3,781	--	--	3,781
Restricted	--	8,259	--	8,259
Pooled cash	2,025	2,122	22	4,169
Total deposits	$ 5,917	10,436	22	16,375

All bank accounts were either insured or collateralized with securities held by the City or by its agent in the City's name at September 30, 2004.

6 – PROPERTY TAXES

The City's property tax is levied each October 1 on the assessed value listed as of January 1 for all real and personal property located in the City. The adjusted assessed value for the roll as of January 1, 2003, upon which the 2004 levy was based, was $48,964,275,008.

Taxes are due by January 31 following the October 1 levy date. During the year ended September 30, 2004, 99.06% of the current tax levy (October 1, 2003) was collected. The statutory lien date is January 1.

The methods of property assessment and tax collection are determined by Texas statute. The statutes provide for a property tax code, county-wide appraisal districts, a State property tax board, and certain exemptions from taxation, such as intangible personal property, household goods, and family-owned automobiles.

6 – PROPERTY TAXES, continued

The appraisal of property within the City is the responsibility of the Travis Central Appraisal District and the Williamson County Appraisal District. The appraisal districts are required under the Property Tax Code to assess all real and personal property within the appraisal district on the basis of 100% of its appraised value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every three years; however, the City may require more frequent reviews of appraised values at its own expense. The Travis Central Appraisal District has chosen to review the value of property every two years, while the Williamson County Appraisal District has chosen to review the value of property on an annual basis. The City may challenge appraised values established by the appraisal district through various appeals and, if necessary, legal action.

The City is authorized to set tax rates on property within the City limits. However, if the effective tax rate, excluding tax rates for bonds, certificates of obligation, and other contractual obligations, as adjusted for new improvements and revaluation, exceeds the rate for the previous year by more than 8%, State statute allows qualified voters of the City to petition for an election to determine whether to limit the tax rate increase to no more than 8%.

The City is permitted by Article XI, Section 5 of the State of Texas Constitution to levy taxes up to $2.50 per $100 of assessed valuation for general governmental services, including the payment of principal and interest on general obligation long-term debt. Under the City Charter, a limit on taxes levied for general governmental services, exclusive of payments of principal and interest on general obligation long-term debt, has been established at $1.00 per $100 assessed valuation. A practical limitation on taxes levied for debt service of $1.50 per $100 of assessed valuation is established by State Statute and City Charter limitations. Through contractual arrangements, Travis and Williamson counties bill and collect property taxes for the City.

The tax rate to finance general governmental functions, other than the payment of principal and interest on general obligation long-term debt, for the year ended September 30, 2004, was $.3236 per $100 assessed valuation. The City has a tax margin for general governmental purposes of $.6764 per $100 assessed valuation, and could levy approximately $331,194,356 in additional taxes from the assessed valuation of $48,964,275,008 before the legislative limit is reached.

The City has reserved a portion of the taxes collected for lawsuits filed by certain taxpayers against the appraisal districts challenging assessed values in the government-wide financial statements.

7 – CAPITAL ASSETS AND INFRASTRUCTURE

The City anticipates the need for numerous additional utility-related projects over the next several years. However, specific projects and related funding have not been identified or authorized.

The City has recorded capitalized interest for fiscal year 2004 in the following funds related to the construction of various enterprise fund capital improvement projects (in thousands):

Major fund:		
Airport	$	953
Nonmajor enterprise funds:		
Convention Center		1,390
Drainage		1,113
Golf		67
Solid Waste Services		131

Interest is not capitalized on governmental capital assets.

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Components of capital assets (in thousands)

	Governmental Activities	Business-type Activities	Total
Capital assets not depreciated			
Land and improvements	$ 232,953	280,377	513,330
Arts and treasures	4,811	1,359	6,170
Library collections	12,885	--	12,885
Total	250,649	281,736	532,385
Depreciable property, plant and equipment in service			
Building and improvements	355,580	1,959,528	2,315,108
Equipment	63,405	4,234,261	4,297,666
Vehicles	75,635	87,543	163,178
Infrastructure	1,435,360	--	1,435,360
Completed assets not classified	131,663	189,272	320,935
Total	2,061,643	6,470,604	8,532,247
Less accumulated depreciation for			
Building and improvements	(95,008)	(557,904)	(652,912)
Equipment	(30,520)	(1,688,281)	(1,718,801)
Vehicles	(43,851)	(50,633)	(94,484)
Infrastructure	(426,668)	--	(426,668)
Completed assets not classified	(11,375)	(8,889)	(20,264)
Total	(607,422)	(2,305,707)	(2,913,129)
Net property, plant and equipment in service	1,454,221	4,164,897	5,619,118
Other capital assets not depreciated			
Construction in progress	327,419	679,559	1,006,978
Nuclear fuel, net of amortization	--	17,933	17,933
Plant held for future use	--	30,745	30,745
Total capital assets	$ 2,032,289	5,174,870	7,207,159

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Governmental Activities

Capital asset activity for the year ended September 30, 2004 was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 195,274	37,679	--	232,953
Arts and treasures	4,785	26	--	4,811
Library collections	12,880	5	--	12,885
Total	212,939	37,710	--	250,649
Depreciable property, plant and equipment in service				
Building and improvements	310,174	45,406	--	355,580
Equipment	50,253	14,251	(1,099)	63,405
Vehicles	74,447	4,461	(3,273)	75,635
Infrastructure	1,308,273	127,087	--	1,435,360
Completed assets not classified	108,595	31,383	(8,315)	131,663
Total	1,851,742	222,588	(12,687)	2,061,643
Less accumulated depreciation for				
Building and improvements	(84,558)	(10,450)	--	(95,008)
Equipment	(23,938)	(7,398)	816	(30,520)
Vehicles	(38,791)	(8,152)	3,092	(43,851)
Infrastructure	(389,336)	(37,332)	--	(426,668)
Completed assets not classified	(13,299)	--	1,924	(11,375)
Total	(549,922)	(63,332) (2)	5,832	(607,422)
Net property, plant and equipment in service	1,301,820	159,256	(6,855)	1,454,221
Other capital assets not depreciated				
Construction in progress	353,951	154,798	(181,330)	327,419
Total capital assets	$ 1,868,710	351,764	(188,185)	2,032,289

(1) Increases and decreases do not include transfers (at net book value) between Governmental Activities.

(2) Depreciation expense was charged to functions as follows (in thousands):

Governmental activities:	
General government	$ 2,043
Public safety	9,966
Transportation, planning and sustainability	3,293
Public health	1,428
Public recreation and culture	7,181
Urban growth management	1,368
Unallocated depreciation expense - infrastructure	35,833
Internal service funds	2,220
Total accumulated depreciation	$ 63,332

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Electric Fund

Capital asset activity for the year ended September 30, 2004 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 34,942	2,670	--	37,612
Total	34,942	2,670	--	37,612
Depreciable property, plant and equipment in service				
Building and improvements	601,793	19,795	--	621,588
Equipment	2,302,680	286,217	(12,330)	2,576,567
Vehicles	19,319	1,791	(679)	20,431
Completed assets not classified	27,617	866	(7,030)	21,453
Total	2,951,409	308,669	(20,039)	3,240,039
Less accumulated depreciation for				
Building and improvements	(250,556)	(17,861)	--	(268,417)
Equipment	(1,020,307)	(76,631)	9,750	(1,087,188)
Vehicles	(14,919)	(661)	679	(14,901)
Completed assets not classified	(2,893)	(874)	--	(3,767)
Total	(1,288,675)	(96,027) (1)	10,429	(1,374,273)
Net property, plant and equipment in service	1,662,734	212,642	(9,610)	1,865,766
Other capital assets not depreciated				
Construction in progress	359,749	160,070	(298,240)	221,579
Nuclear fuel, net of amortization	21,805	--	(3,872)	17,933
Plant held for future use	31,379	--	(634)	30,745
Total capital assets	$ 2,110,609	375,382	(312,356)	2,173,635

(1) Components of accumulated depreciation increases:	
Current year depreciation	$ 95,525
Adjustment to accumulated depreciation	502
Total accumulated depreciation	$ 96,027

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Water and Wastewater Fund

Capital asset activity for the year ended September 30, 2004 was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 136,173	1,007	(443)	136,737
Total	136,173	1,007	(443)	136,737
Depreciable property, plant and equipment in service				
Building and improvements	343,874	42,300	--	386,174
Equipment	1,508,381	106,480	(423)	1,614,438
Vehicles	20,988	609	(820)	20,777
Completed assets not classified	248,413	--	(102,710)	145,703
Total	2,121,656	149,389	(103,953)	2,167,092
Less accumulated depreciation for				
Building and improvements	(103,580)	(8,533)	--	(112,113)
Equipment	(536,353)	(40,623)	418	(576,558)
Vehicles	(13,611)	(1,152)	819	(13,944)
Completed assets not classified	(4,640)	--	--	(4,640)
Total	(658,184)	(50,308) (2)	1,237	(707,255)
Net property, plant and equipment in service	1,463,472	99,081	(102,716)	1,459,837
Other capital assets not depreciated				
Construction in progress	232,170	161,901	(22,898)	371,173
Total capital assets	$ 1,831,815	261,989	(126,057)	1,967,747

(1) Increases and decreases do not include transfers (at net book value) between Water and Wastewater funds.

(2) Components of accumulated depreciation increases:

Current year depreciation	
Water	$ 24,412
Wastewater	25,896
Total accumulated depreciation	$ 50,308

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Airport Fund

Capital asset activity for the year ended September 30, 2004 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 58,690	--	--	58,690
Arts and treasures	459	296	--	755
Total	59,149	296	--	59,445
Depreciable property, plant and equipment in service				
Building and improvements	575,013	24,439	--	599,452
Equipment	14,704	1,413	(387)	15,730
Vehicles	3,722	377	(37)	4,062
Completed assets not classified	21,796	--	(18,976)	2,820
Total	615,235	26,229	(19,400)	622,064
Less accumulated depreciation for				
Building and improvements	(78,768)	(14,794)	--	(93,562)
Equipment	(5,523)	(927)	210	(6,240)
Vehicles	(1,969)	(333)	37	(2,265)
Completed assets not classified	(323)	--	323	--
Total	(86,583)	(16,054) (1)	570	(102,067)
Net property, plant and equipment in service	528,652	10,175	(18,830)	519,997
Other capital assets not depreciated				
Construction in progress	19,368	11,883	(7,775)	23,476
Total capital assets	$ 607,169	22,354	(26,605)	602,918

(1) Components of accumulated depreciation increases:	
Current year depreciation	$ 16,054
Total accumulated depreciation	$ 16,054

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Nonmajor Enterprise Funds

Capital asset activity for the year ended September 30, 2004 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 40,795	6,601	(58)	47,338
Arts and treasures	268	336	--	604
Total	41,063	6,937	(58)	47,942
Depreciable property, plant and equipment in service				
Building and improvements	341,862	11,077	(625)	352,314
Equipment	22,762	4,970	(207)	27,525
Vehicles	40,390	3,986	(2,102)	42,274
Completed assets not classified	30,611	21	(11,336)	19,296
Total	435,625	20,054	(14,270)	441,409
Less accumulated depreciation for				
Building and improvements	(75,093)	(8,721)	2	(83,812)
Equipment	(16,585)	(1,804)	94	(18,295)
Vehicles	(17,844)	(3,617)	1,938	(19,523)
Completed assets not classified	(760)	--	278	(482)
Total	(110,282)	(14,142) (1)	2,312	(122,112)
Net property, plant and equipment in service	325,343	5,912	(11,958)	319,297
Other capital assets not depreciated				
Construction in progress	49,870	28,457	(14,996)	63,331
Nuclear fuel, net of amortization	--	--	(0)	(0)
Plant held for future use	--	--	0	0
Total capital assets	$ 416,276	41,306	(27,012)	430,570

(1) Components of accumulated depreciation increases:

Current year depreciation	
Convention Center	$ 6,445
Other nonmajor enterprise funds	7,666
Adjustment to accumulated depreciation	31
Total accumulated depreciation	$ 14,142

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities

Capital asset activity for the year ended September 30, 2004 was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 270,600	10,278	(501)	280,377
Arts and treasures	727	632	--	1,359
Total	271,327	10,910	(501)	281,736
Depreciable property, plant and equipment in service				
Building and improvements	1,862,542	97,611	(625)	1,959,528
Equipment	3,848,527	399,145	(13,411)	4,234,261
Vehicles	84,419	6,763	(3,639)	87,543
Completed assets not classified	328,437	887	(140,052)	189,272
Total	6,123,925	504,406	(157,727)	6,470,604
Less accumulated depreciation for				
Building and improvements	(507,997)	(49,909)	2	(557,904)
Equipment	(1,578,768)	(119,985)	10,472	(1,688,281)
Vehicles	(48,343)	(5,763)	3,473	(50,633)
Completed assets not classified	(8,616)	(874)	601	(8,889)
Total	(2,143,724)	(176,531) (2)	14,548	(2,305,707)
Net property, plant and equipment in service	3,980,201	327,875	(143,179)	4,164,897
Other capital assets not depreciated				
Construction in progress	661,157	362,311	(343,909)	679,559
Nuclear fuel, net of amortization	21,805	--	(3,872)	17,933
Plant held for future use	31,379	--	(634)	30,745
Total capital assets	$ 4,965,869	701,096	(492,095)	5,174,870

(1) Increases and decreases do not include transfers (at net book value) between business-type activities.

(2) Depreciation expense was charged to functions as follows (in thousands):

Business-type activities:	
Electric	$ 95,525
Water	24,412
Wastewater	25,896
Airport	16,054
Convention Center	6,445
Other nonmajor enterprise funds	7,666
Total business-type activities depreciation expense	175,998
Adjustment to accumulated depreciation	533
Total increases in accumulated depreciation	$ 176,531

8 – RETIREMENT PLANS

a -- Description

The City participates in funding three contributory, defined benefit retirement plans: City of Austin Employees' Retirement and Pension Fund, City of Austin Police Officers' Retirement and Pension Fund, and Fire Fighters' Relief and Retirement Fund of Austin, Texas. An independent board of trustees administers each plan. These plans are City-wide single employer funded plans that cover substantially all full-time employees. The fiscal year of each pension fund ends December 31. The most recently available financial statements of the pension funds are for the year ended December 31, 2003. Membership in the plans at December 31, 2003 is as follows:

	City Employees	Police Officers	Fire Fighters	Total
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	3,619	338	392	4,349
Current employees	7,432	1,406	969	9,807
Total	11,051	1,744	1,361	14,156

Each plan provides service retirement, death, disability and withdrawal benefits. State law governs benefit and contribution provisions. Amendments may be made by the Legislature of the State of Texas.

Financial reports that include financial statements and supplementary information for each plan are publicly available at the locations shown below.

Plan	Address	Telephone
Employees' Retirement and Pension Fund	418 E. Highland Mall Blvd. Austin, Texas 78752 www.coaers.org	(512) 458-2551
Police Officers' Retirement and Pension Fund	2520 S. IH 35, Ste. 205 Austin, Texas 78704 www.ausprs.org	(512) 416-7672
Fire Fighters' Relief and Retirement Fund	4101 Parkstone Heights Dr., Ste. 270 Austin, Texas 78746 www.afrs.org	(512) 454-9567

8 – RETIREMENT PLANS, continued

b -- Funding Policy

	City of Austin Employees' Retirement and Pension Fund	City of Austin Police Officers' Retirement and Pension Fund	Fire Fighters' Relief and Retirement Fund
Authority establishing contributions obligation	State Legislation	State Legislation	State Legislation
Frequency of contribution	Biweekly	Biweekly	Biweekly
Employee's contribution (percent of earnings)	8.0%	9.0%	13.7% until June 2003; 15.7% thereafter
City's contribution (percent of earnings)	8.0% (1)	18.0%	18.05%

(1) The City contributes two-thirds of the cost of prior service benefit payments.

While the contribution requirements are not actuarially determined, state law requires that a qualified actuary approve each plan of benefits adopted. The actuary for the Police Officers and Fire Fighters plan has certified that the contribution commitment by the participants and the City provides an adequate financing arrangement. Contributions for fiscal year ended September 30, 2004, are as follows (in thousands):

		City Employees	Police Officers	Fire Fighters	Total
City	$	25,268	14,358	9,835	49,461
Employees		25,218	7,179	8,554	40,951
Total contributions	$	50,486	21,537	18,389	90,412

c -- Annual Pension Cost and Net Pension Obligation

The City's annual pension cost of $55,367,000 for fiscal year ended September 30, 2004, was $5,906,000 more than the City's actual contributions. Three-year trend information is as follows (in thousands):

		City Employees	Police Officers	Fire Fighters	Total
City's Annual Pension Cost (APC):					
2002	$	25,986	12,160	9,089	47,235
2003		26,093	13,626	9,608	49,327
2004		31,174	14,358	9,835	55,367
Percentage of APC contributed:					
2002		100%	100%	100%	N/A
2003		100%	100%	100%	N/A
2004		81%	100%	100%	N/A
Net Pension Obligation:					
2002	$	--	--	--	--
2003		--	--	--	--
2004		5,906	--	--	5,906

8 – RETIREMENT PLANS, continued

The latest actuarial valuations were completed as of December 31, 2003. The actuarial cost method and significant assumptions underlying the actuarial calculations are as follows:

	City Employees	Police Officers	Fire Fighters
Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method
Asset Valuation Basis	5-year smoothed market	5-year smoothed market	5-year smoothed market
Inflation Rate	3.5%	4%	4.5%
Projected Annual Salary Increases	4% to 14%	6.8% average	6.0%
Post retirement benefit increase	None	None	1%
Assumed Rate of Return on Investments	7.75%	8%	8%
Amortization method	Level percent of projected pay, open	Level percent of projected pay, open	Level percent of projected pay, open
Remaining Amortization Period	Infinite	28.6 years	33.7 years

d -- Trend Information (Unaudited)

Information pertaining to the latest actuarial valuations for each Plan is as follows (in thousands):

Valuation Date, December 31st	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
City Employees						
1995	$ 707,300	623,000	(84,300)	113.5%	221,000	(38.1%)
1997	856,423	832,140	(24,283)	102.9%	219,208	(11.1%)
1999	1,105,100	1,044,500	(60,600)	105.8%	244,500	(24.8%)
2001	1,311,288	1,360,270	48,982	96.4%	316,793	15.5%
2002	1,250,851	1,440,199	189,348	86.9%	322,008	58.8%
2003	1,348,800	1,551,800	203,000	86.9%	312,800	64.9%
Police Officers						
1995	$ 127,572	164,865	37,293	77.4%	36,211	103.0%
1997	168,602	222,703	54,101	75.7%	47,189	114.6%
1999	226,913	257,850	30,937	88.0%	54,695	56.6%
2001	284,761	347,548	62,787	81.9%	69,707	90.1%
2002	298,782	384,992	86,210	77.6%	79,236	108.8%
2003	320,354	413,965	93,611	77.4%	80,959	115.6%
Fire Fighters						
1995	$ 213,403	236,994	23,591	90.0%	32,496	72.6%
1997	268,241	279,472	11,231	96.0%	35,130	32.0%
1999	341,593	317,223	(24,370)	107.7%	38,690	(63.0%)
2001	395,371	406,266	10,895	97.3%	49,726	21.9%
2003	421,136	452,669	31,533	93.0%	55,939	56.4%

(1) UAAL – Unfunded Actuarial Accrued Liability (Excess)

9 – SELECTED REVENUES

a -- Governmental Funds - General Fund

Hospital lease payments
Effective October 1, 1995, the City entered into a long-term lease arrangement with the Daughters of Charity Health Services of Austin ("Seton") to operate City-owned Brackenridge Hospital. This lease agreement qualifies as an operating lease for accounting purposes.

The lease agreement specifies a minimum lease payment in addition to a supplemental rent payment based on approximately 46% of net disproportionate share revenue proceeds. In fiscal year 2004, General Fund revenues included minimum lease payments of $1.3 million and additional rent of $12.2 million.

In March 2004, the Austin Women's Hospital began operations. The facility is a separately licensed facility located on the 5th floor of Brackenridge Hospital. The City has entered into an agreement with the University of Texas Medical Branch at Galveston to operate the facility. Total construction costs were approximately $9.3 million; approximately $6.8 million of these costs were related to enhancing the capacity of OB services related to Brackenridge, in addition to providing certain reproductive services that Seton is not capable of performing. The remaining $2.5 million of costs were related to licensing requirements. Construction costs will be amortized over the remaining life of the original lease agreement with Seton, which has approximately twenty-two years remaining. For further information, please refer to the Subsequent Events Note (Note 16).

b -- Major enterprise funds

Electric and Water and Wastewater
The Texas Public Utility Commission has jurisdiction over electric utility wholesale transmission rates. The City Council has jurisdiction over all other electric utility rates and over all water and wastewater utility rates and other services. The Council determines electric utility and water and wastewater utility rates based on the cost of operations and a debt service coverage approach.

Under a bill passed by the Texas Legislature in 1999, municipally-owned electric utilities such as the City's utility system have the option of offering retail competition after January 1, 2002. At September 30, City management had decided not to enter the retail market, as allowed by State law. Because the effects of entering retail competition are uncertain, a change in accounting policy is not warranted at this time.

Electric rates include a fixed rate and a fuel recovery cost-adjustment factor that allows recovery of coal, gas, purchased power, and other fuel costs. If actual fuel costs differ from amounts billed to customers, deferred or unbilled revenues are recorded by the Electric utility. Any over- or under-collections are applied to the cost-adjustment factor. The fuel factor is revised annually on a calendar year basis or when over- or under-recovery is more than 10% of expected fuel costs.

Airport
The City has entered into certain lease agreements as lessor for concessions at the Airport. These lease agreements qualify as operating leases for accounting purposes. In fiscal year 2004, the Airport Fund revenues included minimum concession guarantees of $8,251,503.

9 – SELECTED REVENUES, continued

The following is a schedule by year of minimum future rentals on noncancelable operating leases for terms of up to thirty years for the Airport Fund as of September 30, 2004 (in thousands):

Fiscal Year Ended September 30	Enterprise Airport Lease Payments
2005	$ 7,609
2006	7,194
2007	7,021
2008	6,719
2009	4,533
2010-2014	811
2015-2019	392
2020-2024	392
2025-2029	392
2030-2034	65
Totals	$ 35,128

10 – DEBT AND NON-DEBT LIABILITIES

a -- Long-Term Liabilities

The following is a summary of long-term liabilities. Balances at September 30, 2004 are (in thousands):

Description	Governmental Activities	Business-Type Activities	Total
Long-term obligations			
General obligation bonds	$ 738,533	20,240	758,773
Certificates of obligation	91,021	58,616	149,637
Contractual obligations	33,970	14,575	48,545
Other tax supported debt	--	10,369	10,369
General obligation bonds and other tax supported debt total	863,524	103,800	967,324
Commercial paper notes	--	315,616	315,616
Revenue notes	--	28,000	28,000
Revenue bonds	--	2,969,758	2,969,758
Contract revenue bonds	--	13,740	13,740
Capital lease obligations	813	12,753	13,566
Debt service requirements total	864,337	3,443,667	4,308,004
Other long-term obligations			
Accrued compensated absences	70,456	20,110	90,566
Claims payable	27,440	--	27,440
Accrued landfill closure and postclosure costs	--	7,612	7,612
Decommissioning expense payable	--	100,019	100,019
Pension obligation payable	3,102	2,804	5,906
Deferred credits and other liabilities	81,895	527,297	609,192
	182,893	657,842	840,735
Total long-term obligations	$ 1,047,230	4,101,509	5,148,739

This schedule excludes short-term liabilities of $48,781 for governmental activities and $221,008 for business-type activities and long-term interest payable of $166,868 for business-type activities.

Payments on bonds payable for governmental activities will be made in the General Obligation Debt Service Funds. Accrued compensated absences that pertain to governmental activities will be liquidated by the General Fund and Special Revenue Funds. Claims payable will be liquidated by Internal Service Funds. Deferred credits and other liabilities that pertain to governmental activities will be liquidated by the General Fund, Special Revenue Funds, and General Government Capital Improvement Projects Funds.

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all limitations and restrictions.

Internal Service Funds predominately serve the governmental funds. Accordingly, long-term liabilities for these funds are included in governmental activities.

10 – DEBT AND NON-DEBT LIABILITIES, continued

The following is a summary of changes in long-term obligations. Certain long-term obligations provide financing to both governmental and business-type activities. Balances at September 30, 2004 are (in thousands):

Description	September 30, 2003	Increases	Decreases	September 30, 2004	Amounts Due Within One Year
Governmental activities (1)					
General obligation bonds, net	$ 708,200	70,293	(39,960)	738,533	41,470
Certificates of obligation	95,328	600	(4,907)	91,021	5,034
Contractual obligations	26,230	13,950	(6,210)	33,970	6,162
General obligation bonds and other tax supported debt total	829,758	84,843	(51,077)	863,524	52,666
Capital lease obligations	793	343	(323)	813	475
Debt service requirements total	830,551	85,186	(51,400)	864,337	53,141
Other long-term obligations					
Accrued compensated absences	69,243	2,878	(1,665)	70,456	30,719
Claims payable	34,748	12,653	(19,961)	27,440	18,595
Pension obligation payable	--	3,102	--	3,102	--
Deferred credits and other liabilities	75,923	44,094	(38,122)	81,895	56,594
Governmental activities total	1,010,465	147,913	(111,148)	1,047,230	159,049
Business-type activities:					
Electric activities					
General obligation bonds	1,326	--	(6)	1,320	5
Contractual obligations	2,001	--	(439)	1,562	485
General obligation bonds and other tax supported debt total	3,327	--	(445)	2,882	490
Commercial paper notes	54,672	40,312	--	94,984	--
Revenue bonds, net	1,410,965	--	(152,264)	1,258,701	89,949
Capital lease obligations	9,107	127	(2,048)	7,186	1,983
Debt service requirements total	1,478,071	40,439	(154,757)	1,363,753	92,422
Other long-term obligations					
Accrued compensated absences	9,766	1,228	(1,572)	9,422	6,799
Decommissioning expense payable	90,687	9,332	--	100,019	--
Pension obligation payable	--	1,260	--	1,260	--
Deferred credits and other liabilities	86,613	14,043	(16,329)	84,327	12,807
Electric activities total	1,665,137	66,302	(172,658)	1,558,781	112,028
Water and Wastewater activities					
General obligation bonds, net	7,504	--	(1,460)	6,044	1,473
Contractual obligations	5,639	3,780	(1,632)	7,787	1,779
Other tax supported debt, net	11,527	--	(1,158)	10,369	1,095
General obligation bonds and other tax supported debt total	24,670	3,780	(4,250)	24,200	4,347
Commercial paper notes	73,812	146,820	--	220,632	--
Revenue bonds, net	1,199,630	124,931	(188,701)	1,135,860	40,796
Contract revenue bonds, net	16,177	--	(2,437)	13,740	2,035
Capital lease obligations	5,796	62	(1,035)	4,823	1,109
Debt service requirements total	1,320,085	275,593	(196,423)	1,399,255	48,287
Other long-term obligations					
Accrued compensated absences	4,863	393	(541)	4,715	3,435
Pension obligation payable	--	648	--	648	--
Deferred credits and other liabilities	410,889	23,875	(1,173)	433,591	5,557
Water and Wastewater activities total	1,735,837	300,509	(198,137)	1,838,209	57,279

(1) Internal Service Funds predominately serve the governmental funds. Accordingly, long-term liabilities for these funds are included in governmental activities.

10 – DEBT AND NON-DEBT LIABILITIES, continued

Business-type activities (continued):

Description	September 30, 2003	Increases	Decreases	September 30, 2004	Amounts Due Within One Year
Airport activities					
General obligation bonds, net	529	--	(64)	465	45
Contractual obligations	183	--	(68)	115	64
General obligation bonds and other tax supported debt total	712	--	(132)	580	109
Revenue notes	28,000	--	--	28,000	--
Revenue bonds, net	357,262	52,802	(58,418)	351,646	7,650
Capital lease obligations	22	483	(11)	494	173
Debt service requirements total	385,996	53,285	(58,561)	380,720	7,932
Other long-term obligations					
Accrued compensated absences	1,362	222	(206)	1,378	1,116
Pension obligation payable	--	229	--	229	--
Deferred credits and other liabilities	7,136	--	(814)	6,322	1,883
Airport activities total	394,494	53,736	(59,581)	388,649	10,931
Nonmajor activities					
General obligation bonds, net	13,660	--	(1,249)	12,411	1,650
Certificates of obligation, net	34,701	25,491	(1,576)	58,616	2,371
Contractual obligations	1,817	4,100	(806)	5,111	720
General obligation bonds and other tax supported debt total	50,178	29,591	(3,631)	76,138	4,741
Revenue bonds, net	234,046	53,859	(64,354)	223,551	3,520
Capital lease obligations	240	142	(132)	250	157
Debt service requirements total	284,464	83,592	(68,117)	299,939	8,418
Other long-term obligations					
Accrued compensated absences	4,928	636	(969)	4,595	4,072
Accrued landfill closure and postclosure costs	7,370	242	--	7,612	--
Pension obligation payable	--	667	--	667	--
Deferred credits and other liabilities	2,657	403	(3)	3,057	3,057
Nonmajor activities total	299,419	85,540	(69,089)	315,870	15,547
Total business-type activities					
General obligation bonds, net	23,019	--	(2,779)	20,240	3,173
Certificates of obligation, net	34,701	25,491	(1,576)	58,616	2,371
Contractual obligations	9,640	7,880	(2,945)	14,575	3,048
Other tax supported debt, net	11,527	--	(1,158)	10,369	1,095
General obligation bonds and other tax supported debt total	78,887	33,371	(8,458)	103,800	9,687
Commercial paper notes	128,484	187,132	--	315,616	--
Revenue notes	28,000	--	--	28,000	--
Revenue bonds, net	3,201,903	231,592	(463,737)	2,969,758	141,915
Contract revenue bonds	16,177	--	(2,437)	13,740	2,035
Capital lease obligations	15,165	814	(3,226)	12,753	3,422
Debt service requirements total	3,468,616	452,909	(477,858)	3,443,667	157,059
Other long-term obligations					
Accrued compensated absences	20,919	2,479	(3,288)	20,110	15,422
Accrued landfill closure and postclosure costs	7,370	242	--	7,612	--
Decommissioning expense payable	90,687	9,332	--	100,019	--
Pension obligation payable	--	2,804	--	2,804	--
Deferred credits and other liabilities	507,295	38,321	(18,319)	527,297	23,304
Business-type activities total	4,094,887	506,087	(499,465)	4,101,509	195,785
Total long-term liabilities	$ 5,105,352	654,000	(610,613)	5,148,739	354,834

This schedule excludes short-term liabilities of $48,781 for governmental activities and $221,008 for business-type activities and long-term interest payable of $166,868 for business-type activities.

10 – DEBT AND NON-DEBT LIABILITIES, continued

b -- Governmental Activities Long-Term Liabilities

General Obligation Bonds - General obligation debt is collateralized by the full faith and credit of the City. The City intends to retire its general obligation debt, plus interest, from future ad valorem tax levies, and is required by ordinance to create from such tax revenues a sinking fund sufficient to pay the current interest due thereon and each installment of principal as it becomes due. General obligation debt issued to finance capital assets of enterprise funds is reported as an obligation of these enterprise funds, although the funds are not obligated by the applicable bond indentures to repay any portion of principal and interest on outstanding general obligation debt. However, the City intends for the enterprise funds to meet the debt service requirements from program revenues.

The following table summarizes significant facts about general obligation bonds, certificates of obligation, contractual obligations, and assumed municipal utility district (MUD) bonds outstanding at September 30, 2004, including those reported in certain proprietary funds (in thousands):

	Date Issued	Original Issue	Amount Outstanding at September 30, 2004	Aggregate Interest Requirements at September 30, 2004		Interest Rates of Debt Outstanding at September 30, 2004	Maturity Dates of Serial Debt
Series 1993	February 1993	$ 71,600	39,255	6,045	(1)	5.60 - 5.75%	9/1/2005-2009
Series 1995	October 1995	30,250	1,885	138	(1)	7.30%	9/1/2005
Series 1995	October 1995	8,660	420	20	(1)	4.75%	9/1/2005
Series 1996	October 1996	30,550	8,160	1,791	(1)	5.00 - 6.00%	9/1/2005-2009
Series 1997	October 1997	29,295	28,215	12,773	(1)	5.00 - 5.75%	9/1/2005-2017
Series 1997	October 1997	13,975	1,155	26	(2)	4.50%	11/1/2004
Series 1997	October 1997	2,120	1,610	637	(1)	4.60 - 5.25%	9/1/2005-2017
Series 1998	January 1998	110,300	104,590	34,000	(1)	4.60 - 5.25%	9/1/2005-2016
Assumed MUD Debt	December 1997	33,680	12,037	5,892	(3)	4.40 - 10.50%	11/15/2004-2018
Series 1998	October 1998	13,430	13,030	5,871	(1)	4.40 - 7.13%	9/1/2005-2018
Series 1998	October 1998	22,770	18,455	7,291	(1)	4.10 - 4.75%	9/1/2005-2018
Series 1998	October 1998	14,975	4,340	177	(2)	4.00%	11/1/2004-2005
Series 1999	October 1999	51,100	50,390	29,410	(1)	4.50- 5.75%	9/1/2005-2019
Series 1999	October 1999	10,335	4,130	299	(2)	4.75%	11/1/2004-2006
Series 1999	October 1999	5,590	4,670	2,263	(1)	5.00 - 6.00%	9/1/2005-2019
Series 2000	October 2000	52,930	51,045	32,178	(1)	4.40 - 6.00%	9/1/2005-2020
Series 2000	October 2000	6,060	5,320	2,715	(1)	5.00 - 5.38%	9/1/2005-2020
Series 2001	June 2001	123,445	62,995	16,040	(1)	4.75 - 5.50%	9/1/2005-2022
Series 2001	October 2001	79,650	78,685	41,089	(1)	4.00 - 5.25%	9/1/2005-2021
Series 2001	October 2001	2,650	1,825	173	(2)	3.00 - 3.88%	11/1/2004-2008
Series 2001	October 2001	65,335	56,750	22,013	(1)	4.38 - 5.25%	9/1/2005-2021
Series 2002	July 2002	12,190	12,190	4,507	(1)	3.00 - 5.00%	3/1/2005-2017
Series 2002	July 2002	2,495	2,130	258	(1)	4.00 - 5.00%	3/1/2005-2009
Series 2002	September 2002	99,615	99,100	48,053	(1)	2.50 - 5.00%	9/1/2005-2022
Series 2002	September 2002	8,690	7,130	690	(2)	2.50 - 4.00%	11/1/2004-2009
Series 2002	September 2002	34,095	31,950	15,822	(1)	2.50 - 5.38%	9/1/2005-2022
Series 2003	June 2003	62,585	58,150	10,743	(1)	2.25 - 5.00%	9/1/2006-2013
Series 2003	September 2003	68,855	68,555	37,677	(1)	2.00 - 5.00%	9/1/2006-2023
Series 2003A	September 2003	2,530	2,325	623	(1)	4.00 - 5.00%	9/1/2005-2013
Series 2003	September 2003	4,450	4,310	2,183	(1)	4.00 - 4.80%	9/1/2005-2023
Series 2003	September 2003	8,610	8,135	833	(2)	2.00 - 3.38%	11/1/2004-2010
Series 2004	September 2004	67,835	67,835	37,244	(1)	3.00 - 5.00%	9/1/2007-2024
Series 2004A	September 2004	2,430	2,430	724	(1)	4.00 - 4.75%	9/1/2006-2014
Series 2004	September 2004	25,000	25,000	14,462	(1)	2.00 - 5.00%	9/1/2005-2024
Series 2004	September 2004	21,830	21,830	2,622	(2)	1.85 - 3.35%	5/1/2005-2011
			$ 960,032				

(1) Interest is paid semiannually on March 1 and September 1.
(2) Interest is paid semiannually on May 1 and November 1.
(3) Interest is paid four times a year on March 1, May 15, September 1, and November 15.

10 – DEBT AND NON-DEBT LIABILITIES, continued

In September 2004, the City issued Public Improvement and Refunding Bonds, Series 2004, in the amount of $67,835,000. The proceeds from the issue will be used as follows: street improvements ($35,503,000); right of way acquisition and utility relocation ($15,000,000); parks and recreation facilities ($11,532,000); libraries ($2,875,000); and to refund a court settlement ($2,925,000). These bonds will be amortized serially on September 1 of each year from 2007 to 2024. Certain of these bonds are callable beginning September 1, 2014. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2005. Total interest requirements for these bonds, at rates ranging from 3% to 5%, are $37,244,485.

In September 2004, the City issued Public Improvement Refunding Bonds, Taxable Series 2004A, in the amount of $2,430,000. Proceeds from the issue will be used to finance certain payment obligations relating to the City's liability under a settlement agreement. These bonds will be amortized serially on September 1 of each year from 2006 to 2014. These bonds are not subject to optional redemption prior to maturity. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2005. Total interest requirements for these bonds, at rates ranging from 4% to 4.75%, are $723,615.

In September 2004, the City issued Certificates of Obligation, Series 2004, in the amount of $25,000,000. The proceeds from the issue will be used as follows: convention center garage ($16,400,000); School for the Deaf renovation ($600,000); and closed landfill remediation at Mabel Davis Park ($8,000,000). These certificates of obligation will be amortized serially on September 1 of each year from 2005 to 2024. Certain of these obligations are callable beginning September 1, 2014. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2005. Total interest requirements for these obligations, at rates ranging from 2% to 5%, are $14,462,050.

In September 2004, the City issued Public Property Finance Contractual Obligations, Series 2004, in the amount of $21,830,000. The proceeds from the issue will be used as follows: systems backup and enhancements ($500,000); communications technology upgrades ($11,420,000); public works capital equipment ($2,100,000); Solid Waste Services capital equipment ($2,000,000); fire capital equipment ($2,030,000); and capital equipment vehicles ($3,780,000). These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2005 to 2011. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2005. These contractual obligations are not subject to optional redemption prior to maturity. The total interest requirements for these obligations, at rates ranging from 1.85% to 3.35%, are $2,622,163.

General obligation bonds authorized and unissued amounted to $123,275,000 at September 30, 2004. Bond ratings at September 30, 2004, were Aa2 (Moody's Investor Services, Inc.), AA+ (Standard & Poor's) and AA+ (Fitch).

c -- Business -Type Activities Long-Term Liabilities

Utility Debt -- The City has previously issued combined debt for the Electric and Water and Wastewater utilities. The City began issuing separate debt for electric and water and wastewater activities in 2000. The following paragraphs describe both combined and separate debt.

Combined Utility Systems Debt -- General - The City's Electric Fund and Water and Wastewater Fund comprise the Combined Utility Systems, which issue Combined Utility Systems revenue bonds to finance Electric Fund and Water and Wastewater Fund capital projects. Principal and interest on these bonds are payable solely from the combined net revenues of the Electric Fund and Water and Wastewater Fund.

The total Combined Utility Systems revenue bond obligations at September 30, 2004, exclusive of discounts, premiums and loss on refundings consist of $929,104,135 prior lien bonds and $253,444,512 subordinate lien bonds. Aggregate interest requirements for all prior lien and subordinate lien bonds are $862,408,727 at September 30, 2004. Revenue bonds authorized and unissued amount to $1,492,642,660 at that date. Bond ratings at September 30, 2004 for the prior lien and subordinate lien bonds were, respectively, A2 and A2 (Moody's Investor Services, Inc.), A+ and A (Standard & Poor's), and A+ and A+ (Fitch).

Combined Utility Systems Debt -- Revenue Bond Refunding Issues - The Combined Utility Systems have refunded various issues of revenue bonds, notes, and certificates of obligation through refunding revenue bonds. Principal and interest on these refunding bonds are payable solely from the combined net revenues of the City's Electric Fund and Water and Wastewater Fund. The prior lien bonds are subordinate only to the prior lien revenue bonds outstanding at the time of issuance, while the subordinate lien bonds are subordinate to prior lien revenue bonds and to subordinate lien revenue bonds outstanding at the time of issuance.

10 – DEBT AND NON-DEBT LIABILITIES, continued

Some of these bonds are callable prior to maturity at the option of the City. The term bonds are subject to a mandatory redemption prior to the maturity dates as defined in the respective official statements.

The net proceeds of each of the refunding bond issuances were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service. As a result, the refunded bonds are considered to be legally defeased and the liability for the refunded bonds has been removed from the financial statements. The accounting gains and losses due to the advance refunding of debt have been deferred and are being amortized over the life of the refunding bonds by the straight-line method. However, a gain or loss on refunded bonds is recognized when funds from current operations are used.

Combined Utility Systems Debt -- Bonds Issued and Outstanding - The following schedule shows the original and refunding revenue bonds outstanding at September 30, 2004 (in thousands):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2004
1990B Refunding	February 1990	$ 236,009	3,668
1992 Refunding	March 1992	265,806	30,116
1992A Refunding	May 1992	351,706	108,111
1993 Refunding	February 1993	203,166	88,841
1993A Refunding	June 1993	263,410	35,029
1994 Refunding	October 1994	142,559	26,894
1995 Refunding	June 1995	151,770	4,000
1996AB Refunding	September 1996	249,235	227,940
1997 Refunding	August 1997	227,215	218,210
1998 Refunding	August 1998	180,000	169,575
1998A Refunding	August 1998	123,020	16,720
1998 Refunding	November 1998	139,965	139,730
1998A Refunding	November 1998	105,350	105,350
1998B	November 1998	10,000	8,365
			$ 1,182,549

Combined Utility Systems Debt -- Commercial Paper Notes - The City is authorized by ordinance to issue commercial paper notes in an aggregate principal amount not to exceed $350,000,000 outstanding at any one time. Proceeds from the notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2004 were P-1 (Moody's Investor Services, Inc.), A-1 (Standard & Poor's), and F1+ (Fitch). The notes will be in denominations of $100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the notes are payable from the combined net revenues of the City's Electric Fund and Water and Wastewater Fund.

At September 30, 2004, the Electric Fund had outstanding commercial paper notes of $94,984,000 and the Water and Wastewater Fund had $220,632,000, of commercial paper notes outstanding. Interest rates on the notes range from 1.11% to 1.64%, adjusted daily, and subsequent issues cannot exceed the maximum rate of 15%. The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.

10 – DEBT AND NON-DEBT LIABILITIES, continued

Combined Utility Systems Debt -- Taxable Commercial Paper Notes - The City is authorized by ordinance to issue taxable commercial paper notes, (the "taxable notes"), in an aggregate principal amount not to exceed $50,000,000 outstanding at any one time. Proceeds from the taxable notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2004 were P-1 (Moody's Investor Services, Inc.), A-1+ (Standard & Poor's), and F1+ (Fitch).

The taxable notes will be in denominations of $100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the taxable notes are payable from the combined net revenues of the City's Electric Fund and Water and Wastewater Fund.

At September 30, 2004, the Electric Fund and the Water and Wastewater Fund had no taxable notes outstanding.

Electric Utility System Revenue Debt -- General - The City is authorized by ordinance to issue electric utility system revenue obligations. Proceeds from these obligations are used only to fund electric capital projects or to refund debt issued to fund these capital projects. Principal and interest on these obligations are payable solely from the net revenues of the Electric Fund.

Electric Utility System Revenue Debt -- Revenue Bond Defeasance - In August 2004 the City defeased $84,328,789 of the City's outstanding Combined Utility System Prior Lien Revenue Refunding Bonds, Series 1993 and Series 1993A issued for the Electric Utility System. A total of $87,928,103 was placed in an irrevocable escrow account and used to purchase U.S. government obligations to provide for all future debt service payments on the defeased bonds. The City is legally released from the obligations for the defeased debt and the liability has been removed from the financial statements. The City recognized an accounting loss of $17,008,036 on this defeasance.

Bond ratings at September 30, 2004 were A3 (Moody's Investor Services, Inc.), A (Standard & Poor's), and A (Fitch).

Electric Utility System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all electric system original and refunding revenue bonds outstanding at September 30, 2004 (in thousands):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2004
2001 Refunding	February 2001	$ 126,700	126,200
2002 Refunding	March 2002	74,750	74,750
2002A Refunding	August 2002	172,880	159,085
2003 Refunding	March 2003	182,100	182,100
			$ 542,135

Water and Wastewater System Revenue Debt -- General - The City is authorized by ordinance to issue water and wastewater system revenue obligations. Proceeds from these obligations are used only to fund water and wastewater capital projects or to refund debt issued to fund these capital projects. Principal and interest on these obligations are payable solely from the net revenues of the Water and Wastewater Fund.

Water and Wastewater System Revenue Debt -- Revenue Bond Refunding Issues - In August 2004, the City issued Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2004, in an aggregate principal amount of $132,475,000. Proceeds from the variable rate bond refunding were used to refund $126,605,000 of the City's outstanding Combined Utility System Revenue Refunding Bonds, Series 1993, Series 1993A, Series 1994, and Subordinate Lien Revenue Bonds, Series 1994 issued for the Water and Wastewater Utility System. The debt service requirements on the variable rate refunding bonds were $187,919,782 with interest calculated using a constant rate of 3.66%. During fiscal year 2004, interest rates on the bonds ranged from 1.30% to 1.70%, adjusted weekly at market rates, and subsequent rates changes cannot exceed the maximum rate of 12%. The City realized an economic gain of $17,385,292 on this transaction. The change in net cash flows that resulted was a decrease of $21,137,829. An accounting loss of $7,080,369, which will be deferred and amortized in accordance with Statement of Financial Accounting Standards No. 71, was recognized on this refunding.

10 – DEBT AND NON-DEBT LIABILITIES, continued

Water and Wastewater System Revenue Debt -- Revenue Bond Defeasance - In August 2004, the City defeased $46,446,211 of the City's outstanding Combined Utility System Prior Lien Revenue Refunding Bonds, Series 1992A, Series 1993 and Series 1993A issued for the Water and Wastewater Utility System. A total of $51,693,235 was placed in an irrevocable escrow account and used to purchase U.S. government obligations to provide for all future debt service payments on the defeased bonds. The City is legally released from the obligations for the defeased debt and the liability has been removed from the financial statements. The City recognized an accounting loss of $10,035,826 on this defeasance.

Bond ratings at September 30, 2004 were A2 (Moody's Investor Services, Inc.), A (Standard & Poor's), and A+ (Fitch).

Water and Wastewater System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all water and wastewater system original and refunding revenue bonds outstanding at September 30, 2004 (in thousands):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2004
Maple Run MUD, 1992	May 1992	$ 17,955	9,130
Tanglewood Forest MUD, 1993	December 1993	1,350	145
North Austin MUD #1, 2003 RFD	August 2003	4,510	4,510
2000 Refunding	June 2000	100,000	98,500
2001A Refunding	June 2001	152,180	149,680
2001B Refunding	June 2001	73,200	72,000
2001C Refunding	December 2001	95,380	80,980
2002A Refunding	August 2002	139,695	132,400
2003 Refunding	March 2003	121,500	121,500
2004 Refunding	August 2004	132,475	132,475
			$ 801,320

Airport -- Revenue Bonds - The City's Airport Fund issues Airport System revenue bonds to fund Airport Fund capital projects. Principal and interest on these bonds are payable solely from the net revenues of the Airport Fund. At September 30, 2004 the total Airport System obligation for prior lien bonds is $360,125,000 exclusive of discounts, premiums and loss on refundings. Aggregate interest requirements for all prior lien bonds are $287,431,616 at September 30, 2004. Revenue bonds authorized and unissued amount to $735,795,000 at that date.

Airport System Revenue Debt -- Revenue Bond Refunding Issues - In December 2003, the City issued Airport System Prior Lien Revenue Refunding Bonds, Series 2003, in an aggregate principal amount of $54,250,000. Proceeds from the prior lien bond refunding were used to refund $52,290,000 of the City's outstanding Airport System Prior Lien Revenue Bonds, Series 1995A. The debt service requirements on the prior lien refunding bonds were $85,899,110. The City realized an economic gain of $3,132,423 on this transaction. The change in net cash flows that resulted was a decrease of $3,418,051. An accounting loss of $5,717,945, which will be deferred and amortized in accordance with GASB Statement No. 23, was recognized on this refunding. These bonds are callable beginning November 15, 2013.

Bond ratings at September 30, 2004 for the prior lien bonds were NUR (Moody's Investor Services, Inc.), A- (Standard & Poor's), and NUR (Fitch).

The following table summarizes all airport system original and refunding revenue bonds outstanding at September 30, 2004 (in thousands):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2004
1989	September 1989	$ 30,000	1,000
1995A	August 1995	362,205	276,700
1995B Refunding	August 1995	31,040	28,175
2003	December 2003	54,250	54,250
			$ 360,125

10 – DEBT AND NON-DEBT LIABILITIES, continued

Airport Debt -- Variable Rate Revenue Notes - The City is authorized to issue Airport System variable rate revenue notes, pursuant to Ordinance No. 950817B, as amended and restated by Ordinance 980205A, adopted by the City Council on February 5, 1998. At September 30, 2004, the Airport System had outstanding variable rate revenue notes of $28,000,000. The debt service fund required by the bond ordinance held assets of $384,941, including accrued interest, at September 30, 2004 and was restricted within the Airport System. During fiscal year 2004, interest rates on the notes ranged from 0.90% to 1.73%, adjusted weekly at market rates, and subsequent rates changes cannot exceed the maximum rate of 15%. Principal and interest on the notes are payable from the net revenues of the Airport System.

The bond rating at September 30, 2004 for the airport variable rate notes was P-1 (Moody's Investor Services, Inc.).

Nonmajor fund:
Convention Center -- Prior and Subordinate Lien Revenue Bonds - The City's Convention Center Fund issues Convention Center revenue bonds and Hotel Occupancy Tax revenue bonds to fund Convention Center Fund capital projects. Principal and interest on these bonds are payable solely from pledged hotel occupancy tax revenues and the special motor vehicle rental tax revenues. At September 30, 2004 the total Convention Center obligation for prior and subordinate lien bonds is $228,140,000, exclusive of discounts, premiums and loss on refundings. Aggregate interest requirements for all prior and subordinate lien bonds are $186,899,903 at September 30, 2004. Revenue bonds authorized and unissued amount to $760,000 at September 30, 2004.

Convention Center Revenue Debt -- Revenue Bond Refunding Issues - In February 2004, the City issued Hotel Occupancy Tax Revenue Refunding Bonds, Series 2004, in an aggregate principal amount of $52,715,000. Proceeds from the prior lien bond refunding were used to refund $60,960,000 of the City's outstanding Convention Center Prior Lien Revenue Bonds, Series 1993A. The debt service requirements on the revenue bonds were $79,004,526. The City realized an economic gain of $3,717,537 on this transaction. The change in net cash flows that resulted was a decrease of $11,462,427. An accounting loss of $2,601,339, which will be deferred and amortized in accordance with GASB Statement No. 23, was recognized on this refunding. These bonds are callable beginning November 15, 2013.

Bond ratings at September 30, 2004 for the revenue bonds were NUR (Moody's Investor Services, Inc.), NUR (Standard & Poor's), and NUR (Fitch).

The following table summarizes all Convention Center original and refunding revenue bonds outstanding at September 30, 2004 (in thousands):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2004
1999 Refunding	June 1999	$ 6,445	2,205
1999A	June 1999	25,000	24,570
1999 Refunding	September 1999	110,000	109,000
1999	November 1999	40,000	39,650
2004 Refunding	February 2004	52,715	52,715
			$ 228,140

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements

Fiscal Year Ended September 30	Governmental Activities (in thousands) General Obligation Bonds Principal	General Obligation Bonds Interest	Certificates of Obligation Principal	Certificates of Obligation Interest	Contractual Obligations Principal	Contractual Obligations Interest
2005	$ 41,470	35,346	5,034	4,335	6,162	844
2006	48,593	33,355	5,175	4,109	5,961	756
2007	48,539	30,963	5,456	3,877	4,766	597
2008	45,706	28,590	5,733	3,602	4,455	483
2009	43,553	26,423	6,053	3,330	4,538	360
2010-2014	224,725	99,701	31,133	12,063	8,088	353
2015-2019	186,712	48,623	23,516	5,659	--	--
2020-2024	90,723	10,192	8,921	777	--	--
	730,021	313,193	91,021	37,752	33,970	3,393
Less: Unamortized bond discounts	(382)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(1,041)	--	--	--	--	--
Add: Unamortized bond premiums	9,935	--	--	--	--	--
Net debt service requirements	738,533	313,193	91,021	37,752	33,970	3,393

Fiscal Year Ended September 30	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Total Governmental Debt Service Requirements Principal	Total Governmental Debt Service Requirements Interest	Total Governmental Debt Service Requirements Total
2005	475	9	53,141	40,534	93,675
2006	286	6	60,015	38,226	98,241
2007	52	--	58,813	35,437	94,250
2008	--	--	55,894	32,675	88,569
2009	--	--	54,144	30,113	84,257
2010-2014	--	--	263,946	112,117	376,063
2015-2019	--	--	210,228	54,282	264,510
2020-2024	--	--	99,644	10,969	110,613
	813	15	855,825	354,353	1,210,178
Less: Unamortized bond discounts	--	--	(382)	--	(382)
Unamortized gain(loss) on bond refundings	--	--	(1,041)	--	(1,041)
Add: Unamortized bond premiums	--	--	9,935	--	9,935
Net debt service requirements	$ 813	15	864,337	354,353	1,218,690

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Electric Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Contractual Obligations		Commercial Paper Notes (1)	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	$ 5	69	485	47	94,984	91
2006	5	68	358	30	--	--
2007	53	68	202	19	--	--
2008	88	65	140	14	--	--
2009	98	60	146	11	--	--
2010-2014	588	222	231	8	--	--
2015-2019	483	57	--	--	--	--
Net debt service requirements	1,320	609	1,562	129	94,984	91

Fiscal Year Ended September 30	Revenue Bonds		Capital Lease Obligations		Total Electric Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2005	89,949	67,906	1,983	457	187,406	68,570	255,976
2006	75,905	63,057	1,960	332	78,228	63,487	141,715
2007	101,312	58,866	2,003	202	103,570	59,155	162,725
2008	87,063	59,036	29	61	87,320	59,176	146,496
2009	75,650	75,666	31	60	75,925	75,797	151,722
2010-2014	428,579	292,981	178	274	429,576	293,485	723,061
2015-2019	204,147	102,612	229	224	204,859	102,893	307,752
2020-2024	144,025	51,898	294	159	144,319	52,057	196,376
2025-2029	108,267	17,839	377	75	108,644	17,914	126,558
2030-2034	18,500	938	102	4	18,602	942	19,544
	1,333,397	790,799	7,186	1,848	1,438,449	793,476	2,231,925
Less: Unamortized bond discounts	(8,750)	--	--	--	(8,750)	--	(8,750)
Unamortized gain(loss) on bond refundings	(104,386)	--	--	--	(104,386)	--	(104,386)
Add: Unamortized bond premiums	38,440	--	--	--	38,440	--	38,440
Net debt service requirements	$ 1,258,701	790,799	7,186	1,848	1,363,753	793,476	2,157,229

(1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Water and Wastewater Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Contractual Obligations		Tax Supported Debt	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	$ 1,473	413	1,779	207	1,095	1,223
2006	854	340	1,671	170	864	1,189
2007	1,143	296	1,059	120	642	430
2008	789	237	853	93	594	401
2009	524	196	784	69	532	374
2010-2014	2,531	527	1,641	80	3,321	1,427
2015-2019	578	93	--	--	3,360	406
2020-2024	88	7	--	--	--	--
	7,980	2,109	7,787	739	10,408	5,450
Less: Unamortized bond discounts	(28)	--	--	--	(67)	--
Unamortized gain(loss) on bond refundings	(2,283)	--	--	--	--	--
Add: Unamortized bond premiums	375	--	--	--	28	--
Net debt service requirements	6,044	2,109	7,787	739	10,369	5,450

Fiscal Year Ended September 30	Commercial Paper Notes (1)		Revenue Bonds		Municipal Utility District Contract Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	220,632	222	40,796	54,053	2,035	670
2006	--	--	42,584	52,019	2,025	573
2007	--	--	44,095	50,378	2,170	466
2008	--	--	50,992	50,951	2,325	345
2009	--	--	47,567	58,673	2,475	216
2010-2014	--	--	260,858	277,273	2,755	75
2015-2019	--	--	269,391	259,816	--	--
2020-2024	--	--	215,497	87,440	--	--
2025-2029	--	--	171,042	34,082	--	--
2030-2034	--	--	36,000	2,709	--	--
	220,632	222	1,178,822	927,394	13,785	2,345
Less: Unamortized bond discounts	--	--	(10,264)	--	(26)	--
Unamortized gain(loss) on bond refundings	--	--	(56,652)	--	(55)	--
Add: Unamortized bond premiums	--	--	23,954	--	36	--
Net debt service requirements	$ 220,632	222	1,135,860	927,394	13,740	2,345

(1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Water and Wastewater Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Total Water and Wastewater Debt Service Requirements Principal	Interest	Total
2005	$ 1,109	335	268,919	57,123	326,042
2006	1,164	249	49,162	54,540	103,702
2007	1,225	155	50,334	51,845	102,179
2008	1,325	54	56,878	52,081	108,959
2009	--	--	51,882	59,528	111,410
2010-2014	--	--	271,106	279,382	550,488
2015-2019	--	--	273,329	260,315	533,644
2020-2024	--	--	215,585	87,447	303,032
2025-2029	--	--	171,042	34,082	205,124
2030-2034	--	--	36,000	2,709	38,709
	4,823	793	1,444,237	939,052	2,383,289
Less: Unamortized bond discounts	--	--	(10,385)	--	(10,385)
Unamortized gain(loss) on bond refundings	--	--	(58,990)	--	(58,990)
Add: Unamortized bond premiums	--	--	24,393	--	24,393
Net debt service requirements	$ 4,823	793	1,399,255	939,052	2,338,307

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Airport Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Contractual Obligations Principal	Contractual Obligations Interest	Revenue Notes (1) Principal	Revenue Notes (1) Interest
2005	$ 45	23	64	4	--	484
2006	18	21	40	2	--	484
2007	49	20	11	--	--	484
2008	36	17	--	--	--	484
2009	31	16	--	--	--	484
2010-2014	168	52	--	--	--	2,420
2015-2019	95	12	--	--	28,000	1,699
2020-2024	6	1	--	--	--	--
	448	162	115	6	28,000	6,539
Less: Unamortized bond discounts	(1)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	9	--	--	--	--	--
Add: Unamortized bond premiums	9	--	--	--	--	--
Net debt service requirements	465	162	115	6	28,000	6,539

Fiscal Year Ended September 30	Revenue Bonds Principal	Revenue Bonds Interest	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Total Airport Debt Service Requirements Principal	Total Airport Debt Service Requirements Interest	Total Airport Debt Service Requirements Total
2005	7,650	21,169	173	13	7,932	21,693	29,625
2006	8,415	20,659	170	9	8,643	21,175	29,818
2007	7,720	20,180	151	4	7,931	20,688	28,619
2008	9,965	19,710	--	--	10,001	20,211	30,212
2009	10,535	19,167	--	--	10,566	19,667	30,233
2010-2014	63,100	85,875	--	--	63,268	88,347	151,615
2015-2019	88,530	63,915	--	--	116,625	65,626	182,251
2020-2024	111,835	33,501	--	--	111,841	33,502	145,343
2025-2029	52,375	3,256	--	--	52,375	3,256	55,631
	360,125	287,432	494	26	389,182	294,165	683,347
Less: Unamortized bond discounts	(6,022)	--	--	--	(6,023)	--	(6,023)
Unamortized gain(loss) on bond refundings	(6,790)	--	--	--	(6,781)	--	(6,781)
Add: Unamortized bond premiums	4,333	--	--	--	4,342	--	4,342
Net debt service requirements	$ 351,646	287,432	494	26	380,720	294,165	674,885

(1) These are variable rate notes with 1.73% interest.

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Nonmajor Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	$ 1,650	639	2,371	2,624	720	103
2006	1,636	563	2,150	2,539	730	116
2007	994	480	2,259	2,466	647	99
2008	1,261	433	2,372	2,378	641	85
2009	1,106	369	2,497	2,286	672	67
2010-2014	5,162	949	14,542	9,722	1,701	84
2015-2019	977	95	17,994	5,920	--	--
2020-2024	40	4	13,278	1,718	--	--
	12,826	3,532	57,463	29,653	5,111	554
Less: Unamortized bond discounts	(35)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(921)	--	--	--	--	--
Add: Unamortized bond premiums	541	--	1,153	--	--	--
Net debt service requirements	12,411	3,532	58,616	29,653	5,111	554

Fiscal Year Ended September 30	Revenue Bonds		Capital Lease Obligations		Total Nonmajor Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2005	3,520	12,284	157	3	8,418	15,653	24,071
2006	3,830	12,077	80	1	8,426	15,296	23,722
2007	3,525	11,878	13	--	7,438	14,923	22,361
2008	5,815	11,669	--	--	10,089	14,565	24,654
2009	7,210	11,406	--	--	11,485	14,128	25,613
2010-2014	41,280	51,634	--	--	62,685	62,389	125,074
2015-2019	53,465	39,059	--	--	72,436	45,074	117,510
2020-2024	44,885	24,928	--	--	58,203	26,650	84,853
2025-2029	52,245	11,603	--	--	52,245	11,603	63,848
2030-2034	12,365	362	--	--	12,365	362	12,727
	228,140	186,900	250	4	303,790	220,643	524,433
Less: Unamortized bond discounts	(1,182)	--	--	--	(1,217)	--	(1,217)
Unamortized gain(loss) on bond refundings	(7,745)	--	--	--	(8,666)	--	(8,666)
Add: Unamortized bond premiums	4,338	--	--	--	6,032	--	6,032
Net debt service requirements	$ 223,551	186,900	250	4	299,939	220,643	520,582

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Certificates of Obligation Principal	Certificates of Obligation Interest	Contractual Obligations Principal	Contractual Obligations Interest
2005	$ 3,173	1,144	2,371	2,624	3,048	361
2006	2,513	992	2,150	2,539	2,799	318
2007	2,239	864	2,259	2,466	1,919	238
2008	2,174	752	2,372	2,378	1,634	192
2009	1,759	641	2,497	2,286	1,602	147
2010-2014	8,449	1,750	14,542	9,722	3,573	172
2015-2019	2,133	257	17,994	5,920	--	--
2020-2024	134	12	13,278	1,718	--	--
	22,574	6,412	57,463	29,653	14,575	1,428
Less: Unamortized bond discounts	(64)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(3,195)	--	--	--	--	--
Add: Unamortized bond premiums	925	--	1,153	--	--	--
Net debt service requirements	20,240	6,412	58,616	29,653	14,575	1,428

Fiscal Year Ended September 30	Tax Supported Debt Principal	Tax Supported Debt Interest	Commercial Paper Notes (1) Principal	Commercial Paper Notes (1) Interest	Revenue Notes (2) Principal	Revenue Notes (2) Interest
2005	1,095	1,223	315,616	313	--	484
2006	864	1,189	--	--	--	484
2007	642	430	--	--	--	484
2008	594	401	--	--	--	484
2009	532	374	--	--	--	484
2010-2014	3,321	1,427	--	--	--	2,420
2015-2019	3,360	406	--	--	28,000	1,699
	10,408	5,450	315,616	313	28,000	6,539
Less: Unamortized bond discounts	(67)	--	--	--	--	--
Add: Unamortized bond premiums	28	--	--	--	--	--
Net debt service requirements	$ 10,369	5,450	315,616	313	28,000	6,539

(1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.

(2) These are variable rate notes with 1.73% interest.

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Fiscal Year Ended September 30	Business-Type Activities (in thousands) Revenue Bonds Principal	Revenue Bonds Interest	Municipal Utility District Contract Revenue Bonds Principal	Municipal Utility District Contract Revenue Bonds Interest	Capital Lease Obligations Principal	Capital Lease Obligations Interest
2005	$ 141,915	155,412	2,035	670	3,422	808
2006	130,734	147,812	2,025	573	3,374	591
2007	156,652	141,302	2,170	466	3,392	361
2008	153,835	141,366	2,325	345	1,354	115
2009	140,962	164,912	2,475	216	31	60
2010-2014	793,817	707,763	2,755	75	178	274
2015-2019	615,533	465,402	--	--	229	224
2020-2024	516,242	197,767	--	--	294	159
2025-2029	383,929	66,780	--	--	377	75
2030-2034	66,865	4,009	--	--	102	4
	3,100,484	2,192,525	13,785	2,345	12,753	2,671
Less: Unamortized bond discounts	(26,218)	--	(26)	--	--	--
Unamortized gain(loss) on bond refundings	(175,573)	--	(55)	--	--	--
Add: Unamortized bond premiums	71,065	--	36	--	--	--
Net debt service requirements	2,969,758	2,192,525	13,740	2,345	12,753	2,671

Fiscal Year Ended September 30	Total Business-Type Activities Debt Service Requirements Principal	Interest	Total
2005	472,675	163,039	635,714
2006	144,459	154,498	298,957
2007	169,273	146,611	315,884
2008	164,288	146,033	310,321
2009	149,858	169,120	318,978
2010-2014	826,635	723,603	1,550,238
2015-2019	667,249	473,908	1,141,157
2020-2024	529,948	199,656	729,604
2025-2029	384,306	66,855	451,161
2030-2034	66,967	4,013	70,980
	3,575,658	2,247,336	5,822,994
Less: Unamortized bond discounts	(26,375)	--	(26,375)
Unamortized gain(loss) on bond refundings	(178,823)	--	(178,823)
Add: Unamortized bond premiums	73,207	--	73,207
Net debt service requirements	$ 3,443,667	2,247,336	5,691,003

11 – CONDUIT DEBT

The City has issued several series of housing and industrial development revenue bonds to provide for low cost housing and for acquisition and construction of industrial and commercial facilities. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Prior to September 30, 1997 the City issued several series of bonds; the aggregate principal amount payable of these bonds could not be determined; however, their original issue amounts totaled $310.2 million. Since 1997, the City has issued various series of bonds, with the original issues totaling $84.4 million; and $83.6 million is outstanding at September 30, 2004.

The City has issued various facility revenue bonds to provide for facilities located at the airport and convention center. These bonds are special limited obligations, payable solely from and secured by a pledge of revenue to be received from agreements between the City and various third parties. The original issues totaled $367.4 million, with $360.5 million outstanding at September 30, 2004.

The above bonds do not constitute a debt or pledge of the faith and credit of the City and accordingly have not been reported in the accompanying financial statements.

12 – INTERFUND BALANCES AND TRANSFERS

Interfund receivables and payables at September 30, 2004, are as follows (in thousands):

		Amount	
Receivable Fund	**Payable Fund**	**Current**	**Long-Term**
Governmental funds:			
Nonmajor governmental funds	General Fund	$ 9	--
	Nonmajor governmental funds	28,819	--
	Water and Wastewater	--	4,234
	Nonmajor enterprise funds	--	1,647
	Internal service funds	--	278
Business-type funds:			
Electric	Internal service funds	21	419
	Nonmajor enterprise funds	--	2,579
Water and Wastewater (restricted)	Internal service funds	27	161
	Nonmajor governmental funds	6	--
Airport (restricted)	General Fund	617	1,851
	Nonmajor governmental funds	--	230
Nonmajor enterprise funds	Nonmajor governmental funds	1,164	116
Internal service funds	Nonmajor governmental funds	16	--
	Internal service funds	394	--
		$ 31,073	11,515

Interfund receivables and payables reflect temporary loans between funds. Of the above current amount, $13.4 million is an interfund loan from the Fiscal Surety Fund, a special revenue fund, to other special revenue funds (primarily grant funds) to cover deficit pooled investments and cash.

Interfund transfers during fiscal year 2004 were as follows (in thousands):

	Transfers In				
Transfers Out	**General Fund**	**Nonmajor Governmental**	**Nonmajor Enterprise**	**Internal Service Funds**	**Total**
General Fund	$ --	11,413	37,353	--	48,766
Nonmajor governmental funds	--	16,092	23,690	--	39,782
Electric	76,674	--	--	--	76,674
Water and Wastewater	19,220	2,848	--	--	22,068
Nonmajor enterprise funds	--	1,565	58	--	1,623
Internal service funds	--	1,062	--	17	1,079
Total transfers out	$ 95,894	32,980	61,101	17	189,992

12 – INTERFUND BALANCES AND TRANSFERS, continued

Interfund operating transfers are authorized through City Council approval. Significant transfers include the Electric and Water and Wastewater transfers to the General Fund, which are comparable to a return on investment to owners.

13 – LITIGATION

A number of claims against the City are pending with respect to various matters arising in the normal course of the City's operations. Legal counsel and City management are of the opinion that settlement of these claims and pending litigation will not have a material effect on the City's financial statements. The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2004. These liabilities include amounts for lawsuits settled subsequent to year-end, which are reported in the government-wide statement of net assets.

14 – COMMITMENTS AND CONTINGENCIES

a -- Fayette Power Project

Austin Energy's coal-fired electric generating units are located at the Fayette Power Project (FPP) and operate pursuant to a participation agreement with the Lower Colorado River Authority (LCRA, Project Manager). Austin Energy has an undivided 50 percent interest in Units 1 and 2, and LCRA wholly owns Unit 3. Austin Energy's investment is financed with City funds, and its pro-rata share of operations is recorded as if wholly owned. Austin Energy's equity in FPP was $43.3 million as of September 30, 2004. The equity interest in the FPP is calculated pursuant to the participation agreement and is reported in various asset and liability accounts within the City's financial statements.

The original cost of the Austin Energy's share of FPP's generation and transmission facilities is recorded in the utility plant accounts of the City in accordance with its accounting policies. Each participant issued its own debt to finance its portion of construction costs. The City's portion was financed through utility revenue bonds. In addition, each participant has the obligation to finance its portion of any operating and capital costs, as well as its deficits.

A management committee of four members governs FPP; each participant administratively appoints two members. As managing partner, LCRA is responsible for the operation of the project and appoints project management.

b -- South Texas Project

Austin Energy is one of four participants in the South Texas Project (STP), which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the STP are Texas Genco LP, formerly known as Reliant Energy, American Electric Power, formerly known as Central Power and Light Company, and City Public Service of San Antonio. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. Austin Energy's 16 percent ownership in the STP represents 400 megawatts of plant capacity. At September 30, 2004, Austin Energy's investment in the STP was approximately $564 million, net of accumulated depreciation.

Effective November 17, 1997, the Participation Agreement among the owners of STP was amended and restated and the STP Nuclear Operating Company (STPNOC), a Texas non-profit non-member corporation created by the participants, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STPNOC. Each participant is responsible for its own funding for STP. The City's portion is financed through operations, revenue bonds or commercial paper, which are repaid by the Electric Fund (see Note 10). In addition, each participant has the obligation to finance any deficits that may occur.

Each participant appoints one member to the board of directors of STPNOC, as well as one other member to the committee. A member of the committee may serve on the board of directors in the absence of a board member. The City's portion of STP is classified as plant in service, construction in progress and nuclear fuel inventory. Nuclear fuel includes fuel in the reactor as well as nuclear fuel in process.

14 – COMMITMENTS AND CONTINGENCIES, continued

c -- South Texas Project Decommissioning

The South Texas Project (STP) is subject to regulation by the Nuclear Regulatory Commission (NRC). The NRC requires that each holder of a nuclear plant-operating license submit information to the NRC indicating the minimum funding required to decommission the plant. In addition, reasonable assurance must be demonstrated that sufficient funds are being accumulated to provide the minimum requirement for decommissioning. This amount must be adjusted annually as required by the NRC. At September 30, 2004, Austin Energy funded its share of the estimated decommissioning liability as follows:

	2004
Estimated cost to decommission STP	$ 245,191,822
Restricted decommissioning fund assets	101,808,700

Austin Energy and other STP participants have provided the required information to the NRC and have been collecting decommissioning funds through rates since 1989. Austin Energy has established an external irrevocable trust for collecting sufficient funds for its share of the estimated decommissioning costs. For fiscal year 2004, Austin Energy collected $4,958,221 for decommissioning expenses.

d -- Energy Risk Management Program

In an effort to mitigate the financial and market risk associated with the purchase of natural gas and energy price volatility, Austin Energy has established an Energy Risk Management Program. This program was authorized by the Austin City Council and is led by the Risk Oversight Committee. Under this program, Austin Energy enters into futures contracts, options, and swaps for the purpose of reducing exposure to natural gas and energy price risk. Use of these types of instruments for the purpose of reducing exposure to price risk is performed as a hedging activity. These contracts may be settled in cash or delivery of certain commodities. Austin Energy typically settles these contracts in cash.

Austin Energy has entered into brokerage agreements with the following organizations to execute the exchange traded instruments for Austin Energy's risk management activities:

Brokerage	Credit Rating
Citigroup Global Market Holding Inc.	AA-
Man Group	A3

The hedging related contracts are reported at cost on the statement of net assets. The gains and losses related to these transactions are netted to fuel expense in the period realized. As of September 30, 2004, Austin Energy's options, futures, and basis swaps, valued at mark-to-market, netted to an unrealized loss of $58,022. This reflects the difference between the cost and the fair market value of these contracts at September 30, 2004. Initial margins are flat fees per contract and are paid in cash. Fair market values are calculated by multiplying the number of outstanding contracts by the forward prices as quoted by the New York Mercantile Exchange. The unrealized gain/loss refers to the difference between the cost and fair market value of the contracts, which is not included in the financial statements at September 30, 2004.

Futures	
Contracts effective date	August 2004
Contracts maturity date	Through January 2006
Initial margin	$ 135,000
Cost	2,680,000
Fair market value	2,826,000
Unrealized Gain/(Loss)	146,000

Options	
Contracts effective date	June through September 2004
Contracts maturity date	Through December 2007
Fair Value	$ (259,382)
Unrealized Gain/(Loss)	(1,662,082)

14 – COMMITMENTS AND CONTINGENCIES, continued

The options and future contracts expose Austin Energy to a minimal amount of credit risk. In the event of default or nonperformance by brokers or the exchange, the operations of Austin Energy will not be materially affected. However, Austin Energy does not expect the brokerages to fail to meet their obligations given their high credit rating and the strict and deep credit requirements upheld by the New York Mercantile Exchange of which these brokerage houses are members. Termination risk for exchange traded instruments is greatly reduced by the strict rules and guidelines set up by the exchange, which is governed by the Commodity Futures Trade Commission.

<u>Swaps</u>	
Contracts effective date	August through September 2004
Contracts maturity date	Through September 2007
Cost	$ 9,126,500
Fair market value	10,584,560
Unrealized Gain/(Loss)	1,458,060

The swap agreements expose Austin Energy to credit, termination, and non-performance risk. However, Austin Energy does not expect the swap counterparty to fail to meet its obligation given its high credit rating of A by S&P, and A3 by Moody's. Austin Energy's exposure to termination and non-performance risk is minimal due to the high credit rating of the counterparty, and the contractual provisions under the ISDA (International Swaps and Derivatives Association) agreement applied to the swaps.

e -- Derivative Instruments

Swap for the Water & Wastewater System

Objective of the swap. In order to lower its borrowing costs, on July 2, 2004 the City entered into a swap in connection with its Series 2004 Water and Wastewater System Variable Rate Revenue Refunding Bonds (the "Series 2004 Bonds"). The variable rate bonds were issued to advance refund various outstanding Combined Utility System Revenue Refunding Bonds. The swap was used to hedge the interest rate on the variable rate refunding bonds to a fixed rate and the synthetic fixed rate refunding produces a lower expected interest rate cost to the City. The swap had closing costs of $561,302.

Terms, fair values, and credit risk. The terms, including the counterparty credit ratings of the outstanding swap, as of September 30, 2004, are included in the table below. The City's swap agreement contains scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2004 Bonds were issued on August 27, 2004 with a principal amount of $132,475,000. The swap was structured to match the principal amortization structure and dates of the Series 2004 Bonds. The counterparty to the swap is JPMorgan Chase Bank. The table below contains a summary of the terms and fair value of the swap.

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Market Value
Water & Wastewater Variable Rate Revenue Refunding Bonds, Series 2004	May 15, 2024	JP Morgan	Aa2/AA-/AA-	68% of 1-month LIBOR	3.657%	$ (5,161,263)

The combination of variable rate bonds and a floating-to-fixed swap creates synthetic fixed-rate debt for the City. The transaction allowed the City to create a synthetic fixed rate on the Bonds in advance of issuance, protecting the City against *potential* increases in long-term interest rates.

Fair value. The swap had a negative fair value as of September 30, 2004 of $(5,161,263). This fair value takes into consideration the prevailing interest rate, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the London InterBank Offered Rate (LIBOR) swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swap.

14 – COMMITMENTS AND CONTINGENCIES, continued

Credit risk. As of September 30, 2004, the City was not exposed to credit risk on its outstanding swap because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the City would be exposed to credit risk in the amount of the swap's fair value. The City is exposed to credit risk in the amount of the derivative's fair value. This amount may become positive if interest rates increase in the future. However, if interest rates decline and the fair value of the swap were to remain negative, the City would not be exposed to credit risk. The current credit ratings of the JPMorgan Chase Bank are Aa2/AA-/AA- by Moody's/Standard & Poor's/Fitch, respectively. The City will be exposed to interest rate risk only if the counterparty defaults or if the swap is terminated.

The swap agreement contains a collateral agreement with the counterparty. Collateralization of the fair value of the swap is required should the counterparty's credit rating fall below the applicable thresholds in the agreement. The City purchased insurance to mitigate the need to post collateral as long as the insurer, Financial Security Assurance, maintains a credit rating above A2/A by Moody's/S&P.

Basis risk. Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. Basis risk exists since the City receives a percentage of LIBOR to offset the actual variable bond rate the City pays on its bonds. Exposure to basis risk may occur should the floating rate be less than the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

Tax risk. Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the City's underlying variable-rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g. a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. The City is receiving 68% of LIBOR (a taxable index) on the swap and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

Termination risk. The City or the counterparty may terminate the swap if the other party fails to perform under the terms of the respective contracts. If the swap is terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value. The additional termination events in the agreement are limited to credit related events only and the ratings triggers are substantially below the current credit rating of the City. Additionally, the City purchased insurance to mitigate the possibility of termination risk.

Swap payments and associated debt. As of September 30, 2004, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ended September 30	Water and Wastewater Variable-Rate Bonds (in thousands)		Interest Rate Swaps, Net	Total
	Principal	Interest		
2005	$ 5,900	2,180	2,510	4,690
2006	3,000	2,123	2,444	4,567
2007	7,000	2,029	2,335	4,364
2008	1,200	1,975	2,273	4,248
2009	--	1,961	2,258	4,219
2010-2014	26,095	9,229	10,624	19,853
2015-2019	53,740	4,461	5,134	9,595
2020-2024	35,540	1,704	1,962	3,666
Total	$ 132,475	25,662	29,540	55,202

14 – COMMITMENTS AND CONTINGENCIES, continued

Swap for the Airport System

Objective of the swap. In order to lower its borrowing costs, on July 2, 2004 the City entered into an interest rate swap in connection with its Airport System Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2005 (the "Series 2005 Bonds"). The variable rate bonds will be issued to forward refund various outstanding bonds of the airport. The swap was used to hedge the interest rate on the variable rate refunding bonds to a fixed rate and the synthetic fixed rate refunding produces a lower expected interest rate cost to the City.

Terms, fair values, and credit risk. The terms, including the counterparty credit ratings of the outstanding swaps, as of September 30, 2004, are included below. The City's swap agreement contains scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2005 Bonds will be issued on August 17, 2005 with a principal amount of $306,225,000. The swap was structured to match the likely principal amortization structure and dates of the Series 2005 Bonds. The counterparty to the swap is Morgan Stanley Capital Services, Inc ("Morgan Stanley") with a guarantee from Morgan Stanley. The table below contains a summary of the terms and fair value of the swap.

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Market Value
Airport System Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2005	Nov 15, 2025	Morgan Stanley	Aa3/A+/AA-	71% of 1-month LIBOR	4.051%	$ (11,507,263)

The combination of variable rate bonds and a floating-to-fixed swap creates synthetic fixed-rate debt for the City. The transaction allowed the City to create a synthetic fixed rate on the Bonds in advance of issuance, protecting the City against *potential* increases in long-term interest rates. Other than the aforementioned swap agreement, there are no other monetary fees for the swap transaction.

Fair value. The swap had a negative fair value as of September 30, 2004 of $(11,507,263). This fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swap.

Credit risk. As of September 30, 2004, the City was not exposed to credit risk on its outstanding swap because the swap had a negative fair value. However, should interest rates change and the fair values of the swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value. The City is exposed to credit risk in the amount of the derivative's fair value. This amount may become positive if interest rates increase in the future. However, if interest rates decline and the fair value of the swap were to remain negative, the City would not be exposed to credit risk. The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

The swap agreement contains a collateral agreement with the counterparty. The swap requires collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds in the agreement. The City purchased swap insurance to mitigate the need to post collateral as long as the insurer, Financial Security Assurance, maintains a credit rating above A2/A by Moody's/S&P.

Basis risk. Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. Basis risk exists since the City receives a percentage of LIBOR to offset the actual variable bond rate the City pays on its bonds. The City may be exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

14 – COMMITMENTS AND CONTINGENCIES, continued

Tax risk. Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the City's underlying variable-rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g. a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. The City is receiving 71% of LIBOR (a taxable index) on the swap and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

Termination risk. The City or the counterparty may terminate the swap if the other party fails to perform under the terms of the respective contracts. If the swap is terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value. The additional termination events in the agreement are limited to non-issuance of the Series 2005 Bonds and credit related events only and the ratings triggers are substantially below the current credit rating of the City. Additionally, the City purchased insurance to mitigate the possibility of termination risk.

Market-access risk. Market access risk describes the possibility that the City may not be able to access the debt market efficiently on the anticipated issuance date. This outcome is estimated to be very unlikely.

f -- Certificates of Participation

The City has entered into several capital lease arrangements through the issuance of Certificates of Participation as follows:

$ 23,060,000 Certificates of Participation, City of Austin, Texas Electric Utility Office Project, Series 1987

$ 14,000,000 Certificates of Participation, City of Austin, Texas Water and Wastewater Utility Office Project, Series 1987

The certificates represent proportionate interests in lease payments to be made by the City to a third-party lessor. The City has title to the office projects, pursuant to general warranty deeds; however, the trustee maintains a vendor's lien and superior title to the properties until all sums due are paid in full.

The City's obligations under the lease agreements are subject to and dependent upon annual appropriations by the City Council and do not obligate the City to levy or pledge any form of taxation. Thus, the certificates are treated as capital lease obligations rather than as long-term bonds and are recorded as a liability in the respective utility's funds.

The following table presents information regarding these certificates:

Description	Electric Fund Office Project (1)	Water and Wastewater Fund Office Project (1)
Date issued	February 1987	August 1987
Amount issued	$ 23,060,000	$ 14,000,000
Interest rates	4.00% - 7.00%	5.25% - 8.00%
Interest payable on	March 15 and September 15	May 15 and November 15
Maturity dates	September 15 1988 - 2007	November 15 1989 - 2007
Present value of lease payments	$ 5,600,493	$ 4,890,980
Reserve Fund (2)	$ 2,000,000	$ 1,250,000

(1) Subject to mandatory redemption upon the occurrence of certain events.
(2) Held by trustee, to be used to make final payments.

14 – COMMITMENTS AND CONTINGENCIES, continued

g -- Federal and State Financial Assistance Programs

The City participates in a number of federally assisted and State grant programs, financed primarily by the U.S. Housing and Urban Development (HUD) Department, U.S. Health and Human Services (HHS) Department, and U.S. Department of Transportation (DOT). The City's programs are subject to program compliance audits by the granting agencies. Management believes that no material liability will arise from any such audits.

h -- Arbitrage Rebate Payable

The City's financial advisor has determined that the City has earned interest revenue on unused bond proceeds in excess of amounts allowed by applicable Federal regulations. The City will be required to rebate funds to the federal government. The estimated amounts payable at September 30, 2004 are as follows (in thousands):

	Business-type Activities			
Governmental Activities	**Electric**	**Water and Wastewater**	**Nonmajor**	**Total**
$ 244	1,320	406	20	$ 1,990

i -- Capital Improvement Plan

As required by the City Charter, the City has a *Five Year Capital Improvement Plan* (Capital Budget) that is an anticipated spending plan for projects in the upcoming and future years. The City's 2005 Capital Budget includes new appropriations of $231.9 million for the City's enterprise funds and $56.8 million for general government projects. The City has substantial contractual commitments relating to its capital improvement plan.

The key projects in progress include parks development and improvements, financial and administrative, transportation improvements, electric system improvements, water and wastewater system improvements and annexations and airport improvements as shown below (in thousands). Remaining commitments represent current unspent budget and future costs required to complete projects.

Project	Spent-to-Date	Remaining Commitment
Governmental activities:		
Parks development and improvements	$ 107,159	13,672
Financial and administrative	37,007	11,187
Transportation improvements	367,144	80,405
Other governmental	132,143	27,207
Business-type activities:		
Electric system improvements	1,225,334	180,971
Water and wastewater system improvements and annexations	1,263,028	703,268
Airport improvements	96,139	129,786
Nonmajor enterprise	142,443	222,458
Total	$ 3,370,397	1,368,954

j -- Operating Lease with Daughters of Charity Health Services of Austin

Effective October 1, 1995, the City entered into a long-term lease arrangement with the Daughters of Charity Health Services of Austin ("Seton"). Under the terms of the lease, Seton will operate City-owned Brackenridge Hospital and will provide all necessary medical services for residents of Austin regardless of their ability to pay. The City will reimburse Seton for services provided through three programs. Under the Charity Care Program, the City will reimburse Seton a maximum of $5.6 million annually for providing medical care to the medically indigent; provided however, that Seton must first provide charity care in the amount of 4% of net revenues as required by State law. Under the Medical Assistance Program (MAP), the City paid Seton approximately $10.6 million in fiscal year 2004 for patients enrolled in this program. Under the Physician Services Program, the City paid Seton approximately $5.8 million during fiscal year 2004 for providing physician services to patients in the first two programs.

14 – COMMITMENTS AND CONTINGENCIES, continued

In May 2003, the City amended the lease agreement to accommodate capacity issues related to the Children's Hospital at Brackenridge. In order to meet future community needs for pediatric medical services, the City Council approved moving the Children's Hospital to the former site of Robert Mueller Airport. The new Children's Hospital will be owned and operated by Seton. Other provisions of the amendment include lengthening the lease term from an original term of 30 years to 60 years (with an optional 30 year extension), increasing the breach of contract penalty from $5 million to $50 million, and adding a requirement that Seton spend a minimum of $50 million for capital improvements at Brackenridge over the next 20 years; of which $30 million must be spent within the next 10 years. The lease amendment also strengthens financial provisions related to the operation of the Austin Women's Hospital. The cost of the leased assets as of September 30, 2004 is as follows (in thousands):

	Cost	Accumulated Depreciation
Land and other nondepreciable assets	$ 745	--
Property, plant and equipment in service	73,977	(38,499)

Due to the creation of the Travis County Hospital District, assets associated with Brackenridge Hospital, Children's Hospital and the Austin Women's Hospital will convey to the Travis County Hospital District. For further information, please refer to the Subsequent Events Note (Note 16).

k -- Landfill Closure and Postclosure Liability

State and federal regulations require the City to place a final cover on the City of Austin landfill site (located on FM 812) when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports in the Solid Waste Services Fund, a nonmajor enterprise fund, a portion of these closure and postclosure care costs as an operating expense in each period, based on landfill capacity used as of each balance sheet date. The $7.6 million reported as accrued landfill closure and postclosure costs at September 30, 2004, represents the cumulative amount reported to date based on the use of 82.3% of the estimated capacity of the landfill. The Solid Waste Services Fund will recognize the remaining estimated cost of closure and postclosure care of $1.6 million as the remaining estimated capacity is filled over the next eight years. The total estimated costs of $9.2 million include costs of closure in 2012 of $2.3 million and postclosure costs over the subsequent thirty years of $6.9 million. These amounts are based on what it would cost to perform all closure and postclosure care in 2004. Actual costs may be higher due to inflation, changes in technology or changes in regulations. State and federal laws require owners to demonstrate financial assurance for closure, postclosure, and/or corrective action. The City complies with the financial and public notice components of the local government financial test and government-guarantee of the test.

l -- Risk-Related Contingencies

The City uses internal service funds to account for risks related to health benefits, third-party liability, and workers' compensation. The funds are as follows:

Fund name	Description
Employee Benefits	City employees and retirees may choose between a self-insured PPO or an HMO. Approximately 27% of City employees and 55% of retirees use the HMO option; approximately 73% of City employees and 45% of retirees use the PPO. Costs are charged to City funds through a charge per employee per pay period.
Liability Reserve	This self-insured program includes losses and claims related to liability for bodily injury, property damage, professional liability and certain employment liability. Excludes losses and claims related to health benefits or workers' compensation. Premiums are charged to other City funds each year based on historical costs.
Workers' Compensation	This self-insured program charges premiums to other City funds each year based on historical costs.

14 – COMMITMENTS AND CONTINGENCIES, continued

The City purchases stop loss insurance for the City's PPO. This stop loss insurance covers individual claims that exceed $500,000 per calendar year beginning in calendar year 2002 and $150,000 per calendar year prior to calendar year 2002, up to a maximum of $1 million. During fiscal year 2004, no claims exceeded the stop loss limit of $500,000; During fiscal year 2003, one claim exceeded the stop loss limit of $500,000; and no claims exceeded the stop loss limit of $500,000 in fiscal year 2002. City coverage is limited to $1 million in lifetime benefits. The City does not purchase stop loss insurance for workers' compensation claims.

The City is self-insured for much of its risk exposure; however, the City purchases commercial insurance coverage for loss or damage to real property, theft and other criminal acts committed by employees, and third party liability associated with the airport, owned aircraft, and electric utility operations. There have been no claims settlements in excess of the insurance coverage that has been procured. The City also purchases a broad range of insurance coverage through a program that provides workers' compensation, employer's liability and third party liability coverage to contractors working on designated capital improvement project sites.

Liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The City utilizes actuarial information and historical claim settlement trends to determine the claim liabilities for the Employee Benefits Fund and Workers' Compensation Fund; liabilities for the Liability Reserve Fund are calculated based on outstanding claims. The amount to be paid out ultimately may be more or less than the amount accrued at September 30, 2004. The possible range of loss is $27.4 to $41.2 million. The City contributes amounts to an internal service fund based on an estimate of anticipated costs for claims each year.

Changes in the balances of claims liability are as follows (in thousands):

	Employee Benefits		Liability Reserve		Workers' Compensation	
	2004	2003	2004	2003	2004	2003
Liability balances, beginning of year	$ 5,541	4,618	20,080	21,899	9,127	6,864
Claims and changes in estimates	4,460	5,328	3,601	9,586	4,592	6,587
Claim payments	(5,061)	(4,405)	(10,523)	(11,405)	(4,377)	(4,324)
Liability balances, end of year	$ 4,940	5,541	13,158	20,080	9,342	9,127

The Liability Reserve Fund claims liability balance at fiscal year end includes liabilities of $4.4 million discounted at 4.78% in 2004 and $4.9 million discounted at 5.02% in 2003.

In fiscal year 2004, the City reached a settlement agreement in a litigation matter with Christopher Ochoa in the amount of $4.8 million. This amount is included in the financial statements as presented.

m -- Environmental Remediation Contingencies

The Electric Fund may incur costs for environmental remediation of certain sites including the Holly and Seaholm Power Plants. The financial statements include a liability of $11.5 million at September 30, 2004. This amount includes the cost of penalties associated with an Environmental Protection Agency (EPA) PCB inspection and estimated remaining costs for the remediation of the contaminated sites. The Electric Fund anticipates payment of these costs in 2005 and future years.

The EPA issued an Administrative Order to the Water and Wastewater Utility on April 29, 1999. The Administrative Order requires the Utility perform a series of activities designed to result in an improved system free from sanitary sewer overflows. These activities include Infiltration/Inflow, Sanitary Sewer Evaluation Studies, as well as subsequent design and construction of necessary improvements to the wastewater collection system to eliminate overflows by December 2007. Construction costs are estimated to be $150 million and the Utility is on schedule to comply with the Administrative Order.

The Airport Fund may also incur costs for the environmental remediation of certain sites and has recorded an estimated liability of $1.5 million in the financial statements.

14 – COMMITMENTS AND CONTINGENCIES, continued

n -- Other Commitments and Contingencies

The City is committed under various leases for building and office space, tracts of land and rights of way, and various equipment. These leases are considered operating leases for accounting purposes. Lease expense for the year ended September 30, 2004 was $19.2 million. The City expects these leases to be replaced with similar leases in the ordinary course of business. Future minimum lease payments for these leases will remain approximately the same.

The City has entered into certain lease agreements, including the certificates of participation, as lessee for financing equipment purchases for Electric and Water and Wastewater Utilities and for financing personal computers for both governmental and business-type departments. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of the future minimum lease payments at their inception date. Refer to Note 10 for the debt service requirements on these leases.

The following summarizes assets recorded at September 30, 2004, under capital lease obligations (in thousands):

		Business-type Activities				
Assets	Governmental Activities	Electric	Water and Wastewater	Airport	Nonmajor	Total
Building and improvements	$ --	21,604	12,750	--	--	34,354
Equipment	2,289	1,334	284	917	652	3,187
Accumulated depreciation	(1,157)	(10,169)	(4,432)	(59)	(300)	(14,960)
Net assets	$ 1,132	12,769	8,602	858	352	22,581

15 – OTHER POST-EMPLOYMENT BENEFITS

In addition to making contributions to the three pension systems, the City provided certain other post-employment benefits to its retirees. Other post-employment benefits include access to medical and dental insurance for the retiree and the retiree's family and $1,000 of life insurance on the retiree only.

All retirees who are eligible to receive pension benefits under any of the City's three pension systems are eligible for other post-employment benefits. Retirees may also enroll eligible dependents under the medical and dental plan(s) in which they participate. Eligible dependents of the retiree include a legally married spouse, unmarried children under age 25 who are dependent upon the retiree for support, including natural children, stepchildren, legally adopted children, children for whom the retiree has obtained court-ordered guardianship/conservatorship, qualified children placed pending adoption, and grandchildren who qualify as a dependent on the retiree's or retiree's spouse's federal income tax return, and eligible disabled children beyond 25 years of age if covered prior to age 25. A surviving spouse of a deceased retiree may continue medical coverage until the date the surviving spouse remarries. A surviving spouse of a deceased retiree may continue dental coverage for 36 months by paying the entire premium plus a 2 percent administrative fee. Other surviving dependents of a deceased retiree may continue medical and dental coverage for 36 months by paying the entire premium plus a 2 percent administrative fee.

The City is under no obligation, statutory or otherwise, to offer other post-employment benefits or to pay any portion of the cost of other post-employment benefits to any retirees. Allocation of City funds to pay other post-employment benefits or to make other post-employment benefits available is determined on an annual basis by the City Council as part of the budget process.

The City pays a portion of the retiree's medical insurance premium and a portion of the retiree's dependents' medical insurance premium. The portion paid by the City varies according to age, coverage selection and years of service. The percentage of the medical insurance premium paid by the City ranges as follows:

Years of Service	Retiree only	Dependent only
Less than 5 years	14% - 16%	8% - 15%
5 to 9 years	22% - 24%	13% - 23%
10 to 14 years	38% - 40%	23% - 38%
15 to 20 years	55% - 56%	33% - 53%
Greater than 20 years	79% - 80%	49% - 75%

15 – OTHER POST-EMPLOYMENT BENEFITS, continued

The City pays 100% of the retiree's life insurance premium. Group dental coverage is available to retirees and their eligible dependents. The retiree pays the full cost of the dental premium.

Other post-employment benefits are expensed and funded on a pay-as-you-go basis. The City recognizes the cost of providing these benefits as payroll expense/expenditure in an operating fund with corresponding revenue in the Employee Benefits Fund. Medical and dental premiums and claims and life insurance premiums are reported in the Employee Benefits Fund. The estimated cost of providing these benefits for 2,443 retirees was $13.7 million in 2004, and $12.5 million in 2003 for 2,298 retirees.

As more fully described in Note 14, the City is a participant in the South Texas Project Nuclear Operating Company (STPNOC) and as such is liable for certain post-employment benefits for STPNOC employees. At December 31, 2003, the City's portion of this obligation, $7,883,039, is not reflected in the financial statements of the Electric Fund.

16 – SUBSEQUENT EVENTS

a -- Water and Wastewater System Revenue Bond Refunding Issue

In October 2004, the City issued $165,145,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2004A. Proceeds from the bonds were used to refund $175,000,000 of the City’s outstanding Tax-Exempt Commercial Paper issued for the Water and Wastewater System. The refunding resulted in future interest requirements to service the debt of $134,342,208. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

b -- Travis County Hospital District

In May 2004, voters in Travis County approved the creation of the Travis County Hospital District. In August 2004, the City and Travis County appointed members to serve on the Board of the District, which is comprised of nine members. The Board consists of four appointees from the City, four from Travis County, and one selected jointly. The District budget, which is required to be approved by the Travis County Commissioner’s Court, was approved for operations beginning on October 1, 2004.

On October 1, 2004, the City transferred $10.7 million to the District to fund a significant portion of a financial reserve fund. Of this amount, $3 million was transferred from remaining operating and capital reserves that existed in the Primary Care Fund at the end of fiscal year 2004. The City’s General Fund transferred the remaining amount of $7.7 million.

Certain City assets, obligations and rights will transfer to the District, including title to the land and buildings of Brackenridge Hospital, Children’s Hospital and the Austin Women’s Hospital. In addition, upon federal approval related to transfer of the federally-qualified status of the Community Health Center, assets associated with the City’s Federally Qualified Health Centers will also transfer to the District. On November 22, 2004, the Board approved the conveyance of land, buildings, and equipment pertaining to Brackenridge Hospital, Children’s Hospital and Austin Women’s Hospital.

The District has assumed the rights and obligations related to the lease with Seton to operate Brackenridge Hospital and the Children’s Hospital. The assumption of the lease includes provisions for the District to continue funding certain indigent healthcare costs previously funded by the City. The District has also assumed the agreement with the University of Texas Medical Branch at Galveston to operate Austin Women’s Hospital. An interlocal agreement approved by the District allows the City to operate the Federally Qualified Health Centers and administer the City and County Medical Assistance Programs.

(In thousands)

	2004					
			Actual-	Budget		Variance
		Adjustments	Budget			Positive
	Actual	(1) (2)	Basis	Original	Final	(Negative) (3)
REVENUES						
Taxes	$ 281,720	--	281,720	273,751	273,751	7,969
Franchise fees	29,018	--	29,018	27,132	27,132	1,886
Fines, forfeitures and penalties	16,976	--	16,976	17,317	17,317	(341)
Licenses, permits and inspections	15,317	--	15,317	16,884	16,884	(1,567)
Charges for services/goods	15,565	(1,185)	14,380	15,239	15,239	(859)
Interest and other	19,168	(475)	18,693	13,167	13,167	5,526
Total revenues	377,764	(1,660)	376,104	363,490	363,490	12,614
EXPENDITURES						
General government						
Municipal Court	8,199	32	8,231	8,713	8,613	382
Public safety						
Police	159,344	(1,652)	157,692	161,445	162,745	5,053
Fire	82,786	(14)	82,772	84,089	84,089	1,317
Emergency Medical Services	19,956	(437)	19,519	20,058	20,058	539
Transportation, planning and sustainability						
Transportation, Planning and Sustainability	8,493	311	8,804	9,277	9,277	473
Street lighting	176	--	176	160	160	(16)
Public health:						
Health	15,728	(244)	15,484	16,362	16,362	878
Social services management	9,579	505	10,084	10,293	10,293	209
Public recreation and culture						
Parks and Recreation	26,952	(271)	26,681	26,788	26,788	107
Austin Public Library	16,303	(116)	16,187	16,587	16,587	400
Urban growth management						
Neighborhood Planning and Zoning	3,088	6	3,094	3,413	3,413	319
Development Services and Watershed Protection	7,158	(220)	6,938	7,433	7,433	495
General city responsibilities (4)	46,983	(32,823)	14,160	12,705	12,705	(1,455)
Total expenditures	404,745	(34,923)	369,822	377,323	378,523	8,701
Excess (deficiency) of revenues over expenditures	(26,981)	33,263	6,282	(13,833)	(15,033)	21,315
OTHER FINANCING SOURCES (USES)						
Capital leases	634	(634)	--	--	--	--
Transfers in	95,894	1,725	97,619	97,619	97,619	--
Transfers out	(48,766)	(36,968)	(85,734)	(83,786)	(83,886)	(1,848)
Total other financing sources (uses)	47,762	(35,877)	11,885	13,833	13,733	(1,848)
Excess (deficiency) of revenues and other sources over expenditures and other uses	20,781	(2,614)	18,167	--	(1,300)	19,467
Special items - hospital district reserve payment	(7,700)	7,700	--	--	--	--
Fund balance at beginning of year	93,206	(58,854)	34,352	34,245	34,245	107
Fund balance at end of year	$ 106,287	(53,768)	52,519	34,245	32,945	19,574

(1) Includes adjustments to expenditures for current year encumbrances, payments against prior year encumbrances, accrued payroll, compensated absences, and amounts budgeted as operating transfers.
(2) Includes adjustments to revenues/transfers required for adjusted budget basis presentation.
(3) Variance is actual-budget basis to final budget.
(4) Actual expenditures include employee training costs and amounts budgeted as fund-level expenditures or operating transfers. Actual-budget basis expenditures include employee training costs, budgeted payroll accrual, and amounts budgeted as fund-level expenditures.

BUDGET BASIS REPORTING

a -- General

The City of Austin prepares its annual operating budget based on cash and available resources (budget basis) which differs from generally accepted accounting principles (GAAP basis). In governmental funds, encumbrances constitute the equivalent of expenditures for budgetary purposes. In order to provide a meaningful comparison of actual results to the budget, the Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual-Budget Basis for the General Fund presents the actual and actual-budget basis amounts in comparison with original and final budgets.

b -- Reconciliation of GAAP Basis and Budget Basis Amounts

The primary differences between GAAP-basis and budget reporting for the General Fund are the reporting of encumbrances and the reporting of certain operating transfers. General Fund accrued payroll is recorded at the department level on a GAAP basis and as an expenditure in the general city responsibilities activity on the budget basis. Adjustments necessary to convert the excess revenues and other sources over expenditures and other uses on a GAAP basis to a budget basis for the General Fund are provided, as follows (in thousands):

	General Fund
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis	$ 20,781
Adjustments - increases (decreases) due to:	
Unbudgeted revenues	(475)
Net compensated absences accrual	(126)
Outstanding encumbrances established in current year	(4,247)
Payments against prior year encumbrances	2,550
Advance from Airport Fund	(450)
Other	134
Excess (deficiency) of revenues and other sources over expenditures and other uses - budget basis	$ 18,167

c -- Budget Amendments

The original budget of the General Fund was amended twice during fiscal year 2004 for increased public safety costs and an increase in transfers out offset by a decrease in expenditures for Municipal Court.

The original and amended budget is presented in the accompanying financial statements. The General Fund budget includes other revenues and requirements, which are presented in the general city responsibilities category. The amended expenditure budget for these general city requirements includes the following: tuition reimbursement ($85,000), accrued payroll ($1,435,000), expenditures for workers' compensation ($7,146,683), liability reserve ($2,500,000) and public safety ($1,538,700).

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 Official Statement, and all references and summaries pertaining to the Ordinance in this Official Statement 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.

"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.

"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.

“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.

"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.

"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 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.

Source of Interest or Income	Fund or Account to which such Interest or Income should be Credited
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	Remains in fund until the applicable Debt Service Reserve Fund Requirement is satisfied; thereafter to the Revenue

Reserve Fund	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 irrepealable 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) $3.00 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

Vinson&Elkins

[FORM OF BOND COUNSEL OPINION]

August 17, 2005

$306,225,000
CITY OF AUSTIN, TEXAS
AIRPORT SYSTEM REFUNDING REVENUE BONDS
SERIES 2005

WE HAVE represented the City of Austin, Texas (the “Issuer”), as its bond counsel in connection with an issue of bonds (the “Bonds”) described as follows:

> CITY OF AUSTIN, TEXAS, AIRPORT SYSTEM REFUNDING REVENUE BONDS, SERIES 2005, dated August 15, 2005, issued in the principal amount of $306,225,000.
>
> The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds, in the Ordinance adopted by the City Council of the Issuer authorizing their issuance (the “Ordinance”) and in the Pricing Certificate executed by the City Manager of the City of Austin, Texas.

WE HAVE represented the Issuer as its bond counsel for the purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the Issuer’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds on which we have relied in giving our opinion. The transcript contains an escrow agreement (the “Escrow Agreement”) between the Issuer and Wells Fargo Bank, N.A., as escrow agent (the “Escrow Agent”), the report of The Arbitrage Group, Inc., Certified Public Accountants, verifying the sufficiency of the deposits made with the Escrow Agent for the defeasance and redemption of the bonds being refunded (the “Refunded Bonds”), certified copies of certain proceedings of the Issuer, customary certificates of officers, agents and representatives of the Issuer and other public officials and other certified showings relating to the authorization and issuance of the Bonds and the defeasance and redemption of the Refunded Bonds. We have also examined a specimen Bond of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

(A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective and that therefore the Bonds constitute valid and legally binding special obligations of the Issuer.

(B) The Bonds and any bonds heretofore or hereafter issued on a parity with the Bonds are payable from and secured by a lien on the "Net Revenues" of the "Airport System" and the "Debt Service Fund" and the "Debt Service Reserve Fund," as defined in and provided for in the Ordinance, subordinate only to the lien on the "Net Revenues" securing the Prior Lien Bonds, as defined in the Ordinance.

(C) Firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Bonds pursuant to the Escrow Agreement, and therefore, the Refunded Bonds are deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor in such Escrow Agreement.

THE RIGHTS OF THE OWNERS of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion. The Bonds are secured solely by a lien on and pledge of Net Revenues and certain funds as provided in the Ordinance and do not constitute a general obligation indebtedness of the Issuer. Owners of the Bonds shall never have the right to demand payment of the principal of or interest on the Bonds out of any funds raised or to be raised by taxation.

IT IS OUR FURTHER OPINION that:

(1) Prior to the first change of interest rate modes for which an opinion of nationally recognized bond counsel is required under the Ordinance, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, except as provided in section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"), for any Bond for any period during which such Bond is held by a "substantial user" or a "related person" thereto, as such terms are defined in the Code and the regulations adopted pursuant thereto.

(2) The Bonds are "private activity bonds" within the meaning of the Code, and interest on the Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations under existing law.

In providing such opinions, we have relied on representations of the Issuer, the underwriter and the Issuer's financial advisor with respect to matters solely within their respective knowledge, which we have not independently verified, and we have assumed continuing compliance with the covenants in the Ordinance pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. If such representations are determined to be inaccurate or incomplete, or if the Issuer fails to comply with the foregoing described covenants of the Ordinance, interest on the Bonds could become includable in gross income from the date of their original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt or accrual of interest on, or disposition of the Bonds. Further, pursuant to the Ordinance, certain changes of interest rate modes are conditioned on delivery of an opinion to the effect that each such change will not adversely affect the excludability of interest on the Bonds from gross income for federal income tax purposes. The delivery of such opinions will depend on facts and law that exist on such future date or dates, if any. Therefore, we express no opinion regarding the excludability of interest on the Bonds from gross income for federal income tax purposes on and after the date or dates, if any, of any such changes. Further, we express no opinion on our ability to render the opinion required in connection with such changes.

Owners of the Bonds should 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).

The opinions set forth above are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem 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 Issuer as the taxpayer. We observe that the Issuer has covenanted in the Ordinance not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

APPENDIX E

FORM OF SPECIMEN INSURANCE POLICY

FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER: Policy No.: -N

BONDS: Effective Date:

Premium: $

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature] FINANCIAL SECURITY ASSURANCE INC.

By ____________________ By ____________________
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd. (212) 826-0100
350 Park Avenue, New York, N.Y. 10022-6022

APPENDIX F

SCHEDULE OF REFUNDED BONDS

		Maturity	Coupon	Par Amount	Redemption Price
Airport System Prior Lien Rev		11/15/2006	5.500%	$ 6,550,000	102
Refunding Bonds, Series 1995A		11/15/2007	5.625%	6,955,000	102
		11/15/2008	5.750%	7,390,000	102
		11/15/2009	5.875%	7,865,000	102
		11/15/2010	6.000%	8,375,000	102
		11/15/2011	6.100%	8,925,000	102
	Term Bond	11/15/2015	6.200%	42,100,000	102
	Term Bond	11/15/2025	6.125%	174,630,000	102
Airport System Prior Lien		11/15/2006	5.500%	$ 1,165,000	102
Rev Refunding Bonds, Series 1995B		11/15/2007	5.625%	1,230,000	102
		11/15/2008	5.750%	1,295,000	102
		11/15/2009	5.875%	1,375,000	102
		11/15/2010	6.000%	1,450,000	102
		11/15/2011	6.100%	1,540,000	102
	Term Bond	11/15/2020	6.450%	17,965,000	102
Total Refunded				$ 288,810,000	

APPENDIX G

EXHIBIT I – MULTI-MODAL PROVISIONS

EXHIBIT I

TO

MULTI-MODAL PROVISIONS

AUCTION PROCEDURES

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EXHIBIT I

AUCTION PROCEDURES

ARTICLE I
DEFINITIONS

Section 1.01 **Definitions**. In addition to the words and terms elsewhere defined, or whose defined meanings are incorporated by reference, in the Multi-Modal Provisions (hereinafter referred to as "the Appendix") to which this Exhibit I is attached, the following words and terms as used in this Exhibit I and elsewhere in the Appendix have the following meanings with respect to Bonds of a subseries in an Auction Rate Mode unless the context or use indicates another or different meaning or intent:

Agent Member means a member of, or participant in, the Securities Depository who shall act on behalf of a Bidder.

All Hold Rate means, as of any Auction Date, 60% of the Index in effect on such Auction Date.

Auction means each periodic implementation of the Auction Procedures.

Auction Agent means initially, Wells Fargo Bank, N.A., and thereafter the auctioneer, or any successor, appointed in accordance with Section 3.01 or 3.02 of this Exhibit I.

Auction Agreement means an agreement among the City, the Paying Agent/Registrar and the Auction Agent pursuant to which the Auction Agent agrees to follow the procedures specified in this Exhibit I, with respect to the Bonds of a subseries in an Auction Rate Mode, as such agreement may from time to time be amended or supplemented.

Auction Date means during any period in which the Auction Procedures are not suspended in accordance with the provisions hereof:

(a) if the Bonds of a subseries are in a daily Auction Period, each Business Day;

(b) if the Bonds of a subseries are in a Special Auction Period, the last Business Day of the Special Auction Period; and

(c) if the Bonds of a subseries are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Bonds of a subseries (whether or not an Auction shall be conducted on such date); provided, however, that the last Auction Date with respect to the Bonds of any subseries in an Auction Period other than a daily Auction Period or Special Auction Period shall be the earlier of (i) the Business Day next preceding the Interest Payment Date next preceding the Mode Change Date for such Bonds of a subseries, and (ii) the Business Day next preceding the Interest Payment Date next preceding the maturity date for such Bonds; and provided, further, that if the Bonds of a subseries are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the Business Day next preceding the Mode Change Date for such Bonds, and (y) the Business Day next preceding the maturity date for the Bonds of a subseries.

The last Business Day of a Special Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be two Auctions, one for the last daily Auction Period and one for the first Auction Period following the conversion.

Auction Period means:

(a) with respect to Bonds of a subseries in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day;

(b) with respect to Bonds of a subseries in a seven day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally seven days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally seven days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally seven days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally seven days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally seven days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(c) with respect to Bonds of a subseries in a 28-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally 28 days beginning on a Monday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the fourth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally 28 days beginning on a Tuesday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the fourth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally 28 days beginning on a Wednesday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the fourth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally 28 days beginning on a Thursday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the fourth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally 28 days beginning on a Friday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the fourth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(d) with respect to Bonds of a subseries in a 35-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally 35 days beginning on a Monday (or the last day of the prior Auction Period if the prior Auction Period does not end on Sunday) and ending on the fifth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally 35 days beginning on a Tuesday (or the last day of the prior Auction Period if the prior Auction Period does not end on Monday) and ending on the fifth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally 35 days beginning on a Wednesday (or the last day of the prior Auction Period if the prior Auction Period does not end on Tuesday) and ending on the fifth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally 35 days beginning on a Thursday (or the last day of the prior Auction Period if the prior Auction Period does not end on Wednesday) and ending on the fifth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally 35 days beginning on a Friday (or the last day of the prior Auction Period if the prior Auction Period does not end on Thursday) and ending on the fifth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day); and

(e) a Special Auction Period;

provided, however, that

(a) if there is a conversion of Bonds of a subseries with Auctions generally conducted on Fridays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the

Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(b) if there is a conversion of Bonds of a subseries with Auctions generally conducted on Mondays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(c) if there is a conversion of Bonds of a subseries with Auctions generally conducted on Tuesdays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(d) if there is a conversion of Bonds of a subseries with Auctions generally conducted on Wednesdays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion; and

(e) if there is a conversion of Bonds of a subseries with Auctions generally conducted on Thursdays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

provided further, however, that any Auction Period that is greater than 35 days may be extended as provided in paragraph (d) of Section 2.03 of this Exhibit I.

Auction Period Rate means with respect to Bonds of each subseries, the rate of interest to be borne by the Bonds of such subseries during each Auction Period determined in accordance with Section 2.03 of this Exhibit I; provided, however, in no event may the Auction Period Rate or the Auction Rate exceed the Maximum Auction Rate.

Auction Procedures means the procedures for conducting Auctions for Bonds of a subseries in an Auction Rate Mode set forth in this Exhibit I.

Auction Rate means for each series of Bonds for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate, provided, however, if all of such Bonds of a subseries are the subject of Submitted Hold Orders, the All Hold Rate with respect to such Bonds and (ii) if Sufficient Clearing Bids do not exist, the Maximum Auction Rate with respect to such Bonds.

Available Bonds means for each series of Bonds on each Auction Date, the aggregate principal amount of such Bonds that are not the subject of Submitted Hold Orders.

Bid has the meaning specified in subsection (a) of Section 2.01 of this Exhibit I.

Bidder means each Existing Owner and Potential Owner who places an Order.

Broker-Dealer means, initially, Morgan Stanley & Co. Incorporated, and thereafter any entity that is permitted by law to perform the function required of a Broker-Dealer described in this Exhibit I that is a member of, or a direct participant in, the Securities Depository, that has been selected by the City, and that is a party to a Broker-Dealer Agreement with the Auction Agent.

Broker-Dealer Agreement means an agreement among the Auction Agent, the City and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in this Exhibit I, as such agreement may from time to time be amended or supplemented.

Existing Owner means (a) with respect to and for the purpose of dealing with the Auction Agent in connection with an Auction, a person who is a Broker-Dealer and (b) with respect to and for the purpose of dealing with a Broker-Dealer in connection with an Auction, a person who is a beneficial owner of Bonds.

Hold Order has the meaning specified in subsection (a) of Section 2.01 of this Exhibit I.

Index shall have the meaning specified in Section 2.06 of this Exhibit I.

Interest Payment Date means:

(a) when used with respect to any Auction Period (including the initial Auction Period commencing on and including the date of initial delivery of the Bonds or the Mode Change Date, and expiring on and including the initial Auction Date specified in the Pricing Certificate or determined and certified by an Authorized Officer on or prior to the Mode Change Date) other than a daily Auction Period or a Special Auction Period, the Business Day immediately following such Auction Period;

(b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period; and

(c) when used with respect to a Special Auction Period, (A) in the case of Bonds of a subseries with Auctions generally conducted on Fridays, each thirteenth Monday after the first day of such Special Auction Period or the next Business Day if such Monday is not a Business Day and on the Business Day immediately following such Special Auction Period, (B) in the case of Bonds of a subseries with Auctions generally conducted on Mondays, each thirteenth Tuesday after the first day of such Special Auction Period or the next Business Day if such Tuesday is not a Business Day and on the Business Day immediately following such Special Auction Period, (C) in the case of Bonds of a subseries with Auctions generally conducted on Tuesdays, each thirteenth Wednesday after the first day of such Special Auction Period or the next Business Day if such Wednesday is not a Business Day and on the Business Day immediately following such Special Auction Period, (D) in the case of Bonds of a subseries with Auctions conducted on Wednesdays, each thirteenth Thursday after the first day of such Special Auction Period or the next Business Day if such Thursday is not a Business Day and on the Business Day immediately following such Special Auction Period and (E) in the case of Bonds of a subseries with Auctions generally conducted on Thursdays, each thirteenth Friday after the first day of such Special Auction Period or the next Business Day if such Friday is not a Business Day and on the Business Day immediately following such Special Auction Period.

Maximum Auction Rate means twelve percent (12%); provided, however, that in no event shall the Maximum Auction Rate exceed the Maximum Rate, anything herein to the contrary notwithstanding.

Order means a Hold Order, Bid or Sell Order.

Potential Owner means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in the Bonds of a subseries in addition to the Bonds currently owned by such Person, if any.

Principal Office means, with respect to the Auction Agent, the office thereof designated in the Auction Agreement as the office of the Auction Agent to which notices, requests or communications should be sent.

Securities Depository means The Depository Trust Company and its successors and assigns or any other securities depository selected by the City which agrees to follow the procedures required to be followed by such securities depository in connection with the Bonds of a subseries.

Sell Order has the meaning specified in subsection (a) of Section 2.01 of this Exhibit I.

Special Auction Period means any period of more than 180 days but less than 365 days which begins on an Interest Payment Date and ends (i) in the case of Bonds of a subseries with Auctions generally conducted on Fridays, on a Sunday unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (ii) in the case of Bonds of a subseries with Auctions generally conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iii) in the case of Bonds of a subseries with Auctions generally conducted on Tuesdays, on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iv) in the case of Bonds of a subseries with Auctions generally conducted on Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, and (v) in the case of Bonds of a subseries with Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day.

Submission Deadline means 1:00 p.m., New York City time, on each Auction Date for Bonds of a subseries not in a daily Auction Period and 11:00 a.m., New York City time, on each Auction Date for Bonds of a subseries in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent.

Submission Processing Deadline means the earlier of (i) 40 minutes after the Submission Deadline and (ii) the time when the Auction Agent begins to disseminate the results of the Auction to the Broker-Dealers.

Submitted Bid has the meaning specified in subsection (b) of Section 2.03 of this Exhibit I.

Submitted Hold Order has the meaning specified in subsection (b) of Section 2.03 of this Exhibit I.

Submitted Order has the meaning specified in subsection (b) of Section 2.03 of this Exhibit I.

Submitted Sell Order has the meaning specified in subsection (b) of Section 2.03 of this Exhibit I.

Sufficient Clearing Bids means with respect to Bonds of a subseries, an Auction for which the aggregate principal amount of Bonds of such subseries that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Auction Rate is not less than the aggregate principal amount of Bonds of such subseries that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Auction Rate.

Winning Bid Rate means with respect to Bonds of a subseries the lowest rate specified in any Submitted Bid for such subseries which if selected by the Auction Agent as the Auction Period Rate would cause the aggregate principal amount of Bonds of such subseries that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the aggregate principal amount of Available Bonds of such series.

Section 1.02 Rules of Construction.

(a) This Exhibit I constitutes an integral part of the Appendix and, except to the extent provided in the next sentence, has the same force and effect as if set forth in the Appendix. In the event of any conflict between this Exhibit I and the Appendix, the Appendix shall control.

(b) References in this Exhibit I to Articles or Sections are to such Article or Section of this Exhibit I.

ARTICLE II
AUCTION PROCEDURES

Section 2.01 Orders by Existing Owners and Potential Owners.

(a) Prior to the Submission Deadline on each Auction Date:

(i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, information as to:

(A) the principal amount of Bonds of a subseries, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period without regard to the rate determined by the Auction Procedures for such Auction Period,

(B) the principal amount of Bonds of a subseries, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period if the rate determined by the Auction Procedures for such Auction Period shall not be less than the rate per annum then specified by such Existing Owner (and which such Existing Owner irrevocably offers to sell on the next succeeding Interest Payment Date (or the same day in the case of a daily Auction Period) if the rate determined by the Auction Procedures for the next succeeding Auction Period shall be less than the rate per annum then specified by such Existing Owner), and/or

(C) the principal amount of Bonds of a subseries, if any, held by such existing Owner which such Existing Owner irrevocably offers to sell on the next succeeding Interest Payment Date (or on the same day in the case of a daily Auction Period) without regard to the rate determined by the Auction Procedures for the next succeeding Auction Period; and

(ii) for the purpose of implementing the Auctions and thereby to achieve the lowest possible interest rate on the Bonds of a subseries, the Broker-Dealers shall contact Potential Owners, including Persons that are Existing Owners, to determine the principal amount of Bonds of a subseries, if any, which each such Potential Owner irrevocably offers to purchase if the rate determined by the Auction Procedures for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes hereof, an Order containing the information referred to in clause (i)(A) above is herein referred to as a "Hold Order," an Order containing the information referred to in clause (i)(B) or (ii) above is herein referred to as a "Bid," and an Order containing the information referred to in clause (i)(C) above is herein referred to as a "Sell Order."

(b) (i) A Bid by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of Bonds of a subseries specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be less than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Bonds of a subseries to be determined as described in subsection (a)(v) of Section 2.04 hereof if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate; or

(C) a lesser principal amount of Bonds of a subseries to be determined as described in subsection (b)(iv) of Section 2.04 hereof if such specified rate shall be higher than the Maximum Auction Rate and Sufficient Clearing Bids do not exist.

(ii) A Sell Order by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of Bonds of a subseries specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of Bonds of a subseries as described in subsection (b)(iv) of Section 2.04 hereof if Sufficient Clearing Bids do not exist.

(iii) A Bid by a Potential Owner shall constitute an irrevocable offer to purchase:

(A) the principal amount of Bonds of a subseries specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Bonds of a subseries as described in subsection (a)(vi) of Section 2.04 hereof if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) for purposes of any Auction, any Order which specifies Bonds of a subseries to be held, purchased or sold in a principal amount which is not equal to the Authorized Denomination for Bonds of such subseries or an integral multiple thereof shall be rounded down to the nearest amount that is equal to the Authorized Denomination for Bonds of such subseries, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such lower amount;

(ii) for purposes of any Auction other than during a daily Auction Period, any portion of an Order of an Existing Owner which relates to a Bond of a subseries which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted;

(iii) for purposes of any Auction other than during a daily Auction Period, no portion of a Bond of a subseries which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction; and

(iv) the Auction Procedures shall be suspended with respect to the Bonds of a subseries during the period commencing on the date of the Auction Agent's receipt of notice from the Paying Agent/Registrar of (i) a default by the Insurer in the due and punctual payment of a claim on the Policy for any installment of scheduled interest on any Bond of such subseries in the Auction Rate Mode which is unpaid by the City or (ii) a default by the Insurer in the due and punctual payment of a claim on the Policy for any principal of any Bond of such series in the Auction Rate Mode at stated maturity or pursuant to a mandatory redemption which is unpaid by the City, but shall resume two Business Days after the date on which the Auction Agent receives notice from the Paying

Agent/Registrar that such default has been waived or cured, with the next Auction to occur on the next regularly scheduled Auction Date occurring thereafter.

Section 2.02 Submission of Orders by Broker-Dealers to Auction Agent.

(a) Each Broker-Dealer shall submit to the Auction Agent in writing or by such other method as shall be reasonably acceptable to the Auction Agent, including such electronic communication acceptable to the parties, prior to the Submission Deadline (but subject to the Submission Processing Deadline) on each Auction Date, all Orders obtained by such Broker-Dealer and, if requested, specifying with respect to each Order:

(i) the name of the Bidder placing such Order;

(ii) the aggregate principal amount of Bonds of each subseries, if any, that are the subject of such Order;

(iii) to the extent that such Bidder is an Existing Owner:

(A) the principal amount of Bonds of each subseries, if any, subject to any Hold Order placed by such Existing Owner;

(B) the principal amount of Bonds of each subseries, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the principal amount of Bonds of each subseries, if any, subject to any Sell Order placed by such Existing Owner;

(iv) to the extent such Bidder is a Potential Owner, the rate specified in such Bid.

Notwithstanding the foregoing, Broker-Dealers may submit an Order after the Submission Deadline and prior to the Submission Processing Deadline if the Order was (i) received by the Broker-Dealer from Existing Owners or Potential Owners prior to the Submission Deadline or (ii) initiated internally by the Broker-Dealer for its own account prior to the Submission Deadline. Each Order submitted to the Auction Agent after the Submission Deadline and prior to the Submission Processing Deadline shall constitute a representation by the Broker-Dealer that such Order was (i) received from an Existing Owner or Potential Owner prior to the Submission Deadline or (ii) initiated internally by the Broker-Dealer for its own account prior to the Submission Deadline.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth of one percent (0.001%).

(c) If an Order or Orders covering all of the Bonds of a particular subseries held by an Existing Owner is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds of such subseries held by such Existing Owner and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to another Auction Period or an amendment or modification to the Ordinance in accordance with Section 2.07(b) of this Exhibit I and Orders have not been submitted to the Auction Agent prior to the Submission Deadline covering the aggregate principal amount of Bonds of the subseries to be converted held by such Existing Owner, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds of such subseries to be converted held by such Existing Owner not subject to Orders submitted to the Auction Agent.

(d) If one or more Orders covering in the aggregate more than the principal amount of Outstanding Bonds of a subseries held by any Existing Owner are submitted to the Auction Agent, such Orders shall be considered valid as follows:

(i) all Hold Orders shall be considered Hold Orders, but only up to and including in the aggregate the principal amount of Bonds of such subseries held by such Existing Owner;

(ii) (A) any Bid of an Existing Owner shall be considered valid as a Bid of an Existing Owner up to and including the excess of the principal amount of Bonds of such subseries held by such Existing Owner over the principal amount of the Bonds of such subseries subject to Hold Orders referred to in paragraph (i) above;

(B) subject to clause (A) above, all Bids of an Existing Owner with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the principal amount of Bonds of such subseries held by such Existing Owner over the principal amount of Bonds of such subseries held by such Existing Owner subject to Hold Orders referred to in paragraph (i) above;

(C) subject to clause (A) above, if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the principal amount of Bonds of such subseries held by such Existing Owner over the principal amount of Bonds of such subseries held by such Existing Owner subject to Hold Orders referred to in paragraph (i) above; and

(D) the principal amount, if any, of such Bonds of such subseries subject to Bids not considered to be Bids of an Existing Owner under this paragraph (ii) shall be treated as the subject of a Bid by a Potential Owner; and

(iii) all Sell Orders shall be considered Sell Orders, but only up to and including a principal amount of Bonds of such subseries equal to the excess of the principal amount of Bonds of such subseries held by such Existing Owner over the sum of the principal amount of the Bonds considered to be subject to Hold Orders pursuant to paragraph (i) above and the principal amount of Bonds of such subseries considered to be subject to Bids of such Existing Owner pursuant to paragraph (ii) above.

(e) If more than one Bid is submitted on behalf of any Potential Owner, each Bid submitted with the same rate shall be aggregated and considered a single Bid and each Bid submitted with a different rate shall be considered a separate Bid with the rate and the principal amount of Bonds of such subseries specified therein.

(f) Neither the City nor the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

Section 2.03 **Determination of Auction Period Rate**.

(a) Not later than 9:30 a.m., New York City time, on each Auction Date for Bonds of each subseries in an Auction Rate Mode, the Auction Agent shall advise the Broker-Dealers and the Authorized Officers by telephone or other electronic communication acceptable to the parties of the All Hold Rate, the Maximum Auction Rate and the Index for the Bonds of such subseries.

(b) Promptly after the Submission Deadline, but subject to the Submission Processing Deadline, on each Auction Date for Bonds of each subseries in an Auction Rate Mode, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, and collectively as a "Submitted Order") and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate, which shall be the Auction Period Rate.

(c) Promptly after the Auction Agent has made the determinations pursuant to subsection (b) above, the Auction Agent shall advise the Authorized Officers and the Paying Agent/Registrar by telephone (promptly confirmed in writing) or facsimile transmission or other electronic communication acceptable to the parties of the Auction Rate for the next succeeding Auction Period and the Paying Agent/Registrar shall promptly notify the Securities Depository of such Auction Rate.

(d) In the event the Auction Agent fails to calculate or, for any reason, fails to timely provide the Auction Rate for any Auction Period, including any failure caused by the lack of a duly appointed Auction Agent or Broker-Dealer, (i) if the preceding Auction Period was a period of 35 days or less, the new Auction Period shall be the same as the preceding Auction Period and the Auction Period Rate for the new Auction Period shall be the same as the Auction Period Rate for the preceding Auction Period, and (ii) if the preceding Auction Period was a period of greater than 35 days, the preceding Auction Period shall be extended to the seventh day following the day that would have been the last day of such Auction Period had it not been extended (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) and the Auction Period Rate in effect for the preceding Auction Period will continue in effect for the Auction Period as so extended. In the event an Auction Period is extended as set forth in clause (ii) of the preceding sentence, an Auction shall be held on the last Business Day of the Auction Period as so extended to take effect for an Auction Period beginning on the Business Day immediately following the last day of the Auction Period as extended which Auction Period will end on the date it would otherwise have ended on had the prior Auction Period not been extended; provided however, that in the event of such a seven-day extension, an Authorized Officer acting on behalf of the City may change the Auction Period from the Special Auction Period to a seven-day Auction Period upon the completion of such seven-day extension without complying with the otherwise applicable notice or other requirements of Section 2.08.

(e) In the event that the Auction Procedures are suspended pursuant to paragraph (iv) of subsection (c) of Section 2.01 of this Exhibit I with respect to any Bond of subseries, the Auction Period Rate for the next succeeding Auction Period shall be the Maximum Auction Rate.

(f) In the event that all of the conditions for a change in the Mode applicable to the Bonds of a subseries from an Auction Rate Mode to any other Mode pursuant to Section A-207 of the Appendix have not been met or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the Auction Period Rate for the next Auction Period shall be the Maximum Auction Rate and the Auction Period shall be a seven-day Auction Period (except as provided in Section 2.08(a)(iv) with respect to the daily Auction Period).

(g) If the Bonds of a subseries are not rated or if the Bonds of a subseries are no longer maintained in book-entry form by the Securities Depository, then the Auction Period Rate shall be the Maximum Auction Rate.

(h) (i) If on any Auction Date for any daily, seven-day, 28-day or 35-day Auction Period, other than an Auction Date on which the City is attempting to change Auction Periods, as described in Section 2.08(a), the Auction for such date does not produce Sufficient Clearing Bids, the Auction Period Rate for the next Auction Period shall be the Maximum Auction Rate and the Auction Period shall be the same as the preceding Auction Period.

(ii) If on any Auction Date for any Special Auction Period the Auction for such date does not produce Sufficient Clearing Bids, except as provided in subsection (d) above, the Auction Period Rate for the next Auction Period shall be the Maximum Auction Rate and the Auction Period shall be a seven-day Auction Period.

Section 2.04 **Allocation of Bonds of a Subseries**.

(a) In the event of Sufficient Clearing Bids for Bonds of a subseries, subject to the further provisions of subsections (c) and (d) below, Submitted Orders for such subseries shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds of a subseries that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the Bonds of a subseries that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds of a subseries that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds of a subseries that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds of a subseries that are the subject of such Submitted Bid, but only up to and including the principal amount of Bonds of a subseries obtained by multiplying (A) the aggregate principal amount of Outstanding Bonds of a subseries which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii) or (iv) above by (B) a fraction the numerator of which shall be the principal amount of Outstanding Bonds of a subseries held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate principal amount of Outstanding Bonds of a subseries subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of Bonds of a subseries;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds of a subseries that are the subject of such Submitted Bid, but only in an amount equal to the principal amount of Bonds of a subseries obtained by multiplying (A) the aggregate principal amount of Outstanding Bonds of a subseries which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii), (iv) or (v) above by (B) a fraction the numerator of which shall be the principal amount of Outstanding Bonds of a subseries subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate principal amount of Outstanding Bonds of a subseries subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids for Bonds of a subseries, subject to the further provisions of subsections (c) and (d) below, Submitted Orders for each Bonds of a subseries shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds of a subseries that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Auction Rate with respect to Bonds of a subseries, shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds of a subseries that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Auction Rate with respect to Bonds of a subseries, shall be accepted, thus requiring each such Potential Owner to purchase the Bonds of a subseries that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Auction Rate with respect to Bonds of a subseries, shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the principal amount of Bonds of a subseries obtained by multiplying (A) the aggregate principal amount of Bonds of a subseries subject to Submitted Bids described in paragraph (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the principal amount of Outstanding Bonds of a subseries held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the principal amount of Outstanding Bonds of a subseries subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of Bonds of a subseries; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Auction Rate with respect to the Bonds of a subseries shall be rejected.

(c) If, as a result of the procedures described in subsection (a) or (b) above, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of Bonds of a subseries which is not an integral multiple of the Authorized Denomination for Bonds of such subseries on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, round up or down the principal amount of Bonds of a subseries to be purchased or sold by any Existing Owner or Potential Owner on such Auction Date so that the aggregate principal amount of Bonds of a subseries purchased or sold by each Existing Owner or Potential Owner on such Auction Date shall be an integral multiple of the Authorized Denomination for Bonds or such subseries, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any Bonds of a subseries on such Auction Date.

(d) If, as a result of the procedures described in subsection (a) above, any Potential Owner would be required to purchase a principal amount of Bonds of a subseries that is less than the Authorized Denomination for Bonds of such subseries on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, allocate such Bonds for purchase among Potential Owners so that the principal amount of Bonds of a subseries purchased on such Auction Date by any Potential Owner shall be an integral multiple of the Authorized Denomination for Bonds of such subseries, even if such allocation results in one or more of such Potential Owners not purchasing such Bonds on such Auction Date.

Section 2.05 **Notice of Auction Period Rate**.

(a) On each Auction Date, the Auction Agent shall notify by telephone or other telecommunication device or other electronic communication acceptable to the parties or in writing each Broker-Dealer that participated in the Auction held on such Auction Date of the following with respect to Bonds of each subseries for which an Auction was held on such Auction Date:

(i) the Auction Period Rate determined on such Auction Date for the succeeding Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected and the principal amount of Bonds of a subseries, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected and the principal amount of Bonds of a subseries, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of the Bonds of a subseries to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of Bonds of a subseries to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker Dealer) and the principal amount of Bonds of a subseries to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and

(vi) the immediately succeeding Auction Date.

(b) On each Auction Date, with respect to Bonds of each subseries for which an Auction was held on such Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall: (i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the Auction Period Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of each such Owner was accepted or rejected, in whole or in part, and (C) the immediately succeeding Auction Date; (ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of such Bonds of a subseries to be purchased pursuant to such Bid (including, with respect to such Bonds of a subseries in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such Bond) against receipt of such Bonds of a subseries; and (iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected, in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of such Bonds of a subseries to be sold pursuant to such Bid or Sell Order against payment therefor.

Section 2.06 **Index**.

(a) (i) The Index on any Auction Date with respect to Bonds of a subseries in an Auction Period of 40 days or less shall be the One Month LIBOR Rate on such date. If such rate is unavailable, the Index for the Bonds of a subseries shall be the U.S. Treasury rate with expiration that most closely resembles the duration of the Auction Period; provided, that if such rate is not available, the Index will be an index or rate agreed to by all Broker Dealers and the City.

(ii) The Index on any Auction Date with respect to Bonds of a subseries in an Auction Period over 40 days shall be the Special Auction Period Rate on such date. If such rate is unavailable, the Index for the Bonds of a subseries shall be the U.S. Treasury rate with expiration that most closely resembles the duration of the Auction Period

"One Month LIBOR Rate" means, as of any date of determination, the London interbank offered rate for deposits in U.S. dollars maturing after one calendar month commencing on the related determination date which appears on the Dow Jones Market Services Page 3750 as of 11:00 a.m., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market.

"Special Auction Period Rate" means, as of any date of determination, the London interbank offered rate for deposits in U.S. dollars maturing after a period most nearly equal in length to the Special Auction Period for which such Special Auction Period Rate would apply, as determined by an Authorized Officer, which appears on the Dow Jones Market Services Page 3750 as of 11:00 a.m., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market.

(b) If for any reason on any Auction Date the Index shall not be determined as hereinabove provided in this Section, the Index shall be the Index for the Auction Period ending on such Auction Date.

(c) The determination of the Index as provided herein shall be conclusive and binding upon the City, the Broker-Dealers, the Auction Agent and the Owners of the Bonds of a subseries.

Section 2.07 Miscellaneous Provisions Regarding Auctions.

(a) In this Exhibit I, each reference to the purchase, sale or holding of "Bonds" shall refer to beneficial interests in such Bonds, unless the context clearly requires otherwise.

(b) During an Auction Rate Mode, with respect to the Bonds of a subseries, the provisions of the Ordinance, including the Pricing Certificate, the Appendix, this Exhibit I and the definitions contained in this Exhibit I, including, without limitation, the definitions of Maximum Rate, Maximum Auction Rate, All Hold Rate, Index and the Auction Period Rate, may be modified or amended pursuant to the Ordinance by obtaining, when required by the Ordinance, the consent of the Insurer and the consent of the Owners of all Outstanding Bonds of such subseries as follows; provided, however, that no such modification or amendment that adversely affect the rights, duties or obligations of the Auction Agent shall be made without the consent of the Auction Agent. If on the first Auction Date occurring at least 20 days after the date on which the Paying Agent/Registrar mailed notice of such proposed modification or amendment to the registered owners of the Outstanding Bonds of a subseries as and to the extent required by the Ordinance, (i) the Auction Period Rate which is determined on such date is the Winning Bid Rate and (ii) there is delivered to the City a Favorable Opinion of Bond Counsel, the proposed modification or amendment shall be deemed to have been consented to by the Owners of all affected Outstanding Bonds of such subseries.

(c) If the Securities Depository notifies the City that it is unwilling or unable to continue as Owner of the Bonds of a subseries or if at any time the Securities Depository shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor to the Securities Depository is not appointed by the City within 90 days after the City receives notice or becomes aware of such condition, as the case may be, the City shall execute and the Paying Agent/Registrar shall authenticate and deliver certificates representing the Bonds of such subseries. Such Bonds shall be authorized in such names and authorized denominations as the Securities Depository, pursuant to instructions from the Agent Members or otherwise, shall instruct the City and the Paying Agent/Registrar.

(d) During an Auction Rate Mode, so long as the ownership of the Bonds of a subseries is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of a Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of Bonds of a subseries from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this paragraph if such Broker-Dealer remains the Existing Owner of Bonds of a subseries so sold, transferred or disposed of immediately after such sale, transfer or disposition.

Section 2.08 Changes in Auction Period or Auction Date.

(a) Changes in Auction Period. (i) During any Auction Rate Mode, the City may from time to time on any Interest Payment Date, change the length of the Auction Period with respect to all of the Bonds of any subseries among a daily, seven-day, 28-day, 35-day and a Special Auction Period in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by Bonds of such subseries. An Authorized Officer shall initiate the change in the length of the Auction Period by giving written notice to the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period shall change if the conditions described herein are satisfied and the proposed effective date of the change, at least 10 Business Days prior to the Auction Date for such Auction Period.

(ii) Any such changed Auction Period shall be for a period of one day, seven-days, 28-days, 35-days or a Special Auction Period and shall be for all of the Bonds of a subseries in an Auction Rate Mode.

(iii) The change in the length of the Auction Period for Bonds of any subseries shall not be allowed unless Sufficient Clearing Bids existed at both the Auction before the date on which the notice of the proposed change was given as provided in this subsection (a) and the Auction immediately preceding the proposed change.

(iv) The change in length of the Auction Period for Bonds of any subseries shall take effect only if (A) the Auction Agent receives, by 11:00 a.m., New York City time, on the Business Day before the Auction Date for the first such Auction Period, a certificate from an Authorized Officer consenting to the change in the length of the Auction Period specified in such certificate and (B) Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period. For purposes of the Auction for such first Auction Period only, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Bonds of a subseries for which there is to be a change in the length of the Auction Period except to the extent such Existing Owner submits an Order with respect to such Bonds. If the condition referred to in (A) above is not met, the Auction Rate for the next Auction Period shall be determined pursuant to the Auction Procedures and the Auction Period shall be the Auction Period determined without reference to the proposed change. If the condition referred to in (A) is met but the condition referred to in (B) above is not met, the Auction Rate for the next Auction Period shall be the Maximum Auction Rate and the Auction Period shall be a seven-day Auction Period (provided however, that if the Auction Period, without reference to the proposed change, would have been the daily Auction Period, then the Auction Period shall remain the daily Auction Period).

(v) On the conversion date for Bonds of a subseries from one Auction Period to another, any Bonds of such subseries which are not the subject of a specific Hold Order or Bid shall be deemed to be subject to a Sell Order.

(b) Changes in Auction Date. During any Auction Rate Mode, the Auction Agent, with the written consent of an Authorized Officer, may specify an earlier Auction Date for Bonds of any subseries (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on such Bonds. The Auction Agent shall provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the City, the Broker-Dealers and the Securities Depository.

ARTICLE III
AUCTION AGENT

Section 3.01 **Auction Agent**.

(a) The Auction Agent shall be appointed by the City to perform the functions specified herein. The Auction Agent shall designate its Principal Office and signify its acceptance of the duties and obligations imposed upon it hereunder by an Auction Agreement delivered to the City, the Paying Agent/Registrar and each Broker-Dealer which shall set forth such procedural and other matters relating to the implementation of the Auction Procedures as shall be satisfactory to the City.

(b) Subject to any applicable governmental restrictions, the Auction Agent may be or become the owner of or trade in Bonds with the same rights as if such entity were not the Auction Agent.

Section 3.02 **Qualifications of Auction Agent; Resignation; Removal**. The Auction Agent shall be (a) a bank or trust company organized under the laws of the United States or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least $30,000,000, or (b) a member of National Association of Securities Dealers having a capitalization of at least $30,000,000 and, in either case, authorized by law to perform all the duties imposed upon it by the Ordinance and a member of or a participant in, the Securities Depository. The Auction Agent may at any time resign and be discharged of the duties and obligations created by the Ordinance by giving at least ninety (90) days notice to each Broker-Dealer and the City. The Auction Agent may be removed at any time by the City by written notice, delivered to the Auction Agent and each Broker-Dealer. Upon any such resignation or removal, the City, with the consent of the Insurer, which consent shall not be unreasonably withheld, shall appoint a successor Auction Agent meeting the requirements of this Section. In the event of the resignation or removal of the Auction Agent, the Auction Agent shall pay over, assign and deliver any moneys and Bonds held by it in such capacity to its successor. The Auction Agent shall continue to perform its duties hereunder until its successor has been appointed by the City. In the event that the Auction Agent has not been compensated for its services, the Auction Agent may resign by giving forty-five (45) days notice to the City and the Insurer and at the end of such 45-day period, if the Insurer has not voluntarily paid the unpaid compensation to the Auction Agent, the resignation will become effective, even if a successor Auction Agent has not been appointed.