REMARKETING MEMORANDUM DATED APRIL 24, 2008

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

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

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

$281,300,000

CITY OF AUSTIN, TEXAS

(Travis and Williamson Counties)

Airport System Refunding Revenue Bonds, Series 2005 (AMT)

$70,300,000 Sub-Series 2005-1 **$70,325,000 Sub-Series 2005-3**
$70,325,000 Sub-Series 2005-2 **$70,350,000 Sub-Series 2005-4**

Dated: August 15, 2005 Due: November 15, 2025

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

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

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

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

Price Dates	Delivery Dates	First Remarketing Date	Sub-Series	Par Amount	Maturity (November 15)	Remarketing Agent	CUSIP
5/01/08	5/02/08	5/07/08	2005-3	$70,325,000	2025	Morgan Stanley	052398DT8
5/08/08	5/09/08	5/14/08	2005-4	$70,350,000	2025	Morgan Stanley	052398DU5
5/15/08	5/16/08	5/21/08	2005-1	$70,300,000	2025	Morgan Keegan & Company, Inc.	052398DR2
5/22/08	5/23/08	5/28/08	2005-2	$70,325,000	2025	Morgan Keegan & Company, Inc.	052398DS0

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

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

DEXIA

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

Price: 100%

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

REMARKETING AGENTS

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

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

CITY OF AUSTIN, TEXAS

Elected Officials

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

Appointed Officials

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

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

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

FINANCIAL ADVISOR
The PFM Group
Austin, Texas

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

For additional information regarding the City, please contact:

Art Alfaro
Treasurer
City of Austin
700 Lavaca, Suite 1510
Austin, Texas 78701
(512) 974–7882
art.alfaro@ci.austin.tx.us

Barbara Tipple, CPA
Assistant Director of Finance
City of Austin, Department of Aviation
3600 Presidential Boulevard
Austin, Texas 78719
(512) 530–6688
barbara.tipple@ci.austin.tx.us

Chris W. Allen
Public Financial Management
Senior Managing Consultant
700 Lavaca, Suite 1500
Austin, Texas 78701
(512) 472–7194
allenc@pfm.com

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

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

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

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

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

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REMARKETING MEMORANDUM

relating to

$281,300,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
Airport System Refunding Revenue Bonds, Series 2005 (AMT)

$70,300,000 Sub-Series 2005-1	**$70,325,000 Sub-Series 2005-3**
$70,325,000 Sub-Series 2005-2	**$70,350,000 Sub-Series 2005-4**

INTRODUCTION

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

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

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

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

DESCRIPTION OF THE BONDS

General

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

Form and Denominations

The Bonds were issued pursuant to the Ordinance, in fully registered form, are dated August 15, 2005 and have a stated maturity of November 15, 2025. Upon conversion from the Auction Rate Mode, the Bonds of each sub-series will bear interest in a Weekly Rate Mode, from and including their respective Mode Change Date to, but excluding, the date on which the Weekly Rate Mode for the Bonds is changed to a Daily Rate Mode, an Auction Rate Mode, a Term Rate Mode or a Fixed Rate Mode, in which event the Bonds will be subject to mandatory tender for purchase on such date at the purchase price equal to the principal amount thereof. While in the Weekly Rate Mode interest on the Bonds will be adjusted on each Wednesday (or the next preceding Business Day if Wednesday is not a Business Day) with such interest to be paid on the applicable Interest Payment Date. **This Remarketing Memorandum, in general, describes the Bonds only during the Weekly Rate Mode.**

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

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

Manner of Payment

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

Interest Payment Dates and Record Dates for Payments

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

Record Date. The Record Date for Bonds bearing interest at the Weekly Rate shall be the Business Day immediately preceding an Interest Payment Date; provided, however, that in the event of nonpayment of interest on a scheduled Interest Payment Date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date," which shall be 15 days after the Special Record Date) shall be sent at least five Business Days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Owner of a Bond appearing on the books of the Paying Agent/Registrar at the close of business on the last Business Day preceding the date of mailing such notice.

Determination of Interest Rates

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

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

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

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

Changes in Mode

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

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

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

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

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

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

Mandatory Tenders

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

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

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

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

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

The Paying Agent/Registrar shall, at least fifteen (15) days prior to (i) any Mode Change Date or (ii) the end of an Interest Period with respect to Bonds of a subseries in the Term Rate Mode, give notice of the mandatory tender for purchase of such Bonds that is to occur on such date.

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

Optional Tender of Bonds in Weekly Rate Mode

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

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

Untendered Bonds

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

Remarketing and Purchase of Bonds upon Tender

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

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

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

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

Substitute Liquidity Facility

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

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

The City shall deliver to the Paying Agent/Registrar, the Tender Agent, the Credit Facility Issuer, the Bond Insurer and the Remarketing Agents a copy of each Liquidity Facility or Credit Facility obtained pursuant to the Ordinance on the effective date of such Liquidity Facility or Credit Facility. If at any time there shall have been delivered (i) an Alternate Credit Facility or Alternate Liquidity Facility in substitution for the Credit Facility or Liquidity Facility with respect to Bonds of a subseries then in effect and (ii) a Favorable Opinion of Bond Counsel, then, providing that any condition to substitution contained in the existing Credit Facility or Liquidity Facility shall have been satisfied, the Paying Agent/Registrar shall accept such Alternate Credit Facility or Alternate Liquidity Facility and, subject to certain provisions of the Ordinance relating to the receipt of sufficient funds to pay the Purchase Price of Bonds then subject of mandatory tender, shall surrender the Credit Facility or Liquidity Facility then in effect to the Credit Facility Issuer or Liquidity Facility Issuer on the effective date of the Alternate Credit Facility or Alternate Liquidity Facility. In the event of an extension of the Expiration Date, the City shall give the Paying Agent/Registrar, the Tender Agent, the Credit Facility Issuer, the Liquidity Facility Issuer and the Remarketing Agents a written notice of the new Expiration Date at least sixteen (16) days prior to the Expiration Tender Date. In the event of a substitution of a Liquidity Facility with an Alternate Liquidity Facility or of a Credit Facility with an Alternate Credit Facility, the City shall give the Paying Agent/Registrar, the Tender Agent, the Bond Insurer and the Remarketing Agents a written notice of the Substitution Date at least sixteen (16) days prior to such Substitution Date. The City shall give the Paying Agent/Registrar, the Tender Agent, the Bond Insurer and the Remarketing Agents a written notice of its election to terminate the Credit Facility or the Liquidity Facility at least sixteen (16) days prior to the Termination Tender Date resulting from its election to terminate such Credit Facility or Liquidity Facility.

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

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

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

Redemption Provisions

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

Bonds Maturing November 15, 2025

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

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

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

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

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

Limitations on Remedies

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

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

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

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"); however, Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, such as that of the Net Revenues of the Airport System. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce any other remedies available to the registered owners, other than for the pledge of Net Revenues of the Airport System securing the Bonds, would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it.

Book-Entry-Only System

DTC will act as securities depository for the Bonds (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Securities, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: "AAA." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus

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

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

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

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

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 to DTC.

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 the City takes no responsibility for the accuracy thereof.

Registration, Transfer and Exchange

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

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

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

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

Paying Agent/Registrar

Interest on and principal of the Bonds will be payable, and transfer functions will be performed at the Designated Payment/Transfer Office of the Paying Agent/Registrar, currently its corporate trust office is in Minneapolis, Minnesota. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times while the Bonds are outstanding and any successor Paying Agent/Registrar shall be a commercial bank, trust company organized under the laws of the State of Texas or the United States of America, or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, firstclass postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

SECURITY FOR THE BONDS

Pledge

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

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

Rate Covenant

The City covenants in the Ordinance that it will at all times fix, charge, impose and collect rentals, rates, fees and other charges for the use of the Airport System, and, to the extent it legally may do so, revise the same as may be necessary or appropriate, in order that in each Fiscal Year, the Net Revenues will be at least sufficient to equal the **larger** of either (i) all amounts required to be deposited in such Fiscal Year to the credit of the Prior Lien Debt Service Fund, the Prior Lien Debt Service Reserve Fund, the Debt Service Fund, the Debt Service Reserve Fund, and the Administrative Expenses Fund and to any debt service or debt service reserve fund or account for Subordinate Obligations, **or** (ii) an amount, together with Other Available Funds, not less than 125% of the Debt Service Requirements for the Prior Lien Bonds and Revenue Bonds for such Fiscal Year plus an amount equal to 100% of anticipated and budgeted Administrative Expenses for such Fiscal Year.

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

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

Debt Service Reserve Fund

The Ordinance establishes a Debt Service Reserve Fund for the benefit of all Revenue Bonds and requires that an amount equal to the Debt Service Reserve Fund Requirement be accumulated and maintained therein in accordance with the Revenue Bond Ordinances. The Debt Service Reserve Fund Requirement is defined as the arithmetic average of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Revenue Bonds then Outstanding, including the Bonds. The Ordinance also provides for the use of a Debt Service Reserve Fund Surety Bond in lieu of a cash deposit. See “APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE - Funds and Flow of Funds - Debt Service Reserve Fund.”
In connection with the original issuance of the Bonds, a surety bond in the amount equal to the Debt Service Reserve Fund Requirement issued by Financial Security Assurance (“FSA”) was deposited to the credit of the Debt Service Reserve Fund to fully fund the Debt Service Reserve Fund Requirement in the amount of $25,536,832.80.

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

Additional Revenue Bonds

The City has reserved the right to issue Additional Revenue Bonds on a parity with the Bonds for any lawful Airport System purpose upon the meeting of certain conditions including the following: (i) certain officials of the City certify that upon issuance of such Additional Revenue Bonds the City will not be in default under any terms or provisions of any Prior Lien Bonds or Revenue Bonds or under the provisions of the ordinances pursuant to which they were issued, and upon the issuance of such Additional Revenue Bonds the Prior Lien Debt Service Fund, the Prior Lien Debt Service Reserve Fund, the Debt Service Fund and Debt Service Reserve Fund will have the required amounts on deposit or contained therein; and (ii) a written report of an Airport Consultant indicates that the estimated Net Revenues, together with the estimated Other Available Funds, of the Airport System for each of three (3) consecutive Fiscal Years beginning in the earlier of (a) the first Fiscal Year following the estimated date of completion and initial use of all revenue producing facilities to be financed with Additional Revenue Bonds, based upon a certified written estimated completion date by the consulting engineer for such facility or facilities, or (b) the first Fiscal Year in which the City will have scheduled payments of interest on or principal of the Additional Revenue Bonds to be issued for the payment of which provision has not been made as indicated in the report of such Airport Consultant from proceeds of such Additional Revenue Bonds, investment income thereon or from other appropriated sources (other than Net Revenues) are equal to at least 125% of the Debt Service Requirements on all Outstanding Prior Lien Bonds and Revenue Bonds scheduled to occur during each such respective Fiscal Year after taking into consideration the additional Debt Service Requirements for the Additional Revenue Bonds to be issued.

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

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

Subordinate Obligations

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

Special Facilities Bonds

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

Flow of Funds

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

BOND INSURANCE

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

Financial Security Assurance Inc.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

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

$2,962,301,379 and its total net unearned premium reserve was approximately $1,796,984,819 in accordance with generally accepted accounting principles.

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

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

THE INTEREST RATE SWAP AGREEMENT

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

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

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

STANDBY BOND PURCHASE AGREEMENT

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

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

Description of Purchase Commitment

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

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

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

In no event, however, will the Standby Purchaser be obligated to make funds available to the Tender Agent, or otherwise advance funds to purchase Bonds, in an amount in excess of the Standby Purchaser's Available Commitment. "Available Commitment" as of any day means the sum of the Available Principal Commitment and the Available Interest Commitment, in each case as of such day. "Available Principal Commitment" initially means $281,300,000 (cumulative of all four subseries) and thereafter means such initial amount adjusted from time to time as follows: (a) downward by the amount of any reduction of the Available Principal Commitment due to a redemption or repayment of all or any portion of the principal amount of the Bonds or a conversion of the interest rate Mode applicable to any of the Bonds to a Mode other than the Weekly Mode; (b) downward by the principal amount of any Bonds purchased by the Standby Purchaser pursuant to the terms of the Liquidity Facility; and (c) upward by the principal amount of any Bonds purchased by the Standby Purchaser pursuant to the terms of the Liquidity Facility, which are sold or deemed sold by the Standby Purchaser (regardless of the purchase price received for such Bonds) or which the Standby Purchaser elects to retain, pursuant to the terms of the Liquidity Facility. "Available Interest Commitment" initially means $3,236,877 and, upon any change in the amount of the Available Principal Commitment hereunder, means an amount equal to 35 days of accrued interest at 12% per annum on the Available Principal Commitment then in effect computed on the basis of a year of 365/366 days. Bonds purchased by the Standby Purchaser are referred to herein as the "Bank Bonds" or the "Standby Purchaser Bonds".

Events of Default Not Permitting Immediate Termination

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

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

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

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

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

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

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

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

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

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

Events of Default Permitting Immediate Suspension or Termination

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

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

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

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

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

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

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

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

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

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

(ii) In the case of any Default under clause (5), (1) and (2) of the section "Events of Default Permitting Immediate Suspension or Termination" and prior to the expiration of the 90 day period referenced in clause 2(b) and, in the case of clause (5) of such section and prior to the expiration of the 7 day period referenced therein, the Standby Purchaser's obligations to purchase Bonds will be automatically and immediately suspended without notice or demand and thereafter the Standby Purchaser will be under no obligation to purchase Bonds until the Available Commitment is reinstated as described in this clause. Promptly upon the Standby Purchaser obtaining knowledge of any such Default, the Standby Purchaser will give written notice of the same to the City, the Tender Agent, the Remarketing Agents and FSA of such suspension; provided, that the Standby Purchaser will incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the suspension of the Standby Purchaser's obligations to purchase Eligible Bonds. In the case of a Default under clause (1) or (2), if such insolvency proceedings are dismissed within the 90 day period referenced in clause (2) then the Standby Purchaser's obligation to purchase Bonds under the Liquidity Facility shall be reinstated unless otherwise terminated under the Liquidity Facility. If such proceedings are not dismissed within such 90 day period then the obligation of the Standby Purchaser to purchase Bonds shall terminate pursuant to clause (i) above. In the case of a Default under clause (5), if the payment default by the Bond Insurer triggering such event is cured within such 7 day period the obligation of the Standby Purchaser to purchase Bonds under the Liquidity Facility shall be reinstated, unless otherwise terminated under the Liquidity Facility. If such payment default by FSA which has caused the Default under clause (5) is not cured within such 7 day period, the obligation of the Standby Purchaser to purchase Eligible Bonds shall terminate pursuant to clause (i) above.

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

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

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

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

THE REMARKETING AGENTS

The Remarketing Agents are Paid by the Issuer

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

The Remarketing Agents Routinely Purchase Bonds for its Own Account

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

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

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

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

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

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

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

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DEBT SERVICE REQUIREMENTS

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

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

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

* As of April 1, 2008.

THE AIRPORT SYSTEM

ABIA

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

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

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

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

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

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

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

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

Capital Program

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

Master Plan

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

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

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

AIRLINE AGREEMENTS

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

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

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

Rate-Making Approach at ABIA

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

AIRPORT MANAGEMENT

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

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

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

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

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

AIRPORT STATISTICAL DATA

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

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

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

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

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

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

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

Major Economic Activity

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

AIRLINES AND MARKET SHARE

Table 1
List of Airlines

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

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

Source: City of Austin Department of Aviation.

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

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

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

(a) Robert Mueller Municipal Airport closed and Austin-Bergstrom International Airport opened on May 23, 1999.
(b) Discontinued service during FY1997.
(c) Service commenced during FY2007.
(d) Formerly America West; name change occurred during FY2007.
Source: City of Austin, Department of Aviation.

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AIR CARGO ACTIVITIES

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

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

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

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

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

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

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

(a) Robert Mueller Municipal Airport closed and Austin-Bergstrom International Airport opened on May 23, 1999.
(b) Prior to July 2000 Air Transport International (ATI) was Burlington Air Express (BAX).
(c) Prior to May 2005, UPS Chain Supply operated as Menlo Forwarding and Emery Forwarding.
(d) Prior to FY 2007, ABX Air was operated as Airborne Express.
Source: City of Austin, Department of Aviation.

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ORIGIN AND DESTINATION MARKETS

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

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

(a) Cities with 1% or more of total inbound and outbound passengers in 10% sample.
(b) OAGback Schedules i-Net, April 2008.
(c) Dallas/Ft. Worth Intl Airport and Dallas Love Field.
(d) John F. Kennedy Intl, LaGuardia and Newark Intl airports.
(e) Los Angeles Intl, Burbank-Glendale-Pasadena, Long Beach, Ontario Intl and John Wayne (Orange County) airports.
(f) Washington Dulles Intl and Washington Ronald Regan National airports.
(g) Chicago O'Hare Intl and Midway airports.
(h) Houston Intercontinental and William P. Hobby airports.
(i) San Francisco and Oakland Intl airports.
(j) Miami and Ft. Lauderdale-Hollywood Intl airports.

Sources: (1) Databank 1B – 10% survey data.
(2) US Department of Transportation “Origin-Destination Survey of Domestic Passengers”. OAGback Schedules i-Net March 2008 issue.

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HISTORICAL AIRLINE TRAFFIC

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

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

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

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AIRCRAFT OPERATIONS

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

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

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

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

Source: 1980-1993: U.S. Department of Transportation, Federal Aviation Administration, "Air Traffic Activity", fiscal year editions.
1994-2007: City of Austin, Department of Aviation.

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AIRCRAFT LANDED WEIGHT

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

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

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

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

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HISTORICAL FINANCIAL DATA

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

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

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

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

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

AIRLINE INFORMATION

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

CERTAIN INVESTMENT CONSIDERATIONS

General

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

The principal of and interest on the Revenue Bonds is payable pursuant to the Ordinance solely from the Net Revenues of the Airport System and moneys on deposit in the Debt Service Fund and the Debt Service Reserve Fund. The ability to pay debt service on the Revenue Bonds will depend on the receipt of sufficient Gross Revenues, including the receipt of PFC (hereinafter defined) revenues, a portion of which the City has covenanted in the Ordinance to make available for payment of the Prior Lien Bonds and the Revenue Bonds.

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

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

Passenger Facility Charges

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

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

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

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

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

Airline Industry

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

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

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

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

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

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

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

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

LITIGATION

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

TAX EXEMPTION

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

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

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

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

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

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

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

Bond Counsel's opinion are based on existing law, which is subject to change. Such opinion is further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinion to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinion represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

OTHER RELEVANT INFORMATION

Ratings

The Bonds received an underlying rating of "A-" by Standard & Poor's, a division of The McGraw-Hill Companies ("S&P"). The Bonds are also rated "AAA" by S&P as a result of the municipal bond insurance policy by FSA. See "BOND INSURANCE" herein. It is anticipated that S&P will also assign the Bonds a short-term rating of "A-1+" based on the obligation of the Standby Purchaser to purchase bonds pursuant to the Liquidity Facility. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by one or all of such rating companies, if in the judgment of one or more companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price and liquidity of the Bonds.

Legal Investments and Eligibility to Secure Public Funds in Texas

The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The City has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code (which is set forth in the Texas Business & Commerce Code) applies, and (iii) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256 and referred to as the "PFIA"), the Bonds may have to be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency before such Bonds are eligible investments for sinking funds and other public funds. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital and savings and loan associations.

Legal Investments

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

Under Texas law, the City is authorized to invest in: (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit meeting the requirements of the PFIA that are issued by or through an institution that either has its main office or a branch in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share; (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent; and (13) local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Act) as amended, whose assets consist exclusively of the obligations that are described above. A public funds investment pool must be continuously ranked no lower than "AAA", "AAA-m" or at an equivalent rating by at least one nationally recognized rating service. The City may also invest bond proceeds in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

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

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

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

The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Investment Policies

Under State law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield and maturity; and also that address the quality and capability of investment personnel. The policy includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement must describe the investment objectives for the particular fund using the following priorities: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under State law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of that person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly, the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to (a) adopted investment strategy statements and (b) State law. No person may invest City funds without express written authority of the City Council or the Chief Financial Officer.

Additional Provisions

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

Legal Opinions

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

Financial Advisor

The PFM Group ("PFM"), Austin, Texas, is Financial Advisor to the City in connection with the Bonds. PFM, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the bond documentation with respect to the federal income tax status of the Bonds.

Continuing Disclosure of Information

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

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

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the City will provide unaudited financial statements by that time and will provide audited financial statements when and if they become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City's current fiscal year is October 1 to September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each NRMSIR and any SID of the change.

Material Event Notices. The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers (there is no liquidity provider for the Bonds in the Auction Rate Mode), or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The City will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

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

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

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

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

The City may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Airport System, if the agreement, as amended, would have permitted an underwriter to purchase or sell the Bonds in the offering described herein in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

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

Forward - Looking Statements

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

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners, and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Remarketing Memorandum will prove to be accurate.

Miscellaneous Information

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

/s/
Mayor
City of Austin, Texas

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

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

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

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

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

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

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

The average annual unemployment rate was 4.3 percent in 2005 and 3.2 percent in 2006. The statewide average unemployment rate for Texas was 5.3 percent in 2005 and 4.1 percent in 2006. Samsung Electronics Co., Ltd., the world's second largest chipmaker, announced in April 2006 that the company will invest $3.5 billion in a new 300mm wafer fab and create nearly 900 new jobs in Austin. Samsung's announcement is the largest single investment by a foreign company in the United States. This is the first 300mm wafer fab in Central Texas with only six in existence or under construction in the United States. Hewlett-Packard has indicated plans to build two data centers in the Austin area and Advanced Micro Devices, a manufacturer of semiconductor chips, is building a new campus in southwest Austin. The City of Austin is also a corporate partner in Opportunity Austin, a five-year initiative of the Greater Austin Chamber of Commerce aimed at creating 72,000 jobs and a $2.9 billion increase in payroll to the surrounding five-county area by the end of 2008. Since the inception of the program in 2004, the employment base has expanded by 51,000 jobs.

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

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

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

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

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

MAJOR INITIATIVES AND ACHIEVEMENTS

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

General Obligation Bond Election

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

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

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

Economic Growth and Planning Initiatives

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

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

Following a successful referendum on its long-range transit plan in November 2004, the Capital Metropolitan Transportation Authority (Capital Metro) will be implementing new transit services, including urban commuter rail in 2008 and rapid bus service. In May 2005, the City Council adopted a Transit-Oriented Development Ordinance (TOD) designed to specifically support transit and increase use of publicly funded transit investments. Key features of the ordinance include moderate to high density, pedestrian orientation, mixed use, strong transit connection, public and private partnerships and market responsive development. A station area technical advisory group has been assembled, which includes representatives from Capital Metro, to help guide the visioning process that will enable preferred station area concepts to emerge. Finalization of the initial three station area plans is expected in the fall of 2007.

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

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

Environment and Quality of Life

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

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

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

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

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

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

Utility Projects and Initiatives

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

By improving the energy efficiency of homes and businesses, Austin Energy over the past year reduced peak demand on generating plants by 57 megawatts (MW). This represents the largest peak energy savings ever in the 24-year history of the programs — saving electricity sufficient to power 37,000 homes. The amount of power generated at Decker Power Plant during the peak demand months was more than 20 percent greater than the previous year, but the NO_2 emission rate was reduced by almost the same percentage keeping emissions almost the same as last year. A campaign to persuade automakers to manufacture plug-in hybrid electric vehicles (PHEVs) by demonstrating a nationwide market began in January 2006 and has since signed up more than 500 partners nationwide, including more than half of the 50 largest cities in the nation and partners in 41 states. Plug-in hybrid vehicles were mentioned in the 2006 President's State of the Union Address and recent federal legislation.

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

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

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

Status of City Services

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

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

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

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

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

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

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

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

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

Employment by Industry in the Austin Metropolitan Area (a)

Employment Characteristics

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

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

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

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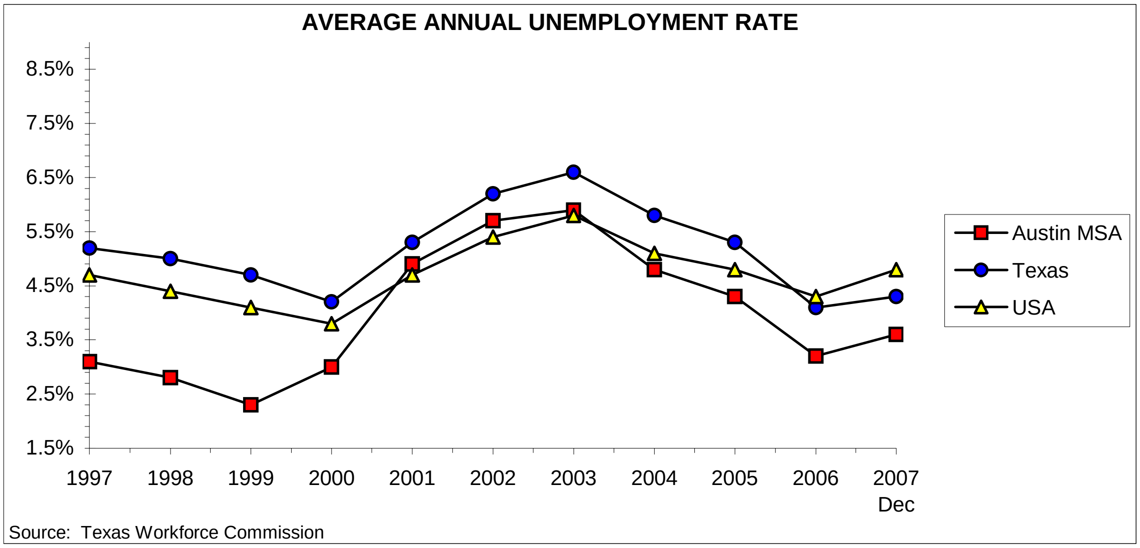
Average Annual Unemployment Rate



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

Note: Information is updated periodically, data contained herein is latest provided.
Source: Texas Labor Market Review, March 2008, Texas Workforce Commission.

City Sales Tax Collections (In Millions)

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

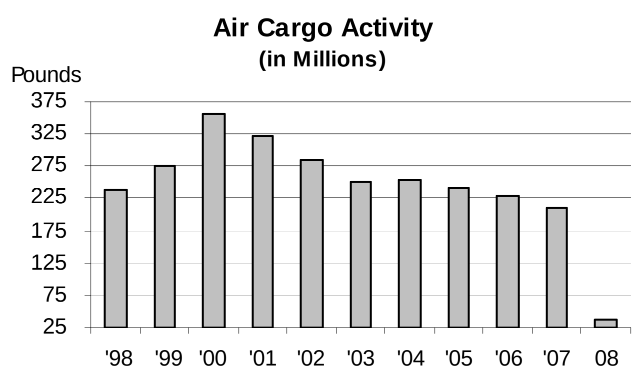
Source:City of Austin, Budget Office.

Ten Largest Employers (As of September 30, 2006)

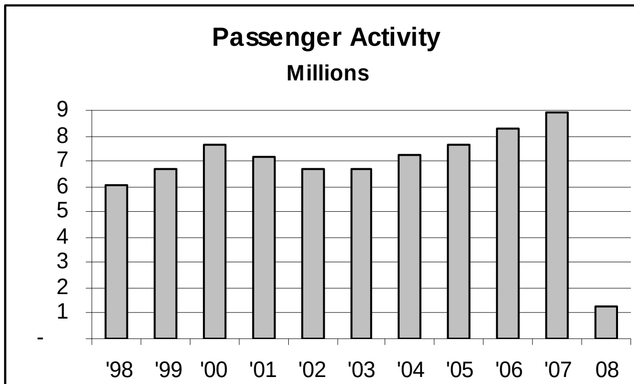
Employer	Product or Service	Employees
State Government	State Government	36,216
The University of Texas at Austin	Education	22,450
Dell Computer Corporation	Computers	17,000
City of Austin	City Government	11,425
Federal Government	Federal Government	10,624
Austin Independent School District	Education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

Source: 2006 Comprehensive Annual Financial Report.

Transportation



Source: COA Aviation Department. 2008 Activity through February - Calendar Year basis.



Source: COA Aviation Department. 2008 Activity through February - Calendar Year basis.

Austin-Bergstrom International Airport

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

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

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Wealth Indicators

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

Demographic and Economic Statistics
Last Ten Fiscal Years

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

(1) Source: City Demographer, City of Austin, Neighborhood Planning and Zoning Department based on full purpose area as of September 30.
(2) Source: Bureau of Economic Analysis.
(3) Source: Bureau of Labor Statistics, Texas A&M University.
(4) Data not available for 2006. Figures are estimated.

Growth Indicators

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

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Connections and Permits

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

Source: 2006 Comprehensive Annual Financial Report.

Housing Units

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

Residential Sales Data

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

Note: Information is updated periodically, data contained herein is latest provided. February 2008 data is for the single month only.
Source: Real Estate Center at Texas A&M University.

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City-Wide Austin Office Occupancy Rate

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

Source: Oxford Commercial

Education

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

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

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

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

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

Tourism

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

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

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APPENDIX B

EXCERPTS FROM THE ANNUAL FINANCIAL REPORT

KPMG

KPMG LLP
Suite 1900
111 Congress Avenue
Austin, TX 78701-4091

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, 2006, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. 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, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U. S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 19, 2007 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.

The Management's Discussion and Analysis on pages 3 through 14, the General Fund Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Budget Basis on pages 102 through 103 and the Retirement Plans Trend Information on page 104 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

Austin, Texas
October 19, 2007

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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, 2006. We encourage readers to consider the information presented here in conjunction with additional information furnished in our letter of transmittal.

The financial statements have been prepared in accordance with GAAP for local governments as prescribed by the GASB. The City has implemented GASB Statements No. 1 through No. 41. GASB Statement No. 42 entitled "Accounting and Reporting for Impairment of Capital Assets and Insurance Recoveries", GASB Statement No. 44 entitled "Economic Condition Reporting: The Statistical Section", and GASB Statement No. 46 entitled "Net Assets Restricted by Enabling Legislation" were implemented in fiscal year 2006.

FINANCIAL HIGHLIGHTS

Government-wide financial statements
The assets of the City exceeded its liabilities at the end of the fiscal year 2006, resulting in $4.1 billion of net assets. Net assets associated with governmental activities are approximately $1.6 billion, or 38% of the total net assets of the City. Net assets associated with business-type activities are approximately $2.5 billion, or 62% 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 71% of total net assets.

Unrestricted net assets, which may be used to meet the City's future obligations, are $629 million, or 15% of the City's total net assets. Unrestricted net assets for governmental activities are approximately $78 million, or 5% of total governmental net assets; unrestricted net assets for business-type activities are approximately $552 million, or 22% of total business-type net assets.

Total net assets for the City of Austin increased $272.5 million, or 7.1% during fiscal year 2006. Of this amount, governmental activities increased $66.2 million, or 4.4% from the previous year and business-type activities increased $206.3 million, or 8.8% from the previous year.

Total revenues for the City increased $258.3 million; revenues for governmental activities increased $62.1 million; revenues for business-type activities increased $196.2 million. Total expenses for the City increased $192 million; expenses for governmental activities increased $47 million; expenses for business-type activities increased $145 million.

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 include electric, water, wastewater, airport, convention, environmental and health services, public recreation, and urban growth management.

The government-wide financial statements include the City as well as blended component units: the Austin Housing Finance Corporation (AHFC), the Austin Industrial Development Corporation (AIDC), and the Mueller Local Government Corporation (MLGC). The operations of AHFC, AIDC, and MLGC 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 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. These funds focus on current sources and uses of liquid resources and on the balances of available resources at the end of the fiscal year. This information may be useful in determining what financial resources are available in the near term to finance the City's future obligations. Other governmental funds are referred to as nonmajor governmental funds and are presented as aggregated 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 financial statements.

The City's General Fund is reported as 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 is 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 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; Combined Transportation, Emergency and Communication Center; Employee Benefits; Fleet Maintenance; Information Systems; Liability Reserve; Support Services; Wireless Communication, and Workers' Compensation. Because these services predominately benefit governmental operations rather 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 separately 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 City government. 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 - Major
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
Governmental capital assets, including infrastructure assets	Governmental	Excluded
Governmental liabilities not expected to be liquidated with available expendable financial resources	Governmental	Excluded
Electric	Business-type	Proprietary - Major
Water and wastewater	Business-type	Proprietary - Major
Airport	Business-type	Proprietary - Major
Convention	Business-type	Proprietary - Nonmajor
Environmental and health services	Business-type	Proprietary - Nonmajor
Public recreation	Business-type	Proprietary - Nonmajor
Urban growth management	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 fully understanding 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 and related notes section of this report. The City adopts an annual appropriated budget for the General Fund. The RSI provides a comparison of revenues, expenditures and other financing sources and uses to budget and demonstrates budgetary compliance. In addition, trend information related to the City's retirement plans is presented in RSI. 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	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Current assets	$ 547,513	509,638	1,276,240	1,050,684	1,823,753	1,560,322
Capital assets	2,099,504	2,047,541	5,426,068	5,294,494	7,525,572	7,342,035
Other noncurrent assets	3,639	3,636	585,186	644,206	588,825	647,842
Total assets	2,650,656	2,560,815	7,287,494	6,989,384	9,938,150	9,550,199
Current liabilities	220,389	206,878	419,196	419,022	639,585	625,900
Noncurrent liabilities	869,169	859,019	4,308,650	4,217,019	5,177,819	5,076,038
Total liabilities	1,089,558	1,065,897	4,727,846	4,636,041	5,817,404	5,701,938
Net assets:						
Invested in capital assets, net of related debt	1,399,316	1,360,509	1,538,572	1,563,831	2,937,888	2,924,340
Restricted	84,218	68,848	469,238	410,975	553,456	479,823
Unrestricted	77,564	65,561	551,838	378,537	629,402	444,098
Total net assets	$ 1,561,098	1,494,918	2,559,648	2,353,343	4,120,746	3,848,261

Total assets of the City increased by $387.9 million in the current fiscal year. Total liabilities increased by $115.5 million. Within the increase, governmental-type total assets increased by $89.8 million and business-type increased $298.1 million. Governmental-type liabilities increased by $23.7 million and business-type increased $91.8 million.

Significant factors in the increase of governmental total assets include an increase in net accounts receivable of $30.2 million and an increase in capital assets of $52.0 million. Factors in the increase of governmental-type liabilities include an increase to current liabilities of $13.5 million, consisting of increases to accrued payroll of $4.2 million, accrued compensated absences of $2.8 million, and deferred credits and other liabilities of $8.8 million and a decrease to claims payable of $2.1 million. Noncurrent liabilities increased $10.2 million, consisting primarily of increases to general obligation bonds payable of $7.0 million and pension obligation payable of $7.9 million; claims payable decreased by $5.5 million.

Significant factors in the increase of business-type total assets include an increase in current assets of $225.6 million and noncurrent assets of $72.5 million. Within current assets, significant factors include increases to pooled investments and cash of $129.8 million, restricted investments of $80.0 million, inventories of $9.9 million, and a decrease in other assets of $15.5 million. Noncurrent assets increased due to an increase to capital assets of $131.6 million, offset by a decrease to noncurrent investments of $63.1 million. Total liabilities increased by $91.8 million; significant increases include noncurrent debt obligations of $52.5 million, decommissioning expense payable of $24.9 million, and pension obligation of $6.0 million.

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by $4.1 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 71% 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, $553.5 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, $629.4 million of unrestricted net assets, may be used to meet the government's future obligations. Unrestricted net assets increased $185.3 million in the current fiscal year.

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 $272.5 million in the current fiscal year. Governmental net assets increased $66.2 million. The increase is attributable to transfers from other funds of $66 million. Business-type net assets increased by $206.3 million due to revenues exceeding expenses by $272.3 million net of transfers to other funds of $66 million.

Changes in Net Assets
September 30
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Program revenues:						
Charges for services	$ 139,776	142,957	1,610,435	1,459,431	1,750,211	1,602,388
Operating grants and contributions	77,923	67,494	--	--	77,923	67,494
Capital grants and contributions	1,111	5,702	69,804	48,544	70,915	54,246
General revenues:						
Property tax	236,146	220,304	--	--	236,146	220,304
Sales tax	139,289	123,617	--	--	139,289	123,617
Franchise fees and gross receipts tax	79,755	69,120	--	--	79,755	69,120
Grants and contributions not restricted to specific programs	90,083	83,365	--	--	90,083	83,365
Interest and other	35,315	24,753	47,905	23,932	83,220	48,685
Total revenues	799,398	737,312	1,728,144	1,531,907	2,527,542	2,269,219
Program expenses:						
General government	84,693	73,233	--	--	84,693	73,233
Public safety	373,361	320,942	--	--	373,361	320,942
Transportation, planning and sustainability	25,426	17,247	--	--	25,426	17,247
Public health	94,697	104,361	--	--	94,697	104,361
Public recreation and culture	65,453	58,962	--	--	65,453	58,962
Urban growth management	81,439	77,340	--	--	81,439	77,340
Unallocated depreciation expense - infrastructure	35,357	58,722	--	--	35,357	58,722
Interest on debt	38,766	41,331	--	--	38,766	41,331
Electric	--	--	918,369	804,658	918,369	804,658
Water	--	--	161,516	142,061	161,516	142,061
Wastewater	--	--	132,005	122,176	132,005	122,176
Airport	--	--	78,487	87,538	78,487	87,538
Convention	--	--	41,992	38,844	41,992	38,844
Environmental and health services	--	--	50,290	45,739	50,290	45,739
Public recreation	--	--	9,225	9,408	9,225	9,408
Urban growth management	--	--	63,981	60,562	63,981	60,562
Total expenses	799,192	752,138	1,455,865	1,310,986	2,255,057	2,063,124
Excess (deficiency) before special items and transfers	206	(14,826)	272,279	220,921	272,485	206,095
Special items - Travis County Hospital District asset transfer	--	(2,639)	--	(37,443)	--	(40,082)
Transfers	65,974	73,879	(65,974)	(73,879)	--	--
Increase in net assets	66,180	56,414	206,305	109,599	272,485	166,013
Beginning net assets	1,494,918	1,438,504	2,353,343	2,243,744	3,848,261	3,682,248
Ending net assets	$ 1,561,098	1,494,918	2,559,648	2,353,343	4,120,746	3,848,261

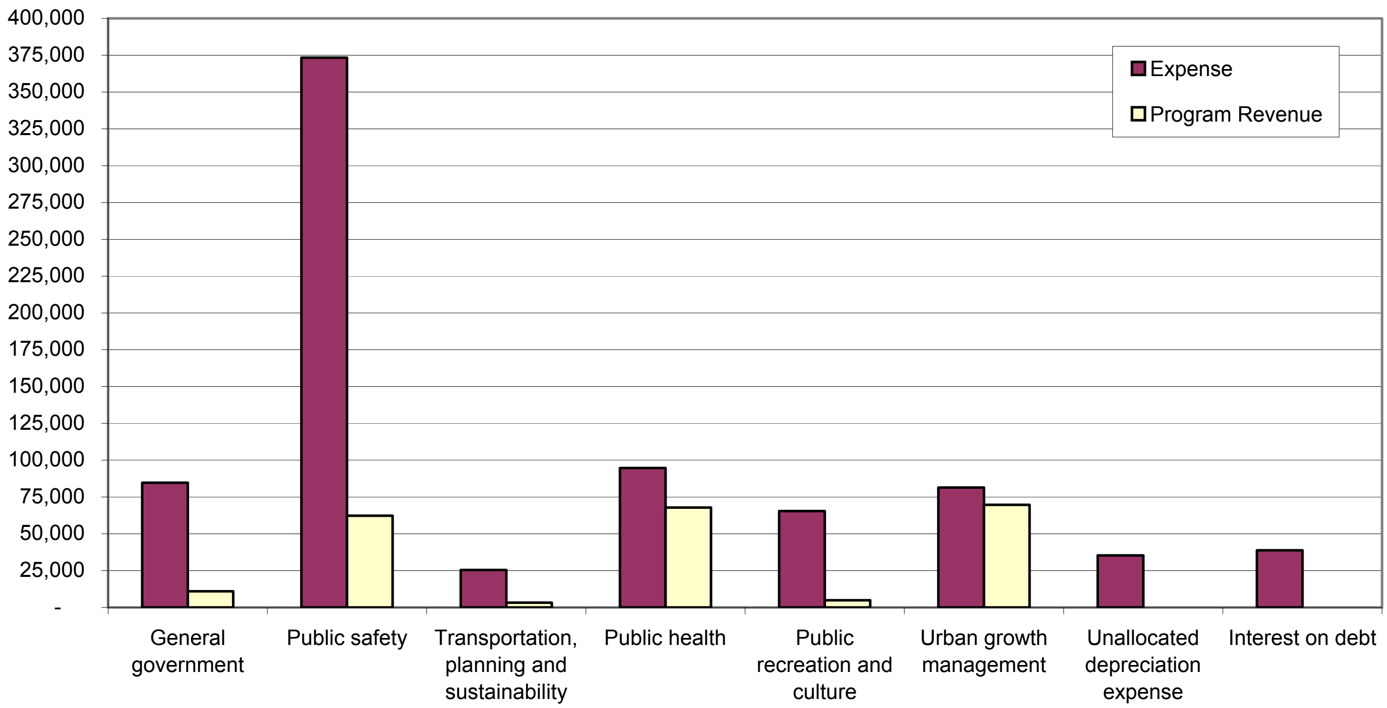
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

c – Program revenues and expenses -- governmental activities
Governmental activities increased the City's net assets by $66.2 million in fiscal year 2006, a 4.4% increase of governmental net assets from the previous year. Key factors for the change from fiscal year 2005 to 2006 are as follows:

- The City's property tax revenue increased by $15.8 million from the previous year, as a result of an increase in assessed property values; while the City's tax rate was unchanged at 44.3 cents per $100 valuation.
- Sales tax revenue increased $15.7 million from the previous year, an increase of 12.7%.
- Franchise fees and gross receipts taxes increased $10.6 million, largely due to a $7.8 million increase in hotel occupancy tax collections as a result of increased revenues for Austin hotels.
- Grants and contributions not restricted to specific programs increased by $6.7 million. Grants and contributions restricted to specific programs increased $5.8 million, primarily as a result of higher intergovernmental grant revenues.

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.

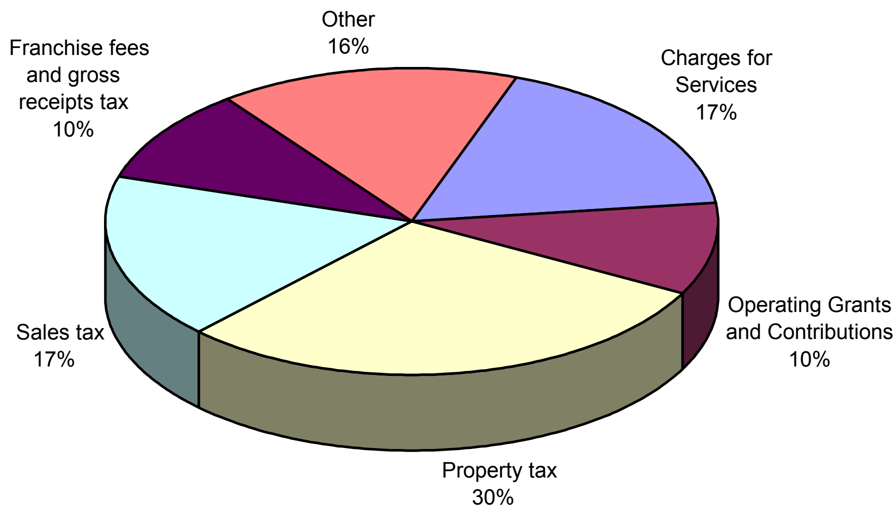
Government-wide Program Expenses and Revenues – Governmental Activities
(in thousands)



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 charges for services and sales taxes.

Government-wide Revenues by Source -- Governmental Activities



d -- Program revenues and expenses -- business-type activities

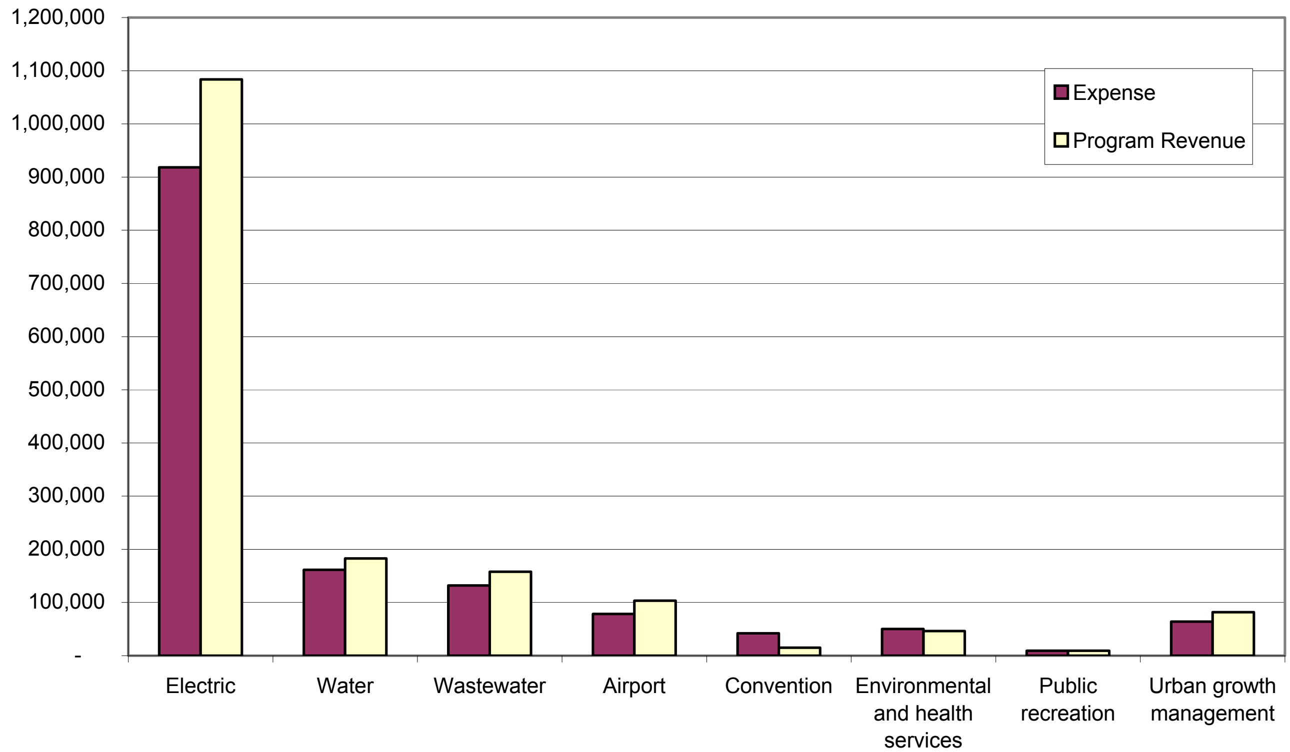
Business-type activities increased the City's net assets by approximately $206.3 million, accounting for a 5.4% increase in the City's total net assets. Key factors include:

- Electric net assets increased approximately $121 million. This increase is due primarily to an increase in electric consumption due to weather conditions and customer growth. Revenues increased by 11% and expenses increased by 14% due to the increase in the cost of fuel.
- Water and Wastewater net assets increased approximately $27 million. This increase is due primarily to a rate increase and increased water consumption due to weather conditions. Water operating revenue for 2006 increased by approximately 18% from the prior year. Wastewater revenue increased by 14% from the prior year.
- Airport net assets increased approximately $31 million. Revenues increased due to an increase in passenger traffic, which was 8% higher than the previous calendar year. Expenses increased due to an increase in operations and maintenance costs.
- Convention net assets increased approximately $8.4 million. Revenue was 31% higher than the prior year due to increased demand for convention space and events. Expenses increased due to an increase in operations and maintenance costs. Transfers from other funds increased as a result of increased hotel occupancy tax collections from the previous year.
- Environmental and health services activities are comprised of nonmajor enterprise funds that include the Solid Waste Services Fund, Primary Care Fund, and Hospital Fund. Net assets decreased by approximately $2.6 million. This decrease is primarily attributed to a 10% increase in expenses.
- Public recreation activities are comprised of nonmajor enterprise funds that include the Golf Fund and Recreation Program Fund. Net assets increased by $33,000.
- Urban growth management activities are comprised of nonmajor enterprise funds that include the Drainage Fund and Transportation Fund. Net assets increased by approximately $22.4 million. Revenues increased by approximately $8.7 million, primarily attributable to a rate increase in the drainage fee. An increase to capital contributions was also a factor. Operating expenses increased by $3.4 million due to additional positions and programs added in the current fiscal year.

As shown in the following chart, the electric utility, with expenses of $918 million, is the City's largest business-type activity, followed by water ($162 million), wastewater ($132 million), airport ($78 million), urban growth management ($64 million), environmental and health services ($50 million), convention ($42 million), and public recreation ($9 million). For the fiscal year, operating revenues exceeded operating expenses for all business-type activities except convention and environmental and health services.

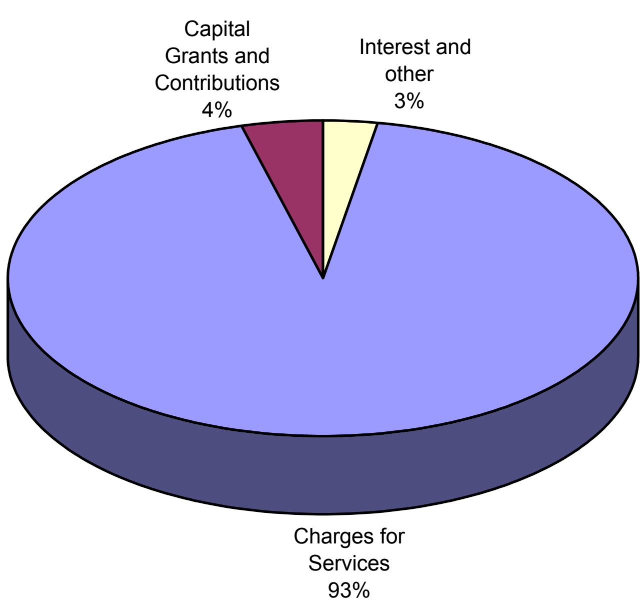
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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 (93%), followed by capital grants and contributions (4%) and interest and other revenues (3%).

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 projects 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 fiscal year, the City of Austin's governmental funds reported combined ending fund balances of $349.5 million, an increase of $40 million from the previous year. Approximately $260 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, legally restricted permanent fund resources, and certain debt service amounts. Reserved fund balance increased $8 million in comparison to the prior year, primarily due to an increase in the reservation for encumbrances of $4.9 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 $105 million, while total fund balance was $111.8 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 22% of total General Fund expenditures of $480.9 million, and total fund balance represents 23% of expenditures. The City adopted a new financial policy in the current fiscal year which provides that surplus fund balance, previously reported as unreserved and undesignated, will continue to be reported as unreserved but will be designated for budget stabilization. The fund balance designated for budget stabilization was $58.3 million. The balance designated for budget stabilization may be appropriated to fund capital or other one-time expenditures in the subsequent fiscal year, but such appropriation will not normally exceed one-third of the total designated amount, with the other two-thirds designated for budget stabilization in future years. The unreserved and undesignated fund balance of the General Fund was $53.7 million for the previous fiscal year.

The General Fund fund balance increased $6.5 million during the fiscal year, while unreserved fund balance increased $6.2 million. Significant differences from the previous year include:

- Property tax revenues increased $13.5 million due to an increase in assessed property values. The City's property tax rate was unchanged at 44.3 cents per $100 valuation.
- Sales tax revenues increased $15.7 million.
- Licenses, permits, and inspections revenues increased $4.7 million largely due to increased building permits and inspections.
- Increase of $36.3 million in expenditures, due primarily to increased public safety personnel costs and general government expenditures.

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, increased by $206.3 million.

Factors that contributed to the increase 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 expenditure budget of the General Fund was amended several times during fiscal year 2006 for increased public safety and urban growth management costs. These increases were offset by decreases in the general city responsibilities budget. The final expenditure budget was $438,000 higher than the original budget.

During the year, revenues were $22.4 million more than budgeted. The difference resulted from higher than anticipated property tax and sales tax collections, in addition to a significant increase in building permit and development fees.

Actual General Fund budget-basis expenditures were $749,000 less than budgeted. Public health, general government, urban growth management, and general city responsibilities expenditures were a combined $1.5 million under budget; while public safety, transportation, planning and sustainability, and public recreation and culture expenditures exceeded budget by $780,000. The total fund balance at year-end amounted to $99.5 million, which was $82.8 million higher than budgeted.

b -- Capital assets

The City's capital assets for governmental and business-type activities as of September 30, 2006, total $7.5 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, equipment, vehicles, infrastructure, assets not classified, construction 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 $184 million (2.5%), with an increase of 2.5% for governmental activities and an increase of 2.5% 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	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Land and improvements	$ 240	243	295	287	535	530
Other assets not depreciated	19	18	1	1	20	19
Building and improvements	412	319	1,385	1,373	1,797	1,692
Equipment	80	53	2,813	2,644	2,893	2,697
Vehicles	28	27	45	42	73	69
Infrastructure	1,140	1,047	--	--	1,140	1,047
Completed assets not classified	--	13	--	37	--	50
Construction in progress	181	328	830	856	1,011	1,184
Nuclear fuel, net of amortization	--	--	29	23	29	23
Plant held for future use	--	--	28	31	28	31
Total net assets	$ 2,100	2,048	5,426	5,294	7,526	7,342

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

- Governmental capital assets increased $52 million primarily due to infrastructure additions.
- Business-type activities purchased or completed construction on capital assets of $132 million. The increase was largely due to Water and Wastewater Fund expenditures for Ullrich Water Treatment Plant improvements, South Austin Wastewater Treatment Plant improvements, and for wastewater projects associated with the Austin Clean Water Program.

OTHER INFORMATION, continued

c -- Debt administration
At the end of the current fiscal year, the City reported $4.4 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	
	2006	2005	2006	2005	2006	2005
General obligation bonds and other tax supported debt, net	$ 847	841	111	106	958	947
Commercial paper notes, net	--	--	240	357	240	357
Revenue notes	--	--	28	28	28	28
Revenue bonds, net	--	--	3,201	3,038	3,201	3,038
Capital lease obligations	1	1	6	9	7	10
Total	$ 848	842	3,586	3,538	4,434	4,380

During fiscal year 2006, the City's total outstanding debt increased by $54 million. The City issued new debt and refinanced portions of existing debt to achieve lower borrowing costs. Debt issues include the following:

- Bond debt for governmental activities increased $6 million. Issuance of new debt will be used primarily for sidewalk projects; bikeways; street improvements; libraries; Colorado River park; Rundberg recreation center; Rutherford Lane facility; and the Avery Ranch fire station.
- Outstanding debt for business-type functions increased $48 million. In fiscal year 2006, new debt was issued primarily for transportation related capital equipment; solid waste services capital equipment; and water and wastewater vehicles. The City issued Electric Fund and Water and Wastewater Fund separate lien revenue refunding bonds to refund commercial paper and existing debt.

During the current fiscal year the City received several favorable bond rating upgrades. Ratings at September 30, 2006 and September 30, 2005 of the City's obligations for various debt instruments are as follows:

Debt	Moody's Investors Service, Inc		Standard & Poor's		Fitch, Inc.	
	2006	2005	2006	2005	2006	2005
General obligation bonds and other tax supported debt	Aa1	Aa2	AA+	AA+	AA+	AA+
Commercial paper notes	P-1	P-1	A-1+	A-1+	F1+	F1+
Commercial paper notes - taxable	P-1	P-1	A-1+	A-1+	F1+	F1+
Utility revenue bonds - prior lien	A1	A2	AA-	A+	AA-	A+
Utility revenue bonds - subordinate lien	A1	A2	A+	A	AA-	A+
Utility revenue bonds - separate lien:						
Electric	A1	A3	A+	A	AA-	A+
Water and Wastewater	A1	A2	A	A	AA-	A+
Airport system revenue bonds	NUR(1)	NUR(1)	A-	A-	NUR(1)	NUR(1)
Airport variable rate bonds	P-1	P-1	NUR(1)	NUR(1)	NUR(1)	NUR(1)
Convention Center revenue bonds	NUR(1)	NUR(1)	A-	NUR(1)	NUR(1)	NUR(1)

(1) No underlying rating

OTHER INFORMATION, continued

d -- Economic factors and next year's budget and rates

The local economic outlook is positive, with significant increases in sales tax revenues and property tax collections from the previous year. Job growth for the area continues to increase, with sustained growth forecasted over the next two years. Austin was recently selected as the site for Samsung's new chip production facility, which has the potential to anchor Austin's high-tech community for years to come. Nationwide, the U.S. economy continues to grow as the Gross Domestic Product annual growth rate was 3.3% for 2006.

For the upcoming 2007 budget, the City will continue to focus on a multi-year budget horizon, including using one-time funding judiciously and on attaining a structural budget balance. The Austin City Council has adopted a comprehensive set of financial policies to provide the foundation for long-range financial sustainability. These financial policies are directly aligned with the City Council's priority of affordability, and continue to position the City to invest in its future economic development, infrastructure needs, and quality of life. These policies are also crucial in maintaining the City's favorable bond ratings. City management will continue to monitor the economy and will be prepared to take any corrective actions to help mitigate unfavorable economic events.

The assessed taxable property value within the City increased by 16.2% for 2006. The property tax rate for fiscal year 2007 is 41.26 cents per $100 valuation. The tax rate consists of 27.60 cents for the General Fund and 13.66 cents for debt service. Each 1 cent of the property tax rate is equivalent to $6,084,490 of tax levy, as compared to $5,234,964 in the previous year. Rate increases for the Water and Wastewater Fund are: 5.2% for Water and 9.2% for Wastewater for a combined increase of 7.1%.

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	2006 Total (†)
ASSETS			
Current assets:			
Cash	$ 115	60	175
Pooled investments and cash	339,617	291,595	631,212
Pooled investments and cash - restricted	--	332,111	332,111
Total pooled investments and cash	339,617	623,706	963,323
Investments, at fair value	15,199	1,237	16,436
Investments, at fair value - restricted	--	335,302	335,302
Cash held by trustee	775	--	775
Cash held by trustee - restricted	11,945	16,174	28,119
Working capital advances	--	4,017	4,017
Property taxes receivable	12,164	--	12,164
Less allowance for uncollectible taxes	(2,826)	--	(2,826)
Net property taxes receivable	9,338	--	9,338
Accounts and other receivables	217,122	205,356	422,478
Less allowance for doubtful accounts	(86,763)	(7,141)	(93,904)
Net accounts receivable	130,359	198,215	328,574
Interest receivable - restricted	241	--	241
Receivables from other governments	17,782	--	17,782
Receivables from other governments - restricted	--	4,140	4,140
Notes receivable, net of allowance	8,226	--	8,226
Internal balances	(451)	451	--
Internal balances - restricted	(1,846)	1,846	--
Inventories, at cost	2,230	63,487	65,717
Real property held for resale	12,530	--	12,530
Prepaid items	159	1,618	1,777
Other assets	1,294	10,674	11,968
Other receivables - restricted	--	15,313	15,313
Total current assets	547,513	1,276,240	1,823,753
Noncurrent assets:			
Investments held by trustee - restricted	--	107,002	107,002
Interest receivable - restricted	--	1,259	1,259
Capital assets			
Land and other nondepreciable assets	259,178	296,646	555,824
Property, plant, and equipment in service	2,405,815	6,854,293	9,260,108
Less accumulated depreciation	(746,831)	(2,611,690)	(3,358,521)
Net property, plant, and equipment in service	1,658,984	4,242,603	5,901,587
Construction in progress	181,342	829,752	1,011,094
Nuclear fuel, net of amortization	--	29,284	29,284
Plant held for future use	--	27,783	27,783
Total capital assets	2,099,504	5,426,068	7,525,572
Intangible assets, net of amortization	--	82,602	82,602
Other long-term assets	--	667	667
Deferred costs and expenses, net of amortization	3,639	393,656	397,295
Total noncurrent assets	2,103,143	6,011,254	8,114,397
Total assets	$ 2,650,656	7,287,494	9,938,150

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

(Continued)

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

(In thousands) (Continued)

	Governmental Activities	Business-type Activities	2006 Total (†)
LIABILITIES			
Current liabilities:			
Accounts payable	$ 25,096	75,168	100,264
Accounts and retainage payable from restricted assets	--	33,723	33,723
Accrued payroll	21,097	11,168	32,265
Accrued compensated absences	35,602	16,010	51,612
Claims payable	12,109	--	12,109
Accrued interest payable from restricted assets	--	51,459	51,459
Interest payable on other debt	3,447	1,585	5,032
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	59,953	5,077	65,030
General obligation bonds payable and other tax supported debt payable from restricted assets, net of discount and inclusive of premium	--	4,534	4,534
Revenue bonds payable	--	720	720
Revenue bonds payable payable from restricted assets	--	157,335	157,335
Capital lease obligations payable	197	3,416	3,613
Customer and escrow deposits payable from restricted assets	--	22,194	22,194
Nuclear fuel expense payable from restricted assets	--	22,052	22,052
Deferred credits and other liabilities	62,888	14,755	77,643
Total current liabilities	220,389	419,196	639,585
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	41,791	4,953	46,744
Claims payable	9,100	--	9,100
Capital appreciation bond interest payable	--	211,421	211,421
Commercial paper notes payable, net of discount	--	239,958	239,958
Revenue notes payable	--	28,000	28,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	787,782	100,864	888,646
Revenue bonds payable, net of discount and inclusive of premium	--	3,043,075	3,043,075
Pension obligation payable	13,912	11,758	25,670
Capital lease obligations payable	317	2,568	2,885
Accrued landfill closure and postclosure costs	--	8,379	8,379
Decommissioning expense payable from restricted assets	--	134,664	134,664
Deferred credits and other liabilities	16,248	520,045	536,293
Other liabilities payable from restricted assets	19	2,965	2,984
Total noncurrent liabilities	869,169	4,308,650	5,177,819
Total liabilities	1,089,558	4,727,846	5,817,404
NET ASSETS			
Invested in capital assets, net of related debt	1,399,316	1,538,572	2,937,888
Restricted for:			
Debt service	11,692	114,242	125,934
Strategic reserve	--	168,045	168,045
Capital projects	71,043	115,177	186,220
Renewal and replacement	--	57,268	57,268
Passenger facility charges	--	13,484	13,484
Convention Center operating reserve	--	1,022	1,022
Perpetual Care:			
Expendable	443	--	443
Nonexpendable	1,040	--	1,040
Unrestricted	77,564	551,838	629,402
Total net assets	$ 1,561,098	2,559,648	4,120,746

(†) 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, 2006
(In thousands)

City of Austin, Texas
Exhibit A-2

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-type Activities	Net (Expense) Revenue and Changes in Net Assets: 2006 Total
Governmental activities							
General government	$ 84,693	9,718	104	1,111	(73,760)	--	(73,760)
Public safety	373,361	40,314	21,973	--	(311,074)	--	(311,074)
Transportation, planning, and sustainability	25,426	3,186	60	--	(22,180)	--	(22,180)
Public health	94,697	45,610	22,229	--	(26,858)	--	(26,858)
Public recreation and culture	65,453	3,339	1,510	--	(60,604)	--	(60,604)
Urban growth management	81,439	37,609	32,047	--	(11,783)	--	(11,783)
Unallocated depreciation expense (1)	35,357	--	--	--	(35,357)	--	(35,357)
Interest on debt	38,766	--	--	--	(38,766)	--	(38,766)
Total governmental activities	799,192	139,776	77,923	1,111	(580,382)	--	(580,382)
Business-type activities							
Electric	918,369	1,070,606	--	13,152	--	165,389	165,389
Water	161,516	164,561	--	18,240	--	21,285	21,285
Wastewater	132,005	141,676	--	16,297	--	25,968	25,968
Airport	78,487	87,473	--	16,017	--	25,003	25,003
Convention	41,992	14,692	--	276	--	(27,024)	(27,024)
Environmental and health services	50,290	45,078	--	1,272	--	(3,940)	(3,940)
Public recreation	9,225	8,968	--	257	--	--	--
Urban growth management	63,981	77,381	--	4,293	--	17,693	17,693
Total business-type activities	1,455,865	1,610,435	--	69,804	--	224,374	224,374
Total	$ 2,255,057	1,750,211	77,923	70,915	(580,382)	224,374	(356,008)
General revenues:							
Property tax					236,146	--	236,146
Sales tax					139,289	--	139,289
Franchise fees and gross receipts tax					79,755	--	79,755
Grants and contributions not restricted to specific programs					90,083	--	90,083
Interest and other					35,315	47,905	83,220
Transfers-internal activities					65,974	(65,974)	--
Total general revenues and transfers					646,562	(18,069)	628,493
Change in net assets					66,180	206,305	272,485
Beginning net assets					1,494,918	2,353,343	3,848,261
Ending net assets					$ 1,561,098	2,559,648	4,120,746

(1) Excludes direct depreciation expense for the various programs

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

(In thousands)

	2006 General Fund	2006 Nonmajor Governmental Funds	2006 Total Governmental Funds
ASSETS			
Cash	$ 92	5	97
Pooled investments and cash	96,620	149,631	246,251
Investments, at fair value	--	15,199	15,199
Cash held by trustee-restricted	--	11,945	11,945
Property taxes receivable	7,282	4,882	12,164
Less allowance for uncollectible taxes	(1,741)	(1,085)	(2,826)
Net property taxes receivable	5,541	3,797	9,338
Accounts and other receivables	140,192	74,559	214,751
Less allowance for doubtful accounts	(91,856)	(320)	(92,176)
Net accounts receivable	48,336	74,239	122,575
Receivables from other governments	--	17,782	17,782
Notes receivable, net of allowance	--	8,226	8,226
Due from other funds	282	34,017	34,299
Advances to other funds	--	7,208	7,208
Inventories, at cost	1,159	--	1,159
Real property held for resale	--	12,530	12,530
Prepaid items	135	2	137
Other assets	60	1,234	1,294
Total assets	152,225	335,815	488,040
LIABILITIES AND FUND BALANCES			
Accounts payable	5,294	10,295	15,589
Accrued payroll	16,376	978	17,354
Accrued compensated absences	413	--	413
Due to other funds	619	34,297	34,916
Deferred revenue	13,938	7,506	21,444
Advances from other funds	617	482	1,099
Deposits and other liabilities	3,164	44,520	47,684
Total liabilities	40,421	98,078	138,499
Fund balances			
Reserved:			
Encumbrances	5,467	39,161	44,628
Inventories and prepaid items	1,294	2	1,296
Notes receivable	--	8,226	8,226
Advances receivable	--	7,208	7,208
Real property held for resale	--	12,530	12,530
Debt service	--	14,898	14,898
Permanent funds	--	1,040	1,040
Unreserved, designated:			
Emergencies	40,000	--	40,000
Contingencies	4,579	--	4,579
Future use	845	--	845
Budget stabilization	58,280	--	58,280
One-time expenditures	1,339	--	1,339
Unreserved, undesignated:			
Special revenue	--	50,020	50,020
Capital projects	--	104,209	104,209
Permanent funds	--	443	443
Total fund balances	111,804	237,737	349,541
Total liabilities and fund balances	$ 152,225	335,815	488,040

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

Total fund balances - Governmental funds	$ 349,541
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.	2,046,502
Other long-term assets are not available as current-period resources and are not reported in the funds.	10,156
Long-term liabilities are not payable in the current period and are not reported in the funds.	(923,380)
Internal service funds are used by management to charge the costs of capital project management, combined emergency communication center, 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.	78,279
Total net assets - Governmental activities	$ 1,561,098

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

(In thousands)

	2006		
	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes	$ 150,450	84,105	234,555
Sales taxes	139,289	--	139,289
Franchise fees and other taxes	35,282	44,473	79,755
Fines, forfeitures and penalties	18,832	4,865	23,697
Licenses, permits and inspections	22,131	--	22,131
Charges for services/goods	24,453	64,336	88,789
Intergovernmental	--	94,955	94,955
Property owners' participation and contributions	--	9,486	9,486
Interest and other	15,882	18,504	34,386
Total revenues	406,319	320,724	727,043
EXPENDITURES			
Current:			
General government	49,340	1,485	50,825
Public safety	334,025	25,588	359,613
Transportation, planning and sustainability	473	4,366	4,839
Public health	30,120	63,605	93,725
Public recreation and culture	49,611	5,254	54,865
Urban growth management	17,335	59,230	76,565
Debt service:			
Principal	--	57,651	57,651
Interest	--	39,023	39,023
Fees and commissions	--	10	10
Capital outlay	--	87,931	87,931
Total expenditures	480,904	344,143	825,047
Excess (deficiency) of revenues over expenditures	(74,585)	(23,419)	(98,004)
OTHER FINANCING SOURCES (USES)			
Issuance of tax supported debt	--	67,735	67,735
Bond premiums	--	11	11
Transfers in	97,658	44,406	142,064
Transfers out	(16,611)	(55,212)	(71,823)
Total other financing sources (uses)	81,047	56,940	137,987
Net change in fund balances	6,462	33,521	39,983
Fund balances at beginning of year	105,342	204,216	309,558
Fund balances at end of year	$ 111,804	237,737	349,541

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

Net change in fund balances - Governmental funds	$	39,983
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.		6,019
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		23,918
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.		(10,106)
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.		(11,728)
The net revenue of certain activities of internal service funds is reported with governmental activities.		18,094
Change in net assets - Governmental activities	$	66,180

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

Proprietary Funds
Statement of Net Assets
September 30, 2006
(In thousands)

	Electric	Water and Wastewater	Airport
ASSETS			
Current assets:			
Cash	$ 18	11	6
Pooled investments and cash	168,936	26,951	1,111
Pooled investments and cash - restricted	153,171	21,566	98,498
Total pooled investments and cash	322,107	48,517	99,609
Investments, at fair value	--	--	--
Investments, at fair value - restricted	259,946	49,042	24,049
Cash held by trustee	--	--	--
Cash held by trustee - restricted	10,368	5,806	--
Working capital advances	4,017	--	--
Accounts receivable	137,293	49,116	3,851
Less allowance for doubtful accounts	(2,271)	(693)	(150)
Net accounts receivable	135,022	48,423	3,701
Receivables from other governments-restricted	--	--	4,140
Due from other funds	--	--	--
Due from other funds - restricted	--	27	617
Inventories, at cost	61,013	1,648	--
Prepaid expenses	1,472	124	11
Other assets	10,664	5	--
Other receivables - restricted	997	4,575	--
Total current assets	805,624	158,178	132,133
Noncurrent assets:			
Advances to other funds	2,895	--	--
Advances to other funds - restricted	--	107	808
Investments held by trustee - restricted	107,002	--	--
Interest receivable - restricted	1,259	--	--
Capital assets			
Land and other nondepreciable assets	40,469	141,356	59,410
Property, plant, and equipment in service	3,462,655	2,331,102	637,868
Less accumulated depreciation	(1,553,865)	(818,737)	(133,531)
Net property, plant, and equipment in service	1,908,790	1,512,365	504,337
Construction in progress	170,114	569,945	50,887
Nuclear fuel, net of amortization	29,284	--	--
Plant held for future use	27,783	--	--
Total capital assets	2,176,440	2,223,666	614,634
Intangible assets, net of amortization	--	82,602	--
Other long-term assets	667	--	--
Deferred costs and expenses, net of amortization	203,421	183,505	3,847
Total noncurrent assets	2,491,684	2,489,880	619,289
Total assets	$ 3,297,308	2,648,058	751,422

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

	Nonmajor Enterprise Funds	2006 Total	Governmental Activities- Internal Service Funds
ASSETS			
Current assets:			
Cash	25	60	18
Pooled investments and cash	94,597	291,595	93,366
Pooled investments and cash - restricted	58,876	332,111	--
Total pooled investments and cash	153,473	623,706	93,366
Investments, at fair value	1,237	1,237	--
Investments, at fair value - restricted	2,265	335,302	--
Cash held by trustee	--	--	775
Cash held by trustee - restricted	--	16,174	--
Working capital advances	--	4,017	--
Accounts receivable	15,096	205,356	1,681
Less allowance for doubtful accounts	(4,027)	(7,141)	(222)
Net accounts receivable	11,069	198,215	1,459
Receivables from other governments-restricted	--	4,140	--
Due from other funds	333	333	207
Due from other funds - restricted	--	644	--
Inventories, at cost	826	63,487	1,071
Prepaid expenses	11	1,618	22
Other assets	5	10,674	--
Other receivables - restricted	9,741	15,313	--
Total current assets	178,985	1,274,920	96,918
Noncurrent assets:			
Advances to other funds	--	2,895	--
Advances to other funds - restricted	287	1,202	--
Investments held by trustee - restricted	--	107,002	--
Interest receivable - restricted	--	1,259	--
Capital assets			
Land and other nondepreciable assets	55,411	296,646	712
Property, plant, and equipment in service	422,668	6,854,293	72,677
Less accumulated depreciation	(105,557)	(2,611,690)	(27,984)
Net property, plant, and equipment in service	317,111	4,242,603	44,693
Construction in progress	38,806	829,752	7,597
Nuclear fuel, net of amortization	--	29,284	--
Plant held for future use	--	27,783	--
Total capital assets	411,328	5,426,068	53,002
Intangible assets, net of amortization	--	82,602	--
Other long-term assets	--	667	--
Deferred costs and expenses, net of amortization	2,883	393,656	49
Total noncurrent assets	414,498	6,015,351	53,051
Total assets	593,483	7,290,271	149,969

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

Proprietary Funds
Statement of Net Assets
September 30, 2006
(In thousands)

	Electric	Water and Wastewater	Airport
LIABILITIES			
Current liabilities:			
Accounts payable	$ 67,170	2,828	1,524
Accounts and retainage payable from restricted assets	7,037	20,914	1,711
Accrued payroll	4,992	2,498	723
Accrued compensated absences	7,266	3,813	1,020
Claims payable	--	--	--
Due to other funds	--	--	--
Accrued interest payable from restricted assets	25,591	21,967	1,519
Interest payable on other debt	254	1,007	2
General obligation bonds payable and other tax supported debt	--	--	61
General obligation bonds payable and other tax supported debt payable from restricted assets	255	3,322	--
Revenue bonds payable	--	720	--
Revenue bonds payable from restricted assets	101,312	45,208	9,555
Capital lease obligations payable	2,012	1,239	149
Customer and escrow deposits payable from restricted assets	14,414	4,797	343
Nuclear fuel expense payable from restricted assets	22,052	--	--
Deferred credits and other liabilities	7,087	6,353	1,025
Total current liabilities	259,442	114,666	17,632
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	2,378	1,058	--
Claims payable	--	--	--
Advances from other funds	--	3,781	--
Capital appreciation bond interest payable	103,287	108,134	--
Commercial paper notes payable, net of discount	54,326	185,632	--
Revenue notes payable	--	--	28,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	1,757	19,363	337
Revenue bonds payable, net of discount and inclusive of premium	1,158,862	1,336,041	329,023
Pension obligation payable	5,254	2,683	857
Capital lease obligations payable	1,241	1,327	--
Accrued landfill closure and postclosure costs	--	--	--
Decommissioning expense payable from restricted assets	134,664	--	--
Deferred credits and other liabilities	72,077	446,733	1,234
Other liabilities payable from restricted assets	--	2,234	731
Total noncurrent liabilities	1,533,846	2,106,986	360,182
Total liabilities	1,793,288	2,221,652	377,814
NET ASSETS			
Invested in capital assets, net of related debt	827,970	309,688	251,358
Restricted for:			
Debt service	66,310	27,074	18,593
Strategic reserve	168,045	--	--
Capital projects	43,124	--	62,867
Renewal and replacement	45,559	--	10,000
Passenger facility charges	--	--	13,484
Convention Center operating reserve	--	--	--
Unrestricted	353,012	89,644	17,306
Total net assets	$ 1,504,020	426,406	373,608
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	2,474	2,536	1,025
Total net assets - Business-type activities	$ 1,506,494	428,942	374,633

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

	Nonmajor Enterprise Funds	2006 Total	Governmental Activities- Internal Service Funds
LIABILITIES			
Current liabilities:			
Accounts payable	3,646	75,168	9,507
Accounts and retainage payable from restricted assets	4,061	33,723	--
Accrued payroll	2,955	11,168	3,743
Accrued compensated absences	3,911	16,010	5,525
Claims payable	--	--	12,109
Due to other funds	333	333	234
Accrued interest payable from restricted assets	2,382	51,459	--
Interest payable on other debt	322	1,585	87
General obligation bonds payable and other tax supported debt	5,016	5,077	3,319
General obligation bonds payable and other tax supported debt payable from restricted assets	957	4,534	--
Revenue bonds payable	--	720	--
Revenue bonds payable from restricted assets	1,260	157,335	--
Capital lease obligations payable	16	3,416	12
Customer and escrow deposits payable from restricted assets	2,640	22,194	--
Nuclear fuel expense payable from restricted assets	--	22,052	--
Deferred credits and other liabilities	290	14,755	1,262
Total current liabilities	27,789	419,529	35,798
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	1,517	4,953	751
Claims payable	--	--	9,100
Advances from other funds	6,111	9,892	314
Capital appreciation bond interest payable	--	211,421	--
Commercial paper notes payable, net of discount	--	239,958	--
Revenue notes payable	--	28,000	--
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	79,407	100,864	18,260
Revenue bonds payable, net of discount and inclusive of premium	219,149	3,043,075	--
Pension obligation payable	2,964	11,758	--
Capital lease obligations payable	--	2,568	--
Accrued landfill closure and postclosure costs	8,379	8,379	--
Decommissioning expense payable from restricted assets	--	134,664	--
Deferred credits and other liabilities	1	520,045	--
Other liabilities payable from restricted assets	--	2,965	19
Total noncurrent liabilities	317,528	4,318,542	28,444
Total liabilities	345,317	4,738,071	64,242
NET ASSETS			
Invested in capital assets, net of related debt	149,556	1,538,572	30,414
Restricted for:			
Debt service	2,265	114,242	--
Strategic reserve	--	168,045	--
Capital projects	9,186	115,177	3,540
Renewal and replacement	1,709	57,268	--
Passenger facility charges	--	13,484	--
Convention Center operating reserve	1,022	1,022	--
Unrestricted	84,428	544,390	51,773
Total net assets	248,166	2,552,200	85,727
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	1,413	7,448	
Total net assets - Business-type activities	249,579	2,559,648	

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, 2006
(In thousands)

	Electric	Water and Wastewater	Airport
OPERATING REVENUES			
Utility services	$ 1,070,606	306,237	--
User fees and rentals	--	--	71,496
Billings to departments	--	--	--
Employee contributions	--	--	--
Operating revenues from other governments	--	--	--
Other operating revenues	--	--	--
Total operating revenues	1,070,606	306,237	71,496
OPERATING EXPENSES			
Operating expenses before depreciation	695,271	129,599	45,714
Depreciation and amortization	126,244	65,977	17,129
Total operating expenses	821,515	195,576	62,843
Operating income (loss)	249,091	110,661	8,653
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	33,059	2,951	5,772
Interest on revenue bonds and other debt	(88,247)	(81,571)	(17,058)
Interest capitalized during construction	--	--	2,103
Passenger facility charges	--	--	15,977
Amortization of bond issue cost	(649)	(647)	(325)
Cost (recovered) to be recovered in future years	1,934	(15,108)	--
Other nonoperating expense	(9,442)	(398)	(255)
Total nonoperating revenues (expenses)	(63,345)	(94,773)	6,214
Income (loss) before contributions and transfers	185,746	15,888	14,867
Capital contributions	13,152	34,537	16,017
Transfers in	221	--	--
Transfers out	(77,420)	(23,502)	--
Change in net assets	121,699	26,923	30,884
Total net assets - beginning	1,382,321	399,483	342,724
Total net assets - ending	$ 1,504,020	426,406	373,608
Reconciliation to government-wide Statement of Activities			
Change in net assets	121,699	26,923	30,884
Adjustment to consolidate internal service activities	(450)	(221)	(109)
Change in net assets - Business-type activities	$ 121,249	26,702	30,775

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

	Nonmajor Enterprise Funds	2006 Total	Governmental Activities- Internal Service Funds
OPERATING REVENUES			
Utility services	--	1,376,843	--
User fees and rentals	146,119	217,615	--
Billings to departments	--	--	224,353
Employee contributions	--	--	28,009
Operating revenues from other governments	--	--	1,886
Other operating revenues	--	--	1,989
Total operating revenues	146,119	1,594,458	256,237
OPERATING EXPENSES			
Operating expenses before depreciation	135,193	1,005,777	245,000
Depreciation and amortization	15,378	224,728	9,131
Total operating expenses	150,571	1,230,505	254,131
Operating income (loss)	(4,452)	363,953	2,106
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	6,123	47,905	992
Interest on revenue bonds and other debt	(14,068)	(200,944)	(616)
Interest capitalized during construction	2,379	4,482	--
Passenger facility charges	--	15,977	--
Amortization of bond issue cost	(179)	(1,800)	(2)
Cost (recovered) to be recovered in future years	--	(13,174)	--
Other nonoperating expense	(2,448)	(12,543)	(8,609)
Total nonoperating revenues (expenses)	(8,193)	(160,097)	(8,235)
Income (loss) before contributions and transfers	(12,645)	203,856	(6,129)
Capital contributions	6,098	69,804	27,110
Transfers in	37,463	37,684	949
Transfers out	(2,736)	(103,658)	(5,216)
Change in net assets	28,180	207,686	16,714
Total net assets - beginning	219,986	2,344,514	69,013
Total net assets - ending	248,166	2,552,200	85,727
Reconciliation to government-wide Statement of Activities			
Change in net assets	28,180	207,686	
Adjustment to consolidate internal service activities	(601)	(1,381)	
Change in net assets - Business-type activities	27,579	206,305	

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

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2006
(In thousands)

	Electric	Water and Wastewater	Airport
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	$ 1,106,493	299,919	72,274
Cash payments to suppliers for goods and services	(569,616)	(62,412)	(28,356)
Cash payments to employees for services	(113,396)	(59,537)	(17,597)
Cash payments to claimants/beneficiaries	--	--	--
Taxes collected and remitted to other governments	(29,969)	--	--
Net cash provided (used) by operating activities	393,512	177,970	26,321
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	221	--	--
Transfers out	(77,420)	(23,502)	--
Interest paid on revenue notes and other debt	(63)	(21)	--
Increase in deferred assets	(648)	--	--
Loans to other funds	(174)	--	--
Loans from other funds	--	--	617
Loan repayments to other funds	--	(928)	--
Loan repayments from other funds	--	27	32
Net cash provided (used) by noncapital financing activities	(78,084)	(24,424)	649
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	51,488	121,190	--
Proceeds from the sale of general obligation bonds and other tax supported debt	--	1,815	--
Principal paid on long-term debt	(78,218)	(49,266)	(14,019)
Purchased interest received	480	617	--
Interest paid on revenue bonds and other debt	(68,275)	(70,196)	(16,596)
Passenger facility charges	--	--	15,977
Acquisition and construction of capital assets	(135,897)	(156,676)	(29,414)
Contributions (to) from municipality	--	--	--
Contributions from state and federal governments	--	--	12,208
Contributions in aid of construction	14,076	15,965	--
Bond issuance costs	--	107	99
Bond discounts	(142)	--	--
Bond premiums	--	3,236	--
Cash paid for bond defeasance	--	--	(1,000)
Cash paid for nuclear fuel inventory	(16,724)	--	--
Net cash provided (used) by capital and related financing activities	$ (233,212)	(133,208)	(32,745)

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

	Nonmajor Enterprise Funds	2006 Total	Governmental Activities-Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	145,284	1,623,970	258,616
Cash payments to suppliers for goods and services	(63,764)	(724,148)	(107,121)
Cash payments to employees for services	(68,785)	(259,315)	(87,988)
Cash payments to claimants/beneficiaries	--	--	(54,183)
Taxes collected and remitted to other governments	--	(29,969)	--
Net cash provided (used) by operating activities	12,735	610,538	9,324
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	37,463	37,684	949
Transfers out	(2,736)	(103,658)	(5,216)
Interest paid on revenue notes and other debt	(3)	(87)	--
Increase in deferred assets	--	(648)	--
Loans to other funds	(448)	(622)	--
Loans from other funds	794	1,411	--
Loan repayments to other funds	--	(928)	(27)
Loan repayments from other funds	159	218	241
Net cash provided (used) by noncapital financing activities	35,229	(66,630)	(4,053)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	--	172,678	--
Proceeds from the sale of general obligation bonds and other tax supported debt	7,795	9,610	--
Principal paid on long-term debt	(7,848)	(149,351)	(3,216)
Purchased interest received	24	1,121	--
Interest paid on revenue bonds and other debt	(13,423)	(168,490)	(773)
Passenger facility charges	--	15,977	--
Acquisition and construction of capital assets	(23,134)	(345,121)	(10,178)
Contributions (to) from municipality	(1,257)	(1,257)	108
Contributions from state and federal governments	--	12,208	--
Contributions in aid of construction	3,933	33,974	--
Bond issuance costs	20	226	--
Bond discounts	--	(142)	--
Bond premiums	5	3,241	2
Cash paid for bond defeasance	--	(1,000)	--
Cash paid for nuclear fuel inventory	--	(16,724)	--
Net cash provided (used) by capital and related financing activities	(33,885)	(433,050)	(14,057)

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

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2006
(In thousands)

	Electric	Water and Wastewater	Airport
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	$ (270,067)	(103,446)	(30,284)
Proceeds from sale and maturities of investment securities	252,413	100,381	32,116
Interest on investments	28,910	3,281	5,155
Net cash provided (used) by investing activities	11,256	216	6,987
Net increase (decrease) in cash and cash equivalents	93,472	20,554	1,212
Cash and cash equivalents, October 1	239,021	33,780	98,403
Cash and cash equivalents, September 30	332,493	54,334	99,615
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	249,091	110,661	8,653
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	126,244	63,477	17,129
Amortization	--	2,500	--
Change in assets and liabilities:			
(Increase) decrease in working capital advances	(727)	--	--
(Increase) decrease in accounts receivable	(44)	(4,580)	1,238
Decrease in allowance for doubtful accounts	(1,372)	(207)	--
Decrease in due from other funds	--	--	--
(Increase) decrease in inventory	(8,804)	(605)	--
(Increase) decrease in prepaid expenses and other assets	14,439	3	(2)
(Increase) decrease in deferred costs and other expenses	11,180	--	--
(Increase) decrease in other long-term assets	335	--	--
Increase (decrease) in accounts payable	(5,990)	548	(581)
Increase in accrued payroll and compensated absences	1,763	856	330
Decrease in claims payable	--	--	--
Decrease in advances from other funds	--	--	--
Increase in pension obligations payable	2,689	1,364	398
Increase (decrease) in deferred credits and other liabilities	337	2,507	(431)
Increase (decrease) in customer deposits	4,371	1,446	(413)
Total adjustments	144,421	67,309	17,668
Net cash provided (used) by operating activities	$ 393,512	177,970	26,321

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

	Nonmajor Enterprise Funds	2006 Total	Governmental Activities- Internal Service Funds
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	(10,310)	(414,107)	--
Proceeds from sale and maturities of investment securities	12,363	397,273	--
Interest on investments	6,120	43,466	994
Net cash provided (used) by investing activities	8,173	26,632	994
Net increase (decrease) in cash and cash equivalents	22,252	137,490	(7,792)
Cash and cash equivalents, October 1	131,246	502,450	101,951
Cash and cash equivalents, September 30	153,498	639,940	94,159
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	(4,452)	363,953	2,106
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	15,378	222,228	9,131
Amortization	--	2,500	--
Change in assets and liabilities:			
(Increase) decrease in working capital advances	124	(603)	--
(Increase) decrease in accounts receivable	(829)	(4,215)	2,419
Decrease in allowance for doubtful accounts	(263)	(1,842)	--
Decrease in due from other funds	--	--	(19)
(Increase) decrease in inventory	(520)	(9,929)	4
(Increase) decrease in prepaid expenses and other assets	21	14,461	38
(Increase) decrease in deferred costs and other expense	--	11,180	(34)
(Increase) decrease in other long-term assets	--	335	(50)
Increase (decrease) in accounts payable	98	(5,925)	2,101
Increase in accrued payroll and compensated absences	1,062	4,011	1,083
Decrease in claims payable	--	--	(7,609)
Decrease in advances from other funds	--	--	(20)
Increase in pension obligations payable	1,552	6,003	--
Increase (decrease) in deferred credits and other liabilities	301	2,714	174
Increase (decrease) in customer deposits	263	5,667	--
Total adjustments	17,187	246,585	7,218
Net cash provided (used) by operating activities	12,735	610,538	9,324

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

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2006
(In thousands)

	Electric	Water and Wastewater	Airport
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Decrease in deferred assets/expenses	$ 3,836	1,197	--
Increase in capital appreciation bond interest payable	10,817	12,174	--
Capital assets contributed from (to) other funds	(1,019)	--	(47)
Increase in contributed facilities	--	18,434	--
Net increase in the fair value of investments	(67)	--	--
Amortization of bond issue costs	(615)	(647)	(325)
Amortization of bond discounts and premiums	(5,729)	(7,360)	(138)
Amortization of deferred loss on refundings	9,303	5,469	1,187
Loss on disposal of assets	(9,033)	(397)	(115)
Deferred gain on bond refunding	--	180	--
Bond issuance costs, discounts, premiums, and accrued interest written off due to refunding	--	1,323	--
Deferred costs (recovered) to be recovered	1,934	(15,108)	--
Contributions from other funds	--	--	--
Increase in deferred credits and other liabilities	10,170	16,317	--
Capital lease obligations	--	--	--
General obligation bonds and other tax supported debt proceeds receivable	--	4,420	--
Bonds issued for the advance refundings of debt	150,000	205,435	--
Bond issuance costs on advance refundings	(1,348)	(2,234)	--
Bond discounts on advance refundings	--	(716)	--
Bond premiums on advance refundings	5,848	6,270	--
Reduction of long-term debt due to advance refundings	(154,500)	(204,921)	--

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

	Nonmajor Enterprise Funds	2006 Total	Governmental Activities- Internal Service Funds
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Decrease in deferred assets/expenses	2	5,035	--
Increase in capital appreciation bond interest payable	--	22,991	--
Capital assets contributed from (to) other funds	2,582	1,516	7,829
Increase in contributed facilities	--	18,434	--
Net increase in the fair value of investments	--	(67)	--
Amortization of bond issue costs	(179)	(1,766)	(2)
Amortization of bond discounts and premiums	(427)	(13,654)	(5)
Amortization of deferred loss on refundings	1,143	17,102	48
Loss on disposal of assets	(1,240)	(10,785)	1,423
Deferred gain on bond refunding	--	180	--
Bond issue costs, discounts, premiums, and accrued interest written off due to refunding	--	1,323	--
Deferred costs (recovered) to be recovered	--	(13,174)	--
Contributions from other funds	--	--	199
Increase in deferred credits and other liabilities	--	26,487	187
Capital lease obligations	8	8	8
General obligation bonds and other tax supported debt proceeds receivable	9,700	14,120	--
Bonds issued for the advance refundings of debt	--	355,435	--
Bond issuance costs on advance refundings	--	(3,582)	--
Bond discounts on advance refundings	--	(716)	--
Bond premiums on advance refundings	--	12,118	--
Reduction of long-term debt due to advance refundings	--	(359,421)	--

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

(In thousands)

	Private-purpose Trust	Agency
ASSETS		
Pooled investments and cash	$ 1,128	3,078
Other assets	121	--
Total assets	1,249	3,078
LIABILITIES		
Accounts payable	--	183
Due to other governments	--	2,375
Deposits and other liabilities	466	520
Total liabilities	466	3,078
NET ASSETS		
Held in trust	783	
Total net assets	$ 783	

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

For the year ended September 30, 2006
(In thousands)

	Private-purpose Trust
ADDITIONS	
Contributions	$ 279
Interest and other	41
Total additions	320
DEDUCTIONS	
Benefit payments	238
Total deductions	238
Change in net assets	82
Total net assets - beginning	701
Total net assets - ending	$ 783

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 may serve 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 general government; public safety; transportation, planning and sustainability; public health; public recreation and culture; and urban growth management. In addition, the City owns and operates certain major enterprise activities including an electric utility, water and wastewater utility, airport, and non-major enterprise activities including convention, environmental and health services, public recreation, and urban growth management activities. These activities are included in the accompanying financial statements.

The City of Austin's charter requires an annual audit by an independent certified public accountant. These financial statements have been prepared in accordance with GAAP for local governments as prescribed by the GASB. The City has implemented GASB Statements No. 1 through No. 41. GASB Statement No. 42 entitled *"Accounting and Reporting for Impairment of Capital Assets and Insurance Recoveries"*, GASB Statement No. 44 entitled *"Economic Condition Reporting: The Statistical Section",* and GASB Statement No. 46 entitled *"Net Assets Restricted by Enabling Legislation"* were implemented in fiscal year 2006. The more significant accounting and reporting policies and practices used by the City are described below.

As a local government, the City is not subject to federal income taxes, under the Internal Revenue Code Section 115. Furthermore, it is not subject to state sales tax.

a -- Reporting Entity

As required by GAAP, these financial statements present the City's primary government, its component units, and other entities for which the City is considered financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations; 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, which are nonmajor special revenue funds.

The Mueller Local Government Corporation (MLGC) is a non-profit local government corporation created by the City under Subchapter D of Chapter 431 of the Texas Transportation Code. MLGC was created for the purpose of financing infrastructure projects required for the development of the former site of Mueller Airport. The Austin City Council acts as the board of directors of the corporation; and members of the City staff serve as officers of the corporation. The entity is reported as a nonmajor special revenue fund in the City's financial statements.

Related Organizations -- The City Council appoints board members, but the City has no significant financial accountability for the following related organizations:

- Capital Metropolitan Transit Authority (Capital Metro) - The City's accountability for this organization does not extend beyond appointing board members.
- Austin-Bergstrom International Airport (ABIA) Development Corporation – City Councilmembers appoint themselves as members of the board, but their function on the board is ministerial rather than substantive.
- Austin-Bergstrom Landhost Enterprises, Inc. and Austin Convention Enterprises, Inc. – City Councilmembers appoint members of these boards. Debt issues by these entities do not constitute a debt or pledge of the faith and credit of the City.
- Austin Travis County Mental Health Retardation Center – The nine board members are appointed by the City, Travis County, and the Austin Independent School District.
- Urban Renewal Agency - The Mayor, with consent of the City Council, appoints the board of commissioners for this agency, whose primary responsibility is to oversee the implementation and compliance of urban renewal plans adopted by the City Council.
- Austin Housing Authority - The Mayor appoints the persons to serve as commissioners of this organization.
- Travis County Hospital District - City Councilmembers appoint four board managers, Travis County appoints four board managers, and the City and County mutually appoint one board manager. Travis County reports the Hospital District as a component unit on their financial statements.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
a -- Reporting Entity, continued

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

b -- 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 governmental and business-type activities of the primary government and its component units. Fiduciary activities are not included in the government-wide statements. 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 are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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 and 2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

The accounts of the City are organized on the basis of funds. The fund level statements focus on the governmental, proprietary, and fiduciary funds. Each fund was established to account for specific activities in accordance with applicable regulations, restrictions, or limitations. Major funds are determined by criteria specified by GASB Statement 34; 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 primary government; therefore, they are 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, as are the proprietary fund financial statements. Revenue is 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 revenue 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 available when they are collectible within the current period or soon enough thereafter to liquidate liabilities of the current period (defined by the City as collected within 60 days of the end of the fiscal year). 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 they 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 when payment is due. Debt service expenditures are recognized when payment is due. The reported fund balance of governmental funds is considered a measure of available spendable resources.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
c -- Measurement Focus, Basis of Accounting, and Financial Statement Presentation, continued

Property taxes, sales taxes, franchise taxes, hotel occupancy taxes, vehicle rental taxes, public health charges, emergency medical service charges, municipal court fines, and interest associated with the current fiscal period are all considered to be susceptible to accrual, and have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available in the fiscal period the City receives cash.

Governmental Funds: Consist of the general fund, special revenue funds, debt service funds, capital projects funds and permanent funds.

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 that are not required to be accounted for in another fund. It includes the following activities: general government; public safety; transportation, planning and sustainability; public health; public recreation and culture; and urban growth management.

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); they are 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 (not principal) may be used for purposes that support the City's programs. Permanent funds account for the public recreation and culture activity.

Proprietary and fiduciary fund financial statements are reported using 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.

Proprietary Funds: Consist of enterprise funds and internal service 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 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).

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
c -- Measurement Focus, Basis of Accounting, and Financial Statement Presentation, continued

The City reports the following nonmajor business-type activities in Exhibit A-2:

Convention – Accounts for convention center and public events activities.
Environmental and health services – Accounts for hospital, primary care, and solid waste services activities.
Public recreation – Accounts for golf and parks and recreation activities.
Urban growth – Accounts for drainage and transportation activities.

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

Fiduciary Funds: Account 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 resources held by the City in a custodial capacity for permit fees; campaign financing donations and fees; Municipal Court service fees; and escrow deposits and payments to loan recipients.

d -- Budget

The City Manager is required by the City Charter to present a proposed operating and capital budget to the City Council no later than thirty days before the beginning of the new fiscal year. The final budget shall be adopted no later than the twenty-seventh day of the last month of the preceding fiscal year. During the final adoption process, 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. Additional information related to special revenue funds with legally adopted budgets can be found in Exhibit E-13. Annual budgets are also 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 approves 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, 2006. Investments in local government investment pools are carried at amortized cost, which approximates fair value.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
e -- Financial Statement Elements, 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, 2006 (in thousands):

	Charges for Services	Fines	Taxes	Other Govern-ments	Other	Total
Governmental activities						
General Fund	$ 76,928	33,592	30,362	--	--	140,882
Nonmajor governmental funds	33,921	14	11,325	2,153	27,146	74,559
Internal service funds	1,681	--	--	--	--	1,681
Allowance for doubtful accounts	(69,570)	(17,193)	--	--	--	(86,763)
Total	$ 42,960	16,413	41,687	2,153	27,146	130,359

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 citywide cost allocation plan or through indirect cost rates, which are based on the cost allocation plan.

Interfund Receivables and 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 not expected to be liquidated within 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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
e -- Financial Statement Elements, continued

Inventories for all funds are accounted for using 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."

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. Governmental assets include restricted pooled investments and cash of $11.9 million and interest receivable of $241,000 as a result of the issuance of $12.0 million of Mueller Local Government Corporation Contract Revenue Bonds, Series 2006. Since the Electric Fund and Water and Wastewater Fund report in accordance with FASB Statement No. 71, enabling legislation also includes restrictions on asset use established by its governing board which is the City Council.

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

	Electric	Water and Wastewater	Airport	Nonmajor Enterprise	Total Restricted Assets
Strategic reserve	$ 168,045	--	--	--	168,045
Capital projects	53,869	25,052	78,432	56,781	214,134
Customer and escrow deposits	16,198	7,029	343	2,640	26,210
Debt service	93,901	49,042	10,938	2,552	156,433
Federal grants	--	--	4,140	--	4,140
Plant decommissioning	133,119	--	--	--	133,119
Nuclear fuel inventory replacement	22,052	--	--	--	22,052
Operating reserve account	--	--	7,655	5,768	13,423
Passenger facility charge account	--	--	16,604	--	16,604
Renewal and replacement account	45,559	--	10,000	3,428	58,987
	$ 532,743	81,123	128,112	71,169	813,147

Capital assets -- Capital assets, which primarily 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; 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 value at the time received. 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. 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 assets include 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. Enterprise funds, with the exception of the Electric Fund and Water and Wastewater Fund, capitalize interest paid on long-term debt 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 Fund and Water and Wastewater Fund assets in accordance with FASB Statement No. 71.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
e -- Financial Statement Elements, continued

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

Assets	Governmental Activities (1)	Business-type Activities: Electric	Business-type Activities: Water and Wastewater	Business-type Activities: Airport	Business-type Activities: 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 component. The City considers land, arts and treasures, and library collections to be inexhaustible; therefore, these assets are reported as nondepreciable. The true value of arts, 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 and other citywide assets ($35.4 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. The asset amortization period is 40 years.

Deferred Expenses or Credits -- In accordance with FASB Statement No. 71, certain utility expenses that do not currently require funding 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 deferred expenses are not recoverable in future rates, 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 fiscal year-end.

Sick leave is not payable to employees hired on or after October 1, 1986. Employees hired prior to this date are eligible to be paid up to 720 hours of accumulated leave. Accumulated vacation in an amount up to 240 hours can be paid to terminating employees.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
e -- Financial Statement Elements, continued

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 finance 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 issued to finance capital projects of certain enterprise funds are to be repaid from net revenues of these funds. The corresponding debt is recorded in the applicable fund. 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 contract revenue bonds, whose principal and interest are payable primarily from the net revenues of Austin Water.

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. Austin Energy and Austin Water recognize gains or losses on debt defeasance in accordance with FASB Statement No. 71.

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 -- Municipal solid waste landfill costs are reported 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 expense, as follows (in thousands):

Electric Fund	$	5,324
Water and Wastewater Fund		1,356
Airport		1
Nonmajor Enterprise Funds		781

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 2006 and prior years. Unbilled revenue was recorded in the Electric Fund by estimating the daily power generation and allocating by each billing district meter read dates as of September 30, 2006. The amount of unbilled revenue recorded, as of September 30, 2006, for the Electric Fund was $37.7 million. The Water and Wastewater Fund recorded unbilled revenue as earned based upon the percentage of October's billing that represented water usage through September 30, 2006. The amount of unbilled revenue recorded as of September 30, 2006 was $11.3 million for water and $9 million for wastewater.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
e -- Financial Statement Elements, 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. The effect of interfund activity has been eliminated in the government-wide statements. However, if interfund services are provided, and used, such as billing for utility services, the costs and related revenue are not eliminated.

Intergovernmental Revenues, Receivables, and Liabilities -- Intergovernmental revenues and related receivables arise primarily through funding received from Federal and State grants. 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 accounted for within the nonmajor governmental fund groupings include: 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 are recognized in the applicable proprietary fund.

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

Reservations of Fund Equity -- Reservation of fund balances of the governmental funds indicate the portion of fund equity that 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. The City considers the investment pool to be highly liquid, similar to a mutual fund.

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).

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; theft of, damage to, or destruction of assets; fraud; and natural disasters. The City is self-insured for legal liabilities, workers' compensation claims, and a portion of employee health benefits.

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

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 to reduce exposure to natural gas and energy price fluctuations. For additional details see Note 14.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 GAAP 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 balance reported in the City's fund-level governmental funds balance sheet ($349.5 million) differs from the net assets reported in governmental activities within the government-wide financial statements ($1.56 billion). The differences result from the long-term economic resources measurement focus in the government-wide statement of net assets versus the current financial resources measurement focus of the governmental fund balance sheets. The differences are shown below (in thousands):

Total fund balances - Governmental funds - balance sheet		$ 349,541
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	2,765,349	
Less: accumulated depreciation	(718,847)	
Total		2,046,502
Other long-term assets are not available as current-period resources and are not reported in the funds.		
Accounts and other taxes receivable	6,325	
Deferred revenue - property taxes and interest	241	
Deferred costs and expenses	3,590	
Total		10,156
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	(826,156)	
Pension obligation payable	(13,912)	
Capital lease obligations payable	(502)	
Compensated absences	(70,704)	
Interest payable	(3,360)	
Deferred credits and other liabilities	(8,746)	
Total		(923,380)
Internal service funds		78,279
Total net assets - Governmental activities		$ 1,561,098

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 ($40 million) differs from the change in net assets for governmental activities ($66.2 million) as reported in the statement of activities. The differences result from the long-term economic resources measurement focus in the government-wide statement of net assets versus the current financial resources measurement focus of the governmental fund balance sheets. The differences are shown below (in thousands):

Statement of Activities		
Net change in fund balances - Governmental funds		$ 39,983
Governmental funds report capital outlay as expenditures. In the statement of activities, the cost of assets is allocated over the estimated useful life of the asset and reported as depreciation expense.		
Capital outlay	92,952	
Depreciation expense	(82,696)	
Loss on disposal of capital assets	(4,237)	
Total		6,019
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		
Property taxes	1,591	
Charges for services	2,999	
Operating grants and contributions	(2,811)	
Interest and other	9	
Capital assets contribution	22,130	
Total		23,918
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	(67,746)	
Principal repayment on long-term debt	57,651	
Deferral of debt issue costs	(11)	
Total		(10,106)
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	(5,013)	
Pension obligation	(7,907)	
Interest and other	1,192	
Total		(11,728)
Internal services. The net revenue (expense) of the internal service funds is reported with the governmental activities.		18,094
Change in net assets - Governmental activities		$ 66,180

3 – DEFICITS IN FUND BALANCES AND NET ASSETS

At September 30, 2006, 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)
Special Revenue Funds:	
APD Incident Management	$ 290
Fiscal Surety - Land Development	320
Austin Transportation Study	39
Medicaid Administrative Claims	696
City Hall Fund	229
One Texas Center	402
Capital Projects Funds:	
Parks and recreation facilities	250
Radio Trunking	3,218
Build Austin	682
Build Central Texas	304
Public Works	402
Watershed Protection	559
City Hall, plaza, parking garage	6,990
Conservation Land	15

4 – POOLED INVESTMENTS AND CASH

The following summarizes the amounts of pooled investments and cash by fund at September 30, 2006 (in thousands):

	Pooled Investments and Cash	
	Unrestricted	Restricted
General Fund	$ 96,620	--
Nonmajor governmental funds	149,631	--
Electric	168,936	153,171
Water and Wastewater	26,951	21,566
Airport	1,111	98,498
Nonmajor enterprise funds	94,597	58,876
Internal service funds	93,366	--
Fiduciary funds	4,206	--
Subtotal pooled investments and cash	635,418	332,111
Total pooled investments and cash	$ 967,529	

5 – INVESTMENTS AND DEPOSITS
a -- Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the City 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
a -- Investments, 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 if 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 a 60-day limit. At September 30, 2006, TexPool and TexasDAILY had a weighted average maturity of 51 days and 51 days, respectively. The City considers the holdings in these funds to have a weighted average maturity of one day, 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
a -- Investments, continued

The City did not participate in any reverse repurchase agreements or security lending agreements during fiscal year 2006.

All city investments are insured, registered, or held by an agent 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, 2006 (in thousands):

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Non-pooled investments:				
Local Government Investment Pools	$ 15,199	183,502	--	198,701
US Treasury Notes	--	90,618	--	90,618
US Agency Bonds	--	167,424	--	167,424
US Agency Bonds-Step	--	1,997	--	1,997
Total non-pooled investments	15,199	443,541	--	458,740
Pooled investments:				
Local Government Investment Pools	80,175	148,795	1,000	229,970
US Treasury Notes	15,564	28,885	194	44,643
US Agency Bonds	234,346	434,837	3,001	672,184
US Agency Bonds-Step	863	1,602	11	2,476
Total pooled investments (1)	330,948	614,119	4,206	949,273
Total investments	$ 346,147	1,057,660	4,206	1,408,013

(1) A difference of $18.3 million exists between the investment portfolio balance and book balance, primarily due to deposits in transit offset by outstanding checks.

At September 30, 2006, the City of Austin was exposed to concentration of credit risk since it held investments with more than five percent of the total investment portfolio balances of the City in securities of the following issuers (in thousands): Federal Home Loan Bank ($330,075 or 23%), Federal Home Loan Mortgage Corporation ($211,123 or 15%), and Federal National Mortgage Association ($265,218 or 19%).

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 a special project fund;
2. Debt service funds;
3. Special project fund.

Complying with the City's Investment Policy, which includes qualification of the brokers and financial institutions with whom the City will transact, sufficient collateralization, portfolio diversification, and maturity limitations, controls the City's credit risk.

5 – INVESTMENTS AND DEPOSITS, continued
b -- Investment categories, continued

Operating Funds (excluding special project fund)
As of September 30, 2006, the city operating funds (excluding the special project fund) 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)	$ 80,175	148,794	1,000	229,969	1
US Treasury Notes	15,564	28,886	194	44,644	332
US Agency Bonds	234,346	434,837	3,001	672,184	420
US Agency Bonds-Step	863	1,602	11	2,476	299
Total	$ 330,948	614,119	4,206	949,273	314

Credit Risk
Approximately 5% of the portfolio consists of direct obligations of the US government. As of September 30, 2006, Standard and Poor's issued the following ratings for other investments:

Investment Type	Portfolio %	Rating
LGIPs	24	AAAm
US Agency Bonds and Step Bonds	71	AAA

At September 30, 2006, the operating funds held investments with more than 5 percent of the total in securities of the following issuers: Federal Home Loan Bank ($253 million or 27 percent), Federal National Mortgage Association ($223 million or 23 percent), and Federal Home Loan Mortgage Corporation ($178 million or 19 percent).

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 before maturity.

At September 30, 2006, nearly a quarter 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 314 days, which was less than the threshold of 365 days.

5 – INVESTMENTS AND DEPOSITS, continued
b -- Investment categories, continued

Debt Service Funds
As of September 30, 2006, the City'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)	$ 15,119	--	N/A
Enterprise-Utility (1)			
TexPool (LGIPs)	--	140,607	N/A
US Treasury	--	336	11/15/2006
Enterprise-Airport			
TexPool (LGIPs)	--	10,938	N/A
Nonmajor Enterprise-Convention Center			
TexPool (LGIPs)	--	3,502	N/A
Total	$ 15,119	155,383	

(1) Includes combined pledge debt service

Credit Risk
As of September 30, 2006, Standard and Poor's rated both TexPool and TexasDAILY AAAm.

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, 2006, portfolios in this category held investments in AAAm rated LGIPs or direct obligations of the US Treasury.

Special Project Fund
As of September 30, 2006, the City's special project fund had the following investments:

	Fair Value (in thousands)	
	Business-type Activities	Final Maturity
Airport Construction		
TexPool (LGIPs)	$ 13,111	N/A
Total special projects fund	$ 13,111	

Credit Risk
As of September 30, 2006, Standard and Poor's rated TexPool AAAm.

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, 2006, the portfolios held investments in an AAAm rated LGIP and US Agencies with maturities that will meet anticipated cash flow requirements.

5 – INVESTMENTS AND DEPOSITS, continued
b -- Investment categories, continued

Special Purpose Funds
Austin Energy Strategic Reserve Fund
As of September 30, 2006, the City's Special Purpose Fund (Austin Energy Strategic Reserve Fund) had the following investments:

Business-type Activities	Fair Value (in thousands)	Weighted Average Maturity (days)
TexPool (LGIPs)	$ 15,344	1
US Treasuries	81,963	60
US Agencies	70,738	901
Total	$ 168,045	466

Credit Risk
At September 30, 2006, the Electric Utility Department Strategic Reserve Fund held an 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. Standard and Poor's rated the US Agency Bonds AAA. The remaining securities are direct obligations of the US government.

At September 30, 2006, the Austin Energy Strategic Reserve Fund held investments with more than 5 percent of the total in securities of the following issuers: Federal National Mortgage Association ($26 million or 15 percent), Federal Home Loan Bank ($46 million or 27 percent), and Federal Home Loan Mortgage Corporation ($11 million or 6 percent).

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, 2006, the portfolios held investments in TexPool (AAAm rated LGIP), US Treasuries, and US Agencies with maturities that will meet anticipated cash flow requirements and an overall dollar weighted average maturity of 466 days (1.28 years).

Austin Energy Nuclear Decommissioning Trust Funds
As of September 30, 2006, 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	$ 19,544	1.39
US Agencies	85,461	3.61
US Agencies-Step	1,997	2.58
Total	$ 107,002	3.18

Credit Risk
As of September 30, 2006, Standard and Poor's rate the US Agency Bonds and US Agency Step Bonds AAA. The remaining securities are direct obligations of the US government.

At September 30, 2006, the NDTF held investments with more than 5 percent of the total in securities of the following issuers: Federal Home Loan Bank ($31 million or 29 percent), Federal Home Loan Mortgage Corporation ($22 million or 20 percent), Federal National Mortgage Association ($17 million or 16 percent), and Federal Farm Credit Bank ($17 million or 16 percent).

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, 2006, the dollar weighted average maturity was 3.22 years.

5 – INVESTMENTS AND DEPOSITS, continued
c – Investments and Deposits

Investments and deposits at September 30, 2006, are as follows (in thousands):

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Non-pooled investments and cash	$ 28,034	459,775	--	487,809
Pooled investments and cash	338,599	628,264	4,206	971,069
Total investments and cash	366,633	1,088,039	4,206	1,458,878
Unrestricted cash	12,835	60	--	12,895
Restricted cash	--	16,174	--	16,174
Pooled cash	7,651	14,066	79	21,796
Investments	346,147	1,057,739	4,127	1,408,013
Total investments and cash	$ 366,633	1,088,039	4,206	1,458,878

A difference of $3.7 million exists between bank balance and book balance, primarily due to deposits in transit offset by outstanding checks.

Deposits

The September 30, 2006, carrying amount of deposits is as follows (in thousands):

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Cash				
Unrestricted	$ 115	60	--	175
Cash held by trustee				
Unrestricted	775	--	--	775
Restricted	11,945	16,174	--	28,119
Pooled cash	7,651	14,066	79	21,796
Total deposits	$ 20,486	30,300	79	50,865

All bank accounts were either insured or collateralized with securities held by the City or its agents in the City's name at September 30, 2006.

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, 2005, upon which the 2006 levy was based, was $52,349,642,297.

Taxes are due by January 31 following the October 1 levy date. During the year ended September 30, 2006, 99.55% of the current tax levy (October 1, 2005) was collected. The statutory lien date is January 1.

The methods of property assessment and tax collection are determined by Texas statutes. The statutes provide for a property tax code, countywide 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 two 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, 2006, was $.2841 per $100 assessed valuation. The City has a tax margin for general governmental purposes of $.7159 per $100 assessed valuation, and could levy approximately $374,771,089 in additional taxes from the assessed valuation of $52,349,642,297 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 has recorded capitalized interest for fiscal year 2006 in the following funds related to the construction of various enterprise fund capital improvement projects (in thousands):

Enterprise Funds	
Major fund:	
Airport	$ 2,103
Nonmajor enterprise funds:	
Convention Center	938
Drainage	1,284
Golf	10
Solid Waste Services	147

Interest is not capitalized on governmental capital assets. In accordance with FASB Statement No. 71, interest is also not capitalized on electric and water and wastewater capital assets.

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Capital asset balances as of September 30, 2006 (in thousands):

	Governmental Activities	Business-type Activities	Total
Capital assets not depreciated			
Land and improvements	$ 240,388	295,256	535,644
Arts and treasures	5,029	1,390	6,419
Library collections	13,761	--	13,761
Total	259,178	296,646	555,824
Depreciable property, plant and equipment in service			
Building and improvements	540,350	2,005,949	2,546,299
Equipment	134,344	4,748,650	4,882,994
Vehicles	71,672	99,694	171,366
Infrastructure	1,659,449	--	1,659,449
Total	2,405,815	6,854,293	9,260,108
Less accumulated depreciation for			
Building and improvements	(129,212)	(620,914)	(750,126)
Equipment	(54,154)	(1,936,145)	(1,990,299)
Vehicles	(43,369)	(54,631)	(98,000)
Infrastructure	(520,096)	--	(520,096)
Total	(746,831)	(2,611,690)	(3,358,521)
Net property, plant and equipment in service	1,658,984	4,242,603	5,901,587
Other capital assets not depreciated			
Construction in progress	181,342	829,752	1,011,094
Nuclear fuel, net of amortization	--	29,284	29,284
Plant held for future use	--	27,783	27,783
Total capital assets	$ 2,099,504	5,426,068	7,525,572

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Governmental Activities

Capital asset activity for the year ended September 30, 2006, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 243,094	--	(2,706)	240,388
Arts and treasures	4,967	212	(150)	5,029
Library collections	12,885	876	--	13,761
Total	260,946	1,088	(2,856)	259,178
Depreciable property, plant and equipment in service				
Building and improvements	428,048	112,361	(59)	540,350
Equipment	88,459	59,127	(13,242)	134,344
Vehicles	73,063	7,704	(9,095)	71,672
Infrastructure	1,518,130	141,319	--	1,659,449
Completed assets not classified	46,679	--	(46,679)	--
Total	2,154,379	320,511	(69,075)	2,405,815
Less accumulated depreciation for				
Building and improvements	(109,408)	(20,144)	340	(129,212)
Equipment	(35,761)	(31,253)	12,860	(54,154)
Vehicles	(45,682)	(8,065)	10,378	(43,369)
Infrastructure	(471,098)	(48,998)	--	(520,096)
Completed assets not classified	(33,821)	--	33,821 (2)	--
Total	(695,770)	(108,460) (3)	57,399	(746,831)
Net property, plant and equipment in service	1,458,609	212,051	(11,676)	1,658,984
Other capital assets not depreciated				
Construction in progress	327,986	94,865	(241,509)	181,342
Total capital assets	$ 2,047,541	308,004	(256,041)	2,099,504

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

(2) Decreases include (in thousands):

Reallocation of accumulated depreciation for completed assets not classified	$ 14,861
Accumulated depreciation retired with related assets	18,960
Total decreases in accumulated depreciation for completed assets not classified	$ 33,821

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

Governmental activities:	
General government	$ 1,774
Public safety	12,129
Transportation, planning and sustainability	20,046
Public health	894
Public recreation and culture	8,358
Urban growth management	4,137
Unallocated depreciation expense - infrastructure	35,357
Internal service funds	9,131
Total governmental activities depreciation expense	91,826
Reallocation of accumulated depreciation for completed assets not classified	14,861
Transferred accumulated depreciation	1,773
Total increases in accumulated depreciation	$ 108,460

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Electric Fund

Capital asset activity for the year ended September 30, 2006, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 39,907	562	--	40,469
Total	39,907	562	--	40,469
Depreciable property, plant and equipment in service				
Building and improvements	655,401	10,457	(3,960)	661,898
Equipment	2,647,304	150,494	(20,350)	2,777,448
Vehicles	22,064	3,251	(2,006)	23,309
Completed assets not classified	--	643	(643)	--
Total	3,324,769	164,845	(26,959)	3,462,655
Less accumulated depreciation for				
Building and improvements	(283,596)	(18,929)	19	(302,506)
Equipment	(1,145,639)	(106,877)	15,959	(1,236,557)
Vehicles	(15,480)	(1,281)	1,959	(14,802)
Total	(1,444,715)	(127,087) (1)	17,937	(1,553,865)
Net property, plant and equipment in service	1,880,054	37,758	(9,022)	1,908,790
Other capital assets not depreciated				
Construction in progress	200,248	133,065	(163,199)	170,114
Nuclear fuel, net of amortization	22,747	6,537	--	29,284
Plant held for future use	30,745	--	(2,962)	27,783
Total capital assets	$ 2,173,701	177,922	(175,183)	2,176,440

(1) Components of accumulated depreciation increases:	
Current year depreciation	$ 126,244
Transferred accumulated depreciation	843
Total increases in accumulated depreciation	$ 127,087

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Water and Wastewater Fund

Capital asset activity for the year ended September 30, 2006, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 140,112	1,245	(1)	141,356
Arts and treasures	--	--	--	--
Total	140,112	1,245	(1)	141,356
Depreciable property, plant and equipment in service				
Building and improvements	395,721	21,668	--	417,389
Equipment	1,728,866	164,616	(1,326)	1,892,156
Vehicles	21,833	1,831	(2,107)	21,557
Completed assets not classified	45,175	--	(45,175)	--
Total	2,191,595	188,115	(48,608)	2,331,102
Less accumulated depreciation for				
Building and improvements	(121,231)	(11,997)	--	(133,228)
Equipment	(618,905)	(53,885)	1,255	(671,535)
Vehicles	(14,724)	(1,281)	2,031	(13,974)
Completed assets not classified	(8,691)	--	8,691 (2)	--
Total	(763,551)	(67,163) (3)	11,977	(818,737)
Net property, plant and equipment in service	1,428,044	120,952	(36,631)	1,512,365
Other capital assets not depreciated				
Construction in progress	550,757	149,451	(130,263)	569,945
Total capital assets	$ 2,118,913	271,648	(166,895)	2,223,666

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

(2) Decreases include (in thousands):

Reallocation of accumulated depreciation for completed assets not classified	$ 3,604
Accumulated depreciation retired with related assets	5,087
Total decreases in accumulated depreciation for completed assets not classified	$ 8,691

(3) Components of accumulated depreciation increases:

Current year depreciation	
Water	$ 33,611
Wastewater	29,866
Reallocation of accumulated depreciation for completed assets not classified	3,604
Transferred accumulated depreciation	82
Total increases in accumulated depreciation	$ 67,163

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Airport Fund

Capital asset activity for the year ended September 30, 2006, was as follows (in thousands):

	Beginning Balance	Increases	Decreases		Ending Balance
Capital assets not depreciated					
Land and improvements	$ 58,433	199	--		58,632
Arts and treasures	755	23	--		778
Total	59,188	222	--		59,410
Depreciable property, plant and equipment in service					
Building and improvements	604,120	12,072	(207)		615,985
Equipment	15,034	2,226	(345)		16,915
Vehicles	4,477	1,205	(714)		4,968
Completed assets not classified	150	--	(150)		--
Total	623,781	15,503	(1,416)		637,868
Less accumulated depreciation for					
Building and improvements	(109,607)	(15,787)	207		(125,187)
Equipment	(5,150)	(986)	204		(5,932)
Vehicles	(2,645)	(411)	644		(2,412)
Completed assets not classified	(86)	--	86	(1)	--
Total	(117,488)	(17,184) (2)	1,141		(133,531)
Net property, plant and equipment in service	506,293	(1,681)	(275)		504,337
Other capital assets not depreciated					
Construction in progress	35,327	30,029	(14,469)		50,887
Total capital assets	$ 600,808	28,570	(14,744)		614,634

(1) Decreases include (in thousands):	
Reallocation of accumulated depreciation for completed assets not classified	$ 54
Accumulated depreciation retired with related assets	32
Total decreases in accumulated depreciation for completed assets not classified	$ 86
(2) Components of accumulated depreciation increases:	
Current year depreciation	$ 17,129
Reallocation of accumulated depreciation for completed assets not classified	54
Transferred accumulated depreciation	1
Total increases in accumulated depreciation	$ 17,184

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Nonmajor Enterprise Funds

Capital asset activity for the year ended September 30, 2006, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 48,680	6,120	(1)	54,799
Arts and treasures	594	18	--	612
Total	49,274	6,138	(1)	55,411
Depreciable property, plant and equipment in service				
Building and improvements	285,479	27,214	(2,016)	310,677
Equipment	42,499	20,417	(785)	62,131
Vehicles	47,916	6,880	(4,936)	49,860
Completed assets not classified	111	--	(111)	--
Total	376,005	54,511	(7,848)	422,668
Less accumulated depreciation for				
Building and improvements	(52,956)	(7,984)	947	(59,993)
Equipment	(19,501)	(2,856)	236	(22,121)
Vehicles	(21,844)	(5,795)	4,196	(23,443)
Completed assets not classified	(63)	--	63 (1)	--
Total	(94,364)	(16,635) (2)	5,442	(105,557)
Net property, plant and equipment in service	281,641	37,876	(2,406)	317,111
Other capital assets not depreciated				
Construction in progress	70,157	25,795	(57,146)	38,806
Total capital assets	$ 401,072	69,809	(59,553)	411,328

(1) Decreases include (in thousands):	
Reallocation of accumulated depreciation for completed assets not classified	$ 13
Accumulated depreciation retired with related assets	50
Total decreases in accumulated depreciation for completed assets not classified	$ 63

(2) Components of accumulated depreciation increases:	
Current year depreciation	
Convention Center	$ 6,800
Other nonmajor enterprise funds	8,578
Reallocation of accumulated depreciation for completed assets not classified	13
Transferred accumulated depreciation	1,244
Total increases in accumulated depreciation	$ 16,635

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities

Capital asset activity for the year ended September 30, 2006, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 287,132	8,126	(2)	295,256
Arts and treasures	1,349	41	--	1,390
Total	288,481	8,167	(2)	296,646
Depreciable property, plant and equipment in service				
Building and improvements	1,940,721	71,411	(6,183)	2,005,949
Equipment	4,433,703	337,753	(22,806)	4,748,650
Vehicles	96,290	13,167	(9,763)	99,694
Completed assets not classified	45,436	643	(46,079)	--
Total	6,516,150	422,974	(84,831)	6,854,293
Less accumulated depreciation for				
Building and improvements	(567,390)	(54,697)	1,173	(620,914)
Equipment	(1,789,195)	(164,604)	17,654	(1,936,145)
Vehicles	(54,693)	(8,768)	8,830	(54,631)
Completed assets not classified	(8,840)	--	8,840 (2)	--
Total	(2,420,118)	(228,069) (3)	36,497	(2,611,690)
Net property, plant and equipment in service	4,096,032	194,905	(48,334)	4,242,603
Other capital assets not depreciated				
Construction in progress	856,489	338,340	(365,077)	829,752
Nuclear fuel, net of amortization	22,747	6,537	--	29,284
Plant held for future use	30,745	--	(2,962)	27,783
Total capital assets	$ 5,294,494	547,949	(416,375)	5,426,068

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

(2) Decreases include (in thousands):

Reallocation of accumulated depreciation for completed assets not classified	$ 3,671
Accumulated depreciation retired with related assets	5,169
Total decreases in accumulated depreciation for completed assets not classified	$ 8,840

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

Business-type activities:	
Electric	$ 126,244
Water	33,611
Wastewater	29,866
Airport	17,129
Convention Center	6,800
Other nonmajor enterprise funds	8,578
Total business-type activities depreciation expense	222,228
Reallocation of accumulated depreciation for completed assets not classified	3,671
Transferred accumulated depreciation	2,170
Total increases in accumulated depreciation	$ 228,069

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 citywide 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, 2005. Membership in the plans at December 31, 2005, 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	3,967	397	421	4,785
Current employees	7,638	1,427	1,003	10,068
Total	11,605	1,824	1,424	14,853

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%	15.7%
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 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, 2006, are as follows (in thousands):

	City Employees	Police Officers	Fire Fighters	Total
City	$ 28,688	16,588	11,367	56,643
Employees	28,594	8,290	9,887	46,771
Total contributions	$ 57,282	24,878	21,254	103,414

c -- Annual Pension Cost and Net Pension Obligation

The City’s annual pension cost of $70,552,000 for fiscal year ended September 30, 2006, was $13,909,000 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):				
2004	$ 31,174	14,358	9,835	55,367
2005	32,438	15,451	10,746	58,635
2006	40,988	16,588	12,976	70,552
Percentage of APC contributed:				
2004	81%	100%	100%	N/A
2005	82%	100%	100%	N/A
2006	73%	100%	92%	N/A
Net Pension Obligation:				
2004	$ 5,906	--	--	5,906
2005	11,761	--	--	11,761
2006	24,061	--	1,609	25,670

8 – RETIREMENT PLANS, continued

c -- Annual Pension Cost and Net Pension Obligation, continued

The Net Pension Obligation associated with the City Employees Retirement and Pension Fund and the Fire Fighters' Relief and Retirement Fund for the fiscal year ended December 31, 2005 (in thousands):

	City Employees	Fire Fighters	Total
Annual required contribution	$ 39,135	12,358	51,493
Interest in net pension obligation	911	--	911
Adjustment to annual required contribution	(616)	--	(616)
Annual pension cost	39,430	12,358	51,788
Employer contributions	(27,130)	(10,749)	(37,879)
Change in net pension obligation	12,300	1,609	13,909
Beginning net pension obligation	11,761	--	11,761
Net pension obligation	$ 24,061	1,609	25,670

The latest actuarial valuations were completed as of December 31, 2005. 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%	3.15%
Projected Annual Salary Increases	4% to 14%	6.8% average	8.0%
Post retirement benefit increase	None	None	1%
Assumed Rate of Return on Investments	7.75%	8%	7.75%
Amortization method	Level percent of projected pay, open	Level percent of projected pay, open	Level percent of projected pay, open
Remaining Amortization Period	30 years	30 years	30 years

9 – SELECTED REVENUES

a -- 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. As of September 30, city management has elected not to enter the retail market, as allowed by State law.

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 2006, the Airport Fund revenues included minimum concession guarantees of $9,529,063.

The following is a schedule by year of minimum future rentals on noncancelable operating leases for terms of up to twenty-four years for the Airport Fund as of September 30, 2006 (in thousands):

Fiscal Year Ended September 30	Enterprise Airport Lease Payments
2007	$ 7,021
2008	6,719
2009	4,533
2010	263
2011	138
2012-2016	567
2017-2021	392
2022-2026	392
2027-2031	300
Totals	$ 20,325

Projection of minimum future rentals for the Austin-Bergstrom Landhost Enterprises, Inc. is based on the current adjusted minimum rent for the period May 1, 2006, through April 30, 2009. The minimum rent is adjusted every five years commensurate with the percentage increase in the Consumer Price Index – Urban Wage Earners and Clerical Workers, U.S. Owner Average, (CPI) published by the U.S. Department of Labor Bureau of Labor Statistics over the five-year period.

10 – DEBT AND NON-DEBT LIABILITIES
a -- Long-Term Liabilities

The following is a summary of long-term obligations. Balances at September 30, 2006 (in thousands):

Description	Governmental Activities	Business-Type Activities	Total
Long-term obligations			
General obligation bonds	$ 709,172	18,796	727,968
Certificates of obligation	101,334	49,760	151,094
Contractual obligations	37,229	33,514	70,743
Other tax supported debt	--	8,405	8,405
General obligation bonds and other tax supported debt total	847,735	110,475	958,210
Commercial paper	--	239,958	239,958
Revenue notes	--	28,000	28,000
Revenue bonds	--	3,197,996	3,197,996
Contract revenue bonds	--	3,134	3,134
Capital lease obligations	514	5,984	6,498
Debt service requirements total	848,249	3,585,547	4,433,796
Other long-term obligations			
Accrued compensated absences	77,393	20,963	98,356
Claims payable	21,209	--	21,209
Accrued landfill closure and postclosure costs	--	8,379	8,379
Decommissioning expense payable	--	134,664	134,664
Pension obligation payable	13,912	11,758	25,670
Deferred credits and other liabilities	79,155	559,959	639,114
	191,669	735,723	927,392
Total long-term obligations	$ 1,039,918	4,321,270	5,361,188

This schedule excludes current liabilities of $49,640 for governmental activities and $195,155 for business-type activities and long-term interest payable of $211,421 for business-type activities.

Payments on bonds 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, special revenue funds, and internal service funds. Claims payable will be liquidated by internal service funds. Deferred revenue and other liabilities that pertain to governmental activities will be liquidated by the General Fund, special revenue funds, general governmental capital improvement projects funds, and internal service 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 them are included in governmental activities.

10 – DEBT AND NON-DEBT LIABILITIES, continued
a -- Long-Term 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, 2006 (in thousands):

Description	September 30, 2005	Increases	Decreases	September 30, 2006	Amounts Due Within One Year
Governmental activities (1)					
General obligation bonds, net	$ 727,011	31,590	(49,429)	709,172	48,540
Certificates of obligation, net	82,549	24,150	(5,365)	101,334	6,412
Contractual obligations, net	31,077	12,006	(5,854)	37,229	5,001
General obligation bonds and other tax supported debt total	840,637	67,746	(60,648)	847,735	59,953
Capital lease obligations	960	--	(446)	514	197
Debt service requirements total	841,597	67,746	(61,094)	848,249	60,150
Other long-term obligations					
Accrued compensated absences	72,077	5,735	(419)	77,393	35,602
Claims payable	28,818	2,773	(10,382)	21,209	12,109
Pension obligation payable	6,006	7,906	--	13,912	--
Deferred credits and other liabilities	71,863	9,770	(2,478)	79,155	62,888
Governmental activities total	1,020,361	93,930	(74,373)	1,039,918	170,749
Business-type activities:					
Electric activities					
General obligation bonds, net	1,307	--	(14)	1,293	53
Contractual obligations	1,077	--	(358)	719	202
General obligation bonds and other tax supported debt total	2,384	--	(372)	2,012	255
Commercial paper notes, net	157,481	51,488	(154,643)	54,326	--
Revenue bonds, net	1,176,508	155,849	(72,183)	1,260,174	101,312
Capital lease obligations	5,200	--	(1,947)	3,253	2,012
Debt service requirements total	1,341,573	207,337	(229,145)	1,319,765	103,579
Other long-term obligations					
Accrued compensated absences	9,227	708	(291)	9,644	7,266
Decommissioning expense payable	109,718	24,946	--	134,664	--
Pension obligation payable	2,565	2,689	--	5,254	--
Deferred credits and other liabilities	104,790	20,204	(31,416)	93,578	21,501
Electric activities total	1,567,873	255,884	(260,852)	1,562,905	132,346
Water and Wastewater activities					
General obligation bonds, net	4,637	--	(827)	3,810	1,143
Contractual obligations	7,823	4,420	(1,773)	10,470	1,537
Other tax supported debt, net	9,261	--	(856)	8,405	642
General obligation bonds and other tax supported debt total	21,721	4,420	(3,456)	22,685	3,322
Commercial paper notes, net	199,442	121,190	(135,000)	185,632	--
Revenue bonds, net	1,275,243	211,170	(107,578)	1,378,835	45,208
Contract revenue bonds, net	11,708	--	(8,574)	3,134	720
Capital lease obligations	3,732	--	(1,166)	2,566	1,239
Debt service requirements total	1,511,846	336,780	(255,774)	1,592,852	50,489
Other long-term obligations					
Accrued compensated absences	4,592	309	(30)	4,871	3,813
Pension obligation payable	1,319	1,364	--	2,683	--
Deferred credits and other liabilities	440,543	27,260	(7,686)	460,117	11,150
Water and Wastewater activities total	1,958,300	365,713	(263,490)	2,060,523	65,452

(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, 2005	Increases	Decreases	September 30, 2006	Amounts Due Within One Year
Airport activities					
General obligation bonds, net	407	--	(21)	386	49
Contractual obligations	52	--	(40)	12	12
General obligation bonds and other tax supported debt total	459	--	(61)	398	61
Revenue notes	28,000	--	--	28,000	--
Revenue bonds, net	352,315	--	(13,737)	338,578	9,555
Capital lease obligations	321	--	(172)	149	149
Debt service requirements total	381,095	--	(13,970)	367,125	9,765
Other long-term obligations					
Accrued compensated absences	882	138	--	1,020	1,020
Pension obligation payable	459	398	--	857	--
Deferred credits and other liabilities	4,794	2,300	(3,761)	3,333	1,368
Airport activities total	387,230	2,836	(17,731)	372,335	12,153
Nonmajor activities					
General obligation bonds, net	14,926	--	(1,619)	13,307	995
Certificates of obligation, net	52,006	--	(2,246)	49,760	2,258
Contractual obligations	14,246	9,705	(1,638)	22,313	2,720
General obligation bonds and other tax supported debt total	81,178	9,705	(5,503)	85,380	5,973
Revenue bonds, net	221,943	--	(1,534)	220,409	1,260
Capital lease obligations	114	--	(98)	16	16
Debt service requirements total	303,235	9,705	(7,135)	305,805	7,249
Other long-term obligations					
Accrued compensated absences	5,099	569	(240)	5,428	3,911
Accrued landfill closure and postclosure costs	7,935	444	--	8,379	--
Pension obligation payable	1,412	1,552	--	2,964	--
Deferred credits and other liabilities	3,222	128	(419)	2,931	2,930
Nonmajor activities total	320,903	12,398	(7,794)	325,507	14,090
Total business-type activities					
General obligation bonds, net	21,277	--	(2,481)	18,796	2,240
Certificates of obligation, net	52,006	--	(2,246)	49,760	2,258
Contractual obligations	23,198	14,125	(3,809)	33,514	4,471
Other tax supported debt, net	9,261	--	(856)	8,405	642
General obligation bonds and other tax supported debt total	105,742	14,125	(9,392)	110,475	9,611
Commercial paper notes, net	356,923	172,678	(289,643)	239,958	--
Revenue notes	28,000	--	--	28,000	--
Revenue bonds, net	3,026,009	367,019	(195,032)	3,197,996	157,335
Contract revenue bonds	11,708	--	(8,574)	3,134	720
Capital lease obligations	9,367	--	(3,383)	5,984	3,416
Debt service requirements total	3,537,749	553,822	(506,024)	3,585,547	171,082
Other long-term obligations					
Accrued compensated absences	19,800	1,724	(561)	20,963	16,010
Accrued landfill closure and postclosure costs	7,935	444	--	8,379	--
Decommissioning expense payable	109,718	24,946	--	134,664	--
Pension obligation payable	5,755	6,003	--	11,758	--
Deferred credits and other liabilities	553,349	49,892	(43,282)	559,959	36,949
Business-type activities total	4,234,306	636,831	(549,867)	4,321,270	224,041
Total long-term liabilities	$ 5,254,667	730,761	(624,240)	5,361,188	394,790

This schedule excludes short-term liabilities of $49,640 for governmental activities and $195,155 for business-type activities and long-term interest payable of $211,421 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, 2006, including those reported in certain proprietary funds (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding		Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
Series 1993	February 1993	$ 71,600	21,690	1,840	(1)	5.70 - 5.75%	9/1/2007-2009
Series 1996	October 1996	30,550	6,695	819	(1)	6.00%	9/1/2007-2009
Series 1997	October 1997	29,295	1,370	79	(1)	5.75%	9/1/2007
Series 1997	October 1997	2,120	315	32	(1)	4.75 - 5.00%	9/1/2007-2009
Series 1998	January 1998	110,300	91,935	23,832	(1)	4.60 - 5.25%	9/1/2007-2016
Assumed MUD Debt	December 1997	33,680	9,430	3,341	(3)(4)	4.40 - 10.50%	11/15/2006-2017
Series 1998	October 1998	13,430	9,790	3,894	(1)	4.40 - 7.13%	9/1/2007-2018
Series 1998	October 1998	22,770	12,905	4,763	(1)	4.25 - 4.75%	9/1/2007-2018
Series 1999	October 1999	51,100	3,235	493	(1)	4.75 - 5.25%	9/1/2007-2009
Series 1999	October 1999	10,335	871	21	(2)	4.75%	11/1/2006
Series 1999	October 1999	5,590	1,290	206	(1)	5.00 - 6.00%	9/1/2007-2011
Series 2000	October 2000	52,930	19,870	8,209	(1)	4.50 - 6.00%	9/1/2007-2017
Series 2000	October 2000	6,060	2,300	560	(1)	5.00 - 5.25%	9/1/2007-2014
Series 2001	June 2001	123,445	44,840	10,050	(1)	4.75 - 5.50%	9/1/2007-2022
Series 2001	October 2001	79,650	48,195	21,786	(1)	4.00 - 5.25%	9/1/2007-2021
Series 2001	October 2001	2,650	1,070	62	(2)	3.40 - 3.88%	11/1/2006-2008
Series 2001	October 2001	65,335	49,505	16,551	(1)	4.38 - 5.25%	9/1/2007-2021
Series 2002	July 2002	12,190	11,695	3,489	(1)	3.13 - 5.00%	3/1/2007-2017
Series 2002	July 2002	2,495	1,350	100	(1)	4.38 - 5.00%	3/1/2007-2009
Series 2002	September 2002	99,615	92,800	39,895	(1)	2.75 - 5.00%	9/1/2007-2022
Series 2002	September 2002	8,690	4,750	310	(2)	2.50 - 3.40%	11/1/2006-2009
Series 2002	September 2002	34,095	25,225	10,173	(1)	3.00 - 5.38%	9/1/2007-2022
Series 2003	June 2003	62,585	30,640	5,739	(1)	2.25 - 5.00%	9/1/2007-2013
Series 2003	September 2003	68,855	66,430	31,782	(1)	3.75 - 5.00%	9/1/2007-2023
Series 2003A	September 2003	2,530	2,085	415	(1)	4.00 - 5.00%	9/1/2007-2013
Series 2003	September 2003	4,450	4,015	1,816	(1)	4.00 - 4.80%	9/1/2007-2023
Series 2003	September 2003	8,610	5,850	451	(2)	2.00 - 3.38%	11/1/2006-2010
Series 2004	September 2004	67,835	67,835	31,675	(1)	3.00 - 5.00%	9/1/2007-2024
Series 2004A	September 2004	2,430	2,230	512	(1)	4.00 - 4.75%	9/1/2007-2014
Series 2004	September 2004	25,000	23,410	12,246	(1)	2.25 - 5.00%	9/1/2007-2024
Series 2004	September 2004	21,830	18,035	1,699	(2)	1.85 - 3.35%	11/1/2006-2011
Series 2005	March 2005	145,345	145,345	66,896	(1)	5.00%	9/1/2007-2020
Series 2005	September 2005	19,535	19,535	9,929	(1)	3.50 - 5.00%	9/1/2008-2025
Series 2005	September 2005	7,185	6,975	3,355	(1)	3.50 - 6.50%	9/1/2007-2025
Series 2005	September 2005	14,940	14,040	1,734	(2)	3.00 - 4.00%	11/1/2006-2012
Series 2006	September 2006	31,585	31,585	22,290	(1)	4.00 - 5.38%	9/1/2009-2026
Series 2006	September 2006	24,150	24,150	12,598	(1)	4.00 - 5.00%	9/1/2007-2026
Series 2006	September 2006	14,120	14,120	2,387	(2)	4.00 - 4.25%	5/1/2007-2013
Series 2006	September 2006	12,000	12,000	6,837	(1)(5)	4.00 - 6.00%	9/1/2009-2026
			$ 949,406				

(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 semiannually on May 15 and November 15.
(4) Includes Water and Wastewater Fund principal of $8,450 and interest of 3,037.
(5) Included with contractual obligations are Mueller Local Government Corporation contract revenue bonds.

10 – DEBT AND NON-DEBT LIABILITIES, continued
b -- Governmental Activities Long-Term Liabilities, continued

In September 2006, the City issued $31,585,000 of Public Improvement Bonds, Series 2006. The proceeds from the issue will be used as follows: sidewalk projects ($5,000,000); bikeways ($2,000,000); street improvements ($8,002,000); Colorado River park ($5,500,000); Rundberg recreation center ($4,168,000) and libraries ($6,915,000). These bonds will be amortized serially on September 1 of each year from 2009 to 2026. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2007. Total interest requirements for these bonds, at rates ranging from 4% to 5.38%, are $22,290,004.

In September 2006, the City issued $24,150,000 of Certificates of Obligation, Series 2006. The proceeds from the issue will be used as follows: Rutherford Lane facility ($22,150,000) and Avery Ranch fire station ($2,000,000). These certificates of obligation will be amortized serially on September 1 of each year from 2007 to 2026. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2007. Total interest requirements for these obligations, at rates ranging from 4% to 5%, are $12,597,820.

In September 2006, the City issued $14,120,000 of Public Property Finance Contractual Obligations, Series 2006. The proceeds from the issue will be used as follows: public works capital equipment ($2,000,000); solid waste services capital equipment ($7,700,000); water vehicle capital equipment ($1,135,000) and wastewater vehicle capital equipment ($3,285,000). These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2007 to 2013. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2007. The total interest requirements for these obligations, at rates ranging from 4% to 4.25%, are $2,387,291. Business-type activities comprise $12,120,000 of this issue.

In September 2006, the City issued $12,000,000 of Mueller Local Government Corporation Contract Revenue Bonds, Series 2006. The proceeds from the issue will be used to finance infrastructure projects for the redevelopment of the Mueller site. The bonds are reported with the governmental contractual obligations and amortized serially on September 1 of each year from 2009 to 2026. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2007. The total interest requirements for these obligations, at rates ranging from 4% to 6% are $6,836,605.

General obligation bonds authorized and unissued amounted to $74,935,000 at September 30, 2006. Bond ratings at September 30, 2006, were Aa1 (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 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, 2006, exclusive of discounts, premiums and loss on refundings consists of $734,914,135 prior lien bonds and $252,179,512 subordinate lien bonds. Aggregate interest requirements for all prior lien and subordinate lien bonds are $716,070,755 at September 30, 2006. Revenue bonds authorized and unissued amount to $1,492,642,660 at that date. Bond ratings at September 30, 2006, for the prior lien and subordinate lien bonds were, respectively, A1 and A1 (Moody's Investor Services, Inc.), AA- and A+ (Standard & Poor's), and AA- and AA- (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.

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.

10 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

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, 2006 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
1990B Refunding	February 1990	$ 236,009	3,668	20,502 (1)	7.35%	11/15/2014-2017
1992 Refunding	March 1992	265,806	30,116	78,049 (1)	6.80 - 6.85%	11/15/2009-2012
1992A Refunding	May 1992	351,706	108,111	117,049 (1)	6.00-12.50%	11/15/2006-2011
1993 Refunding	February 1993	203,166	67,721	40,542 (1)	5.80 - 6.30%	11/15/2006-2014
1993A Refunding	June 1993	263,410	12,814	19,601 (1)	5.85 - 5.95%	05/15/2008-2010
1994 Refunding	October 1994	142,559	26,894	96,961 (1)	6.60%	05/15/2017-2019
1996AB Refunding	September 1996	249,235	141,905	29,202 (1)	4.90 - 6.00%	11/15/2006-2016
1997 Refunding	August 1997	227,215	218,210	93,260 (1)	4.80 - 5.13%	11/15/2008-2020
1998 Refunding	August 1998	180,000	125,475	29,195 (1)	6.50 -6.75%	11/15/2006-2012
1998 Refunding	November 1998	139,965	139,390	104,218 (1)	3.9 - 5.25%	05/15/2007-2025
1998A Refunding	November 1998	105,350	105,350	85,766 (1)	4.25 - 5.00%	05/15/2007-2028
1998B	November 1998	10,000	7,440	1,726 (1)	3.05 - 3.75%	11/15/2006-2017
			$ 987,094			

(1) Interest is paid semiannually on May 15 and November 15.

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, 2006, were P-1 (Moody's Investor Services, Inc.), A-1+ (Standard & Poor's), and F1+ (Fitch). The notes are 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, 2006, the Electric Fund had outstanding commercial paper notes of $26,415,000 and the Water and Wastewater Fund had $185,632,000 of commercial paper notes outstanding. Interest rates on the notes range from 2.4% to 3.75%, which are adjusted daily. 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.

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 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, 2006 were P-1 (Moody's Investor Services, Inc.) A-1+ (Standard & Poor's) and F1+ (Fitch).

The taxable notes are issued 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.

10 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

At September 30, 2006, the Electric Fund had outstanding taxable notes of $27,911,000 (net of discount of $241,641), and the Water and Wastewater Fund had no taxable notes outstanding. Interest rates on the taxable notes range from 3.77% to 5.43%. The City intends to refinance maturing commercial paper notes by issuing long-term debt.

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 Systems Revenue Debt -- Revenue Bond Refunding Issues - In June 2006, the City issued $150,000,000 of Electric Utility System Revenue Refunding Bonds, Series 2006. Proceeds from the bonds were used to refund $154,500,000 of the City's outstanding tax-exempt commercial paper issued for the electric system. The refunding resulted in future interest requirements to service the debt of $140,302,500, with interest rates from 4% to 5%. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

Bond ratings at September 30, 2006, were A1 (Moody's Investor Services, Inc.), A+ (Standard & Poor's), and AA- (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, 2006 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2001 Refunding	February 2001	$ 126,700	125,200	101,621 (1)	5.00 - 7.25%	11/15/2006-2030
2002 Refunding	March 2002	74,750	71,070	20,954 (1)	3.75 - 5.50%	11/15/2006-2014
2002A Refunding	August 2002	172,880	121,180	44,116 (1)	4.00 - 5.50%	11/15/2006-2016
2003 Refunding	March 2003	182,100	182,100	126,368 (1)	2.00 - 5.25%	11/15/2006-2028
2006 Refunding	June 2006	150,000	150,000	140,303 (1)	4.00 - 5.00%	11/15/2008-2035
			$ 649,550			

(1) Interest is paid semiannually on May 15 and November 15.

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 October 2005, the City issued $142,335,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2005A. Proceeds from the bonds were used to refund $135,000,000 of the City's outstanding tax-exempt commercial paper and the Maple Run municipal utility district contract revenue bond, series 1992 in the amount of $6,560,000 for the water and wastewater utility system. The debt service requirements on the refunding bonds were $265,384,376, with interest rates from 4% to 5%. The City realized an economic gain of $416,456 on this transaction. The change in net cash flows that resulted was a decrease of $455,450. An accounting loss of $672,747, which will be deferred and amortized in accordance with FASB Statement No. 71, was recognized on this refunding.

In August 2006, the City issued $63,100,000 of Water and Wastewater System, Revenue Refunding Bonds. Series 2006. Proceeds from the bond refunding were used to refund $63,360,000 of the City's outstanding Combined Utility System Revenue Refunding Bonds, Series 1996A and Series 1996B issued for the water and wastewater utility system. The debt service requirements on the refunding bonds were $96,846,972, with an interest rate of 5%. The City realized an economic gain of $4,436,246 on this transaction. The change in net cash flows that resulted was a decrease of $4,938,559. An accounting loss of $492,838, which will be deferred and amortized in accordance with FASB Statement No. 71, was recognized on this refunding.

Bond ratings at September 30, 2006 were A1 (Moody's Investor Services, Inc.), A (Standard & Poor's), and AA- (Fitch).

10 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

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, 2006 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding		Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
North Austin MUD #1, 2003 RFD	August 2003	$ 4,510	3,165	207	(1)	3.00 - 3.25%	11/15/2006-2009
2000 Refunding	June 2000	100,000	8,000	1,345	(1)	6.50%	11/15/2006-2010
2001A Refunding	June 2001	152,180	90,860	84,558	(1)	4.38 - 6.00%	11/15/2006-2031
2001B Refunding	June 2001	73,200	43,535	40,881	(1)	5.13 - 6.00%	11/15/2006-2031
2001C Refunding	December 2001	95,380	55,060	8,565	(1)	3.70 - 5.38%	11/15/2006-2015
2002A Refunding	August 2002	139,695	103,965	37,068	(1)	4.00 - 5.50%	11/15/2006-2016
2003 Refunding	March 2003	121,500	92,400	65,441	(1)	2.50 - 5.25%	11/15/2006-2028
2004 Refunding	August 2004	132,475	123,575	47,492	(2)	3.78%	11/15/2006-2024
2004A Refunding	October 2004	165,145	165,145	120,580	(1)	5.00%	11/15/2007-2029
2005 Refunding	November 2005	198,485	198,485	136,575	(1)	4.00 - 5.00%	05/15/2012-2030
2005A Refunding	June 2005	142,335	142,335	119,069	(1)	4.00 - 5.00%	05/15/2006-2035
2006 Refunding	August 2006	63,100	63,100	33,747	(1)	5.00%	11/15/2006-2025
			$ 1,089,625				

(1) Interest is paid semiannually on May 15 and November 15.
(2) Interest is paid monthly and is based on a variable rate.

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, 2006, the total airport system obligation for prior lien bonds is $355,100,000 exclusive of discounts, premiums and loss on refundings. Aggregate interest requirements for all prior lien bonds are $151,825,832 at September 30, 2006. Revenue bonds authorized and unissued amount to $735,795,000.

Airport -- Revenue Bond Defeasance - In August 2006, the City paid $1,000,000 to call Airport System Prior Lien Revenue Bonds, Series 1989 prior to maturity. The bonds are considered to be legally defeased and the liability has been removed from these financial statements. There was no economic gain or loss recognized on this transaction; no accounting loss on the defeasance was recognized.

Bond ratings at September 30, 2006, 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, 2006 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding		Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2003 Refunding	December 2003	$ 54,250	54,250	25,023	(1)	3.00 - 5.25%	11/15/2006-2018
2005 Refunding	August 2005	306,225	300,850	126,803	(2)	3.65%	11/15/2006-2025
			$ 355,100				

(1) Interest is paid semiannually on May 15 and November 15.
(2) Interest is paid monthly and is based on a variable rate.

10 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term 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, 2006, 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 $9,903,980, including accrued interest, at September 30, 2006 and was restricted within the airport system. During fiscal year 2006, interest rates on the notes ranged from 2.66% to 4.05%, adjusted weekly at market rates; subsequent rate 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, 2006, 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, 2006, the total convention center obligation for prior and subordinate lien bonds is $235,660,000, exclusive of discounts, premiums and loss on refundings. Aggregate interest requirements for all prior and subordinate lien bonds are $133,630,779 at September 30, 2006. Revenue bonds authorized and unissued amount to $760,000 at September 30, 2006.

Bond ratings at September 30, 2006, for the revenue bonds were NUR (Moody's Investor Services, Inc.), A- (Standard & Poor's), and NUR (Fitch).

The following table summarizes Convention Center original and refunding revenue bonds outstanding at September 30, 2006 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
1999A	June 1999	$ 25,000	23,635	18,559 (1)	4.80 - 5.50%	11/15/2006-2029
1999	November 1999	40,000	3,300	462 (1)	6.75%	11/15/2006-2009
2004 Refunding	February 2004	52,715	52,715	20,926 (1)	2.00 - 5.00%	11/15/2007-2019
2005 Refunding	May 2005	36,720	36,720	28,831 (1)	3.30 - 5.00%	11/15/2011-2029
2005 Refunding	August 2005	119,290	119,290	64,853 (2)	3.75%	11/15/2009-2029
			$ 235,660			

(1) Interest is paid semiannually on May 15 and November 15.
(2) Interest is paid monthly and is based on a variable rate.

10 – DEBT AND NON-DEBT LIABILITIES, continued
d – Debt Service Requirements

Governmental 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
2007	$ 48,540	33,205	6,412	4,708	5,001	1,289
2008	45,727	30,770	6,733	4,344	4,713	1,121
2009	44,979	28,630	7,103	4,026	5,258	991
2010	47,432	26,449	6,616	3,688	4,957	828
2011	48,203	24,234	6,970	3,378	4,153	670
2012-2016	221,423	88,281	31,007	12,178	5,332	2,203
2017-2021	179,817	39,126	23,855	5,985	3,455	1,449
2022-2026	63,298	7,059	12,619	1,470	4,355	608
	699,419	277,754	101,315	39,777	37,224	9,159
Less: Unamortized bond discounts	(848)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(9,862)	--	--	--	--	--
Add: Unamortized bond premiums	20,463	--	19	--	5	--
Net debt service requirements	709,172	277,754	101,334	39,777	37,229	9,159

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
2007	197	18	60,150	39,220	99,370
2008	317	12	57,490	36,247	93,737
2009	--	--	57,340	33,647	90,987
2010	--	--	59,005	30,965	89,970
2011	--	--	59,326	28,282	87,608
2012-2016	--	--	257,762	102,662	360,424
2017-2021	--	--	207,127	46,560	253,687
2022-2026	--	--	80,272	9,137	89,409
	514	30	838,472	326,720	1,165,192
Less: Unamortized bond discounts	--	--	(848)	--	(848)
Unamortized gain(loss) on bond refundings	--	--	(9,862)	--	(9,862)
Add: Unamortized bond premiums	--	--	20,487	--	20,487
Net debt service requirements	$ 514	30	848,249	326,720	1,174,969

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 Principal	General Obligation Bonds Interest	Contractual Obligations Principal	Contractual Obligations Interest	Commercial Paper Notes (1) Principal	Commercial Paper Notes (1) Interest
2007	$ 53	61	202	19	54,568	249
2008	12	58	140	14	--	--
2009	18	57	146	11	--	--
2010	53	56	152	6	--	--
2011	63	54	79	2	--	--
2012-2016	608	197	--	--	--	--
2017-2021	403	43	--	--	--	--
	1,210	526	719	52	54,568	249
Less: Unamortized bond discount	(4)	--	--	--	(242)	--
Add: Unamortized bond premium	87	--	--	--	--	--
Net debt service requirements	1,293	526	719	52	54,326	249

Fiscal Year Ended September 30	Revenue Bonds Principal	Revenue Bonds Interest	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Total Electric Debt Service Requirements Principal	Total Electric Debt Service Requirements Interest	Total Electric Debt Service Requirements Total
2007	101,312	66,337	2,012	202	158,147	66,868	225,015
2008	87,067	66,507	29	61	87,248	66,640	153,888
2009	78,557	83,078	31	60	78,752	83,206	161,958
2010	73,935	88,212	32	58	74,172	88,332	162,504
2011	76,158	80,212	34	57	76,334	80,325	156,659
2012-2016	416,259	220,652	197	255	417,064	221,104	638,168
2017-2021	169,708	107,201	253	200	170,364	107,444	277,808
2022-2026	159,948	59,434	325	128	160,273	59,562	219,835
2027-2031	113,000	23,110	340	37	113,340	23,147	136,487
2032-2036	41,600	5,392	--	--	41,600	5,392	46,992
	1,317,544	800,135	3,253	1,058	1,377,294	802,020	2,179,314
Less: Unamortized bond discounts	(6,899)	--	--	--	(7,145)	--	(7,145)
Unamortized gain(loss) on bond refundings	(85,340)	--	--	--	(85,340)	--	(85,340)
Add: Unamortized bond premiums	34,869	--	--	--	34,956	--	34,956
Net debt service requirements	$ 1,260,174	800,135	3,253	1,058	1,319,765	802,020	2,121,785

(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 Principal	General Obligation Bonds Interest	Contractual Obligations Principal	Contractual Obligations Interest	Tax Supported Debt Principal	Tax Supported Debt Interest
2007	$ 1,143	291	1,537	303	642	430
2008	739	232	1,668	305	594	401
2009	471	194	1,633	250	532	374
2010	589	170	1,550	196	564	348
2011	562	138	1,557	141	596	319
2012-2016	1,617	305	2,525	133	4,031	1,057
2017-2021	454	60	--	--	1,491	108
2022-2026	14	2	--	--	--	--
	5,589	1,392	10,470	1,328	8,450	3,037
Less: Unamortized bond discounts	(25)	--	--	--	(45)	--
Unamortized gain(loss) on bond refundings	(2,036)	--	--	--	--	--
Add: Unamortized bond premiums	282	--	--	--	--	--
Net debt service requirements	3,810	1,392	10,470	1,328	8,405	3,037

Fiscal Year Ended September 30	Commercial Paper Notes (1) Principal	Commercial Paper Notes (1) Interest	Revenue Bonds Principal	Revenue Bonds Interest	Municipal Utility District Contract Revenue Bonds Principal	Municipal Utility District Contract Revenue Bonds Interest
2007	185,632	710	45,208	63,371	720	86
2008	--	--	60,395	64,559	750	64
2009	--	--	56,190	71,828	780	41
2010	--	--	48,792	79,147	915	16
2011	--	--	44,831	74,978	--	--
2012-2016	--	--	363,357	282,504	--	--
2017-2021	--	--	268,062	273,916	--	--
2022-2026	--	--	277,450	96,704	--	--
2027-2031	--	--	210,904	33,840	--	--
2032-2036	--	--	30,371	3,772	--	--
	185,632	710	1,405,560	1,044,619	3,165	207
Less: Unamortized bond discounts	--	--	(10,505)	--	(16)	--
Unamortized gain(loss) on bond refundings	--	--	(63,248)	--	(38)	--
Add: Unamortized bond premiums	--	--	47,028	--	23	--
Net debt service requirements	$ 185,632	710	1,378,835	1,044,619	3,134	207

(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
2007	$ 1,239	155	236,121	65,346	301,467
2008	1,327	53	65,473	65,614	131,087
2009	--	--	59,606	72,687	132,293
2010	--	--	52,410	79,877	132,287
2011	--	--	47,546	75,576	123,122
2012-2016	--	--	371,530	283,999	655,529
2017-2021	--	--	270,007	274,084	544,091
2022-2026	--	--	277,464	96,706	374,170
2027-2031	--	--	210,904	33,840	244,744
2032-2036	--	--	30,371	3,772	34,143
	2,566	208	1,621,432	1,051,501	2,672,933
Less: Unamortized bond discounts	--	--	(10,591)	--	(10,591)
Unamortized gain(loss) on bond refundings	--	--	(65,322)	--	(65,322)
Add: Unamortized bond premiums	--	--	47,333	--	47,333
Net debt service requirements	$ 2,566	208	1,592,852	1,051,501	2,644,353

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
2007	$ 49	19	12	--	--	1,067
2008	23	16	--	--	--	1,067
2009	16	15	--	--	--	1,067
2010	23	14	--	--	--	1,067
2011	26	13	--	--	--	1,067
2012-2016	148	41	--	--	--	5,335
2017-2021	78	9	--	--	28,000	1,602
2022-2026	2	--	--	--	--	--
	365	127	12	--	28,000	12,272
Less: Unamortized bond discounts	(1)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	1	--	--	--	--	--
Add: Unamortized bond premiums	21	--	--	--	--	--
Net debt service requirements	386	127	12	--	28,000	12,272

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
2007	9,555	13,397	149	4	9,765	14,487	24,252
2008	11,780	13,010	--	--	11,803	14,093	25,896
2009	12,325	12,567	--	--	12,341	13,649	25,990
2010	12,910	12,095	--	--	12,933	13,176	26,109
2011	13,515	11,600	--	--	13,541	12,680	26,221
2012-2016	78,020	49,269	--	--	78,168	54,645	132,813
2017-2021	103,070	30,359	--	--	131,148	31,970	163,118
2022-2026	113,925	9,529	--	--	113,927	9,529	123,456
	355,100	151,826	149	4	383,626	164,229	547,855
Less: Unamortized bond discounts	(1,273)	--	--	--	(1,274)	--	(1,274)
Unamortized gain(loss) on bond refundings	(18,759)	--	--	--	(18,758)	--	(18,758)
Add: Unamortized bond premiums	3,510	--	--	--	3,531	--	3,531
Net debt service requirements	$ 338,578	151,826	149	4	367,125	164,229	531,354

(1) These are variable rate notes with an assumed interest rate of 3.65%.

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 Principal	General Obligation Bonds Interest	Certificates of Obligation Principal	Certificates of Obligation Interest	Contractual Obligations Principal	Contractual Obligations Interest
2007	$ 995	680	2,258	2,252	2,720	661
2008	1,221	632	2,372	2,165	3,504	678
2009	1,064	570	2,497	2,073	3,658	562
2010	1,604	515	2,204	1,975	3,411	435
2011	1,450	434	2,305	1,891	3,141	318
2012-2016	5,462	1,195	14,643	7,654	5,876	309
2017-2021	1,746	201	16,015	3,930	--	--
2022-2026	4	--	6,483	583	--	--
	13,546	4,227	48,777	22,523	22,310	2,963
Less: Unamortized bond discounts	(48)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(1,003)	--	--	--	--	--
Add: Unamortized bond premiums	812	--	983	--	3	--
Net debt service requirements	13,307	4,227	49,760	22,523	22,313	2,963

Fiscal Year Ended September 30	Revenue Bonds Principal	Revenue Bonds Interest	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Total Nonmajor Debt Service Requirements Principal	Total Nonmajor Debt Service Requirements Interest	Total Nonmajor Debt Service Requirements Total
2007	1,260	10,025	16	2	7,249	13,620	20,869
2008	3,440	9,926	--	--	10,537	13,401	23,938
2009	4,720	9,781	--	--	11,939	12,986	24,925
2010	7,935	9,510	--	--	15,154	12,435	27,589
2011	8,265	9,202	--	--	15,161	11,845	27,006
2012-2016	52,985	39,754	--	--	78,966	48,912	127,878
2017-2021	60,640	26,592	--	--	78,401	30,723	109,124
2022-2026	49,175	15,078	--	--	55,662	15,661	71,323
2027-2031	47,240	3,763	--	--	47,240	3,763	51,003
	235,660	133,631	16	2	320,309	163,346	483,655
Less: Unamortized bond discounts	(1,130)	--	--	--	(1,178)	--	(1,178)
Unamortized gain(loss) on bond refundings	(19,194)	--	--	--	(20,197)	--	(20,197)
Add: Unamortized bond premiums	5,073	--	--	--	6,871	--	6,871
Net debt service requirements	$ 220,409	133,631	16	2	305,805	163,346	469,151

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
2007	$ 2,240	1,051	2,258	2,252	4,471	983
2008	1,995	938	2,372	2,165	5,312	997
2009	1,569	836	2,497	2,073	5,437	823
2010	2,269	755	2,204	1,975	5,113	637
2011	2,101	639	2,305	1,891	4,777	461
2012-2016	7,835	1,738	14,643	7,654	8,401	442
2017-2021	2,681	313	16,015	3,930	--	--
2022-2026	20	2	6,483	583	--	--
	20,710	6,272	48,777	22,523	33,511	4,343
Less: Unamortized bond discounts	(78)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(3,038)	--	--	--	--	--
Add: Unamortized bond premiums	1,202	--	983	--	3	--
Net debt service requirements	18,796	6,272	49,760	22,523	33,514	4,343

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
2007	642	430	240,200	959	--	1,067
2008	594	401	--	--	--	1,067
2009	532	374	--	--	--	1,067
2010	564	348	--	--	--	1,067
2011	596	319	--	--	--	1,067
2012-2016	4,031	1,057	--	--	--	5,335
2017-2021	1,491	108	--	--	28,000	1,602
	8,450	3,037	240,200	959	28,000	12,272
Less: Unamortized bond discounts	(45)	--	(242)	--	--	--
Unamortized gain(loss) on bond refundings	--	--	--	--	--	--
Add: Unamortized bond premiums	--	--	--	--	--	--
Net debt service requirements	$ 8,405	3,037	239,958	959	28,000	12,272

(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 an assumed interest rate of 3.65%.

10 – DEBT AND NON-DEBT LIABILITIES, continued
d -- Debt Service Requirements, continued

Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	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
2007	$ 157,335	153,130	720	86	3,416	363
2008	162,682	154,002	750	64	1,356	114
2009	151,792	177,254	780	41	31	60
2010	143,572	188,964	915	16	32	58
2011	142,769	175,992	--	--	34	57
2012-2016	910,621	592,179	--	--	197	255
2017-2021	601,480	438,068	--	--	253	200
2022-2026	600,498	180,745	--	--	325	128
2027-2031	371,144	60,713	--	--	340	37
2032-2036	71,971	9,164	--	--	--	--
	3,313,864	2,130,211	3,165	207	5,984	1,272
Less: Unamortized bond discounts	(19,807)	--	(16)	--	--	--
Unamortized gain(loss) on bond refundings	(186,541)	--	(38)	--	--	--
Add: Unamortized bond premiums	90,480	--	23	--	--	--
Net debt service requirements	3,197,996	2,130,211	3,134	207	5,984	1,272

Fiscal Year Ended September 30	Total Business-Type Activities Debt Service Requirements Principal	Interest	Total
2007	411,282	160,321	571,603
2008	175,061	159,748	334,809
2009	162,638	182,528	345,166
2010	154,669	193,820	348,489
2011	152,582	180,426	333,008
2012-2016	945,728	608,660	1,554,388
2017-2021	649,920	444,221	1,094,141
2022-2026	607,326	181,458	788,784
2027-2031	371,484	60,750	432,234
2032-2036	71,971	9,164	81,135
	3,702,661	2,181,096	5,883,757
Less: Unamortized bond discounts	(20,188)	--	(20,188)
Unamortized gain(loss) on bond refundings	(189,617)	--	(189,617)
Add: Unamortized bond premiums	92,691	--	92,691
Net debt service requirements	$3,585,547	2,181,096	5,766,643

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. The City has $83 million in bonds of various series outstanding as of September 30, 2006 that had an original issue value of $84.4 million.

Revenue bonds have been issued by various related entities to provide for facilities located at the international 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 entities and various third parties. In 2006, $260.2 of refunding bonds was issued to retire $252.3 million of the previously outstanding convention center facility revenue bonds. The refunding and remaining original issues total $375.3 million, with $363.8 million outstanding at September 30, 2006.

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, 2006, are as follows (in thousands):

		Amount	
Receivable Fund	**Payable Fund**	**Current**	**Long-Term**
Governmental funds:			
Nonmajor governmental funds	General Fund	$ 2	--
	Nonmajor governmental funds	34,015	--
	Water and Wastewater	--	3,781
	Nonmajor enterprise funds	--	3,220
	Internal service funds	--	207
General Fund	Nonmajor governmental funds	282	--
Internal Service funds:			
Wireless	Internal service funds	207	--
Business-type funds:			
Electric	Nonmajor enterprise funds	--	2,891
	Nonmajor governmental funds	--	4
Water and Wastewater (restricted)	Internal service funds	27	107
Airport (restricted)	General Fund	617	617
	Nonmajor governmental funds	--	191
Nonmajor enterprise funds	Nonmajor governmental funds	--	287
	Nonmajor enterprise funds	333	--
		$ 35,483	11,305

Interfund receivables and payables reflect loans between funds. Of the above current amount, $18.0 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. The above current amount also includes $16.0 million in interfund loans between capital project funds to cover deficit pooled investments and cash.

12 – INTERFUND BALANCES AND TRANSFERS, continued

Interfund transfers during fiscal year 2006 were as follows (in thousands):

	Transfers In					
Transfers Out	**General Fund**	**Nonmajor Governmental**	**Electric**	**Nonmajor Enterprise**	**Internal Service Funds**	**Total**
General Fund	$ --	11,450	221	4,940	--	16,611
Nonmajor governmental funds	--	22,689	--	32,523	--	55,212
Electric	77,420	--	--	--	--	77,420
Water and Wastewater	20,238	3,264	--	--	--	23,502
Nonmajor enterprise funds	--	2,736	--	--	--	2,736
Internal service funds	--	4,267	--	--	949	5,216
Total transfers out	$ 97,658	44,406	221	37,463	949	180,697

Interfund 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, 2006. 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 $42 million as of September 30, 2006. 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 three 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, 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, 2006, Austin Energy's investment in the STP was approximately $530 million, net of accumulated depreciation.

14 – COMMITMENTS AND CONTINGENCIES, continued
b -- South Texas Project, continued

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 STP funding. 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 management committee. A member of the management 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.

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 for plant decommissioning. 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, 2006, Austin Energy funded its share of the estimated decommissioning liability as follows:

	2006	
Estimated cost to decommission STP	$ 271,196,520	
Decommissioning trust assets	117,878,146	(Includes other restricted assets of $10.9 million)

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 2006, Austin Energy collected $4,957,967 for decommissioning requirements.

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 a 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	A-

The realized gains and losses related to these transactions are netted to fuel expense in the period realized. As of September 30, 2006, Austin Energy's options, futures, and swaps, valued at mark-to-market, net to an unrealized loss of $28,593,669. This reflects the difference between the cost and the fair value of these contracts on September 30, 2006. Initial margins are flat fees per contract and are paid in cash or equity. Fair values are calculated by multiplying the number of outstanding contracts by the forward prices as quoted by New York Mercantile Exchange. The unrealized gain/loss refers to the difference between the cost and fair value of the contracts, which is not included in the financial statements at September 30, 2006.

14 – COMMITMENTS AND CONTINGENCIES, continued
d -- Energy Risk Management Program, continued

Futures	
Contracts effective date	September 2005 through September 2006
Contracts maturity date	Through January 2007
Fair value	$300
Unrealized Gain/ (Loss)	300

Options	
Contracts effective date	June 2005 through September 2006
Contracts maturity date	Through July 2011
Fair value	$(35,037,739)
Unrealized Gain/ (Loss)	(35,037,739)

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.

Swaps	
Contracts effective date	June 2005 through September 2006
Contracts maturity date	Through October 2011
Cost	$450,729,200
Fair value	457,172,970
Unrealized Gain/ (Loss)	6,443,770

The swap agreements expose Austin Energy to credit, termination, and non-performance risk. However, Austin Energy does not expect the swap counterparties to fail to meet their obligations given their high credit rating, minimum of A- by Standard and Poor's. Austin Energy's exposure to termination and non-performance risk is minimal due to the high credit rating of the counterparties and the contractual provisions under the ISDA (International Swaps and Derivatives Association) agreement applied to these contracts.

e -- Derivative Instruments

Swap for the Water & Wastewater System

Objective of the swap. In order to lower its borrowing costs, 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") on July 2, 2004. 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.

Terms, fair values, and credit risk. 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.

14 – COMMITMENTS AND CONTINGENCIES, continued
e -- Derivative Instruments, continued

The counterparty to the swap is JPMorgan Chase Bank. A summary of the terms and fair value of the swap, as of September 30, 2006, is as follows:

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Fair 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%	$ (1,516,296)

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 fair value as of September 30, 2006, of $(1,516,296). 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.

Credit risk. As of September 30, 2006, the City was not exposed to credit risk on its outstanding swap since the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the City's credit risk exposure is the amount of the positive fair value. Future interest rate increases or decreases determine the fair value and the extent of credit risk the City will incur. The current credit ratings of the JPMorgan Chase Bank are Aa2 (Moody's Investor Service Inc.), AA- (Standard and Poor's) and AA- (Fitch). 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 (Moody's Investor Service, Inc.) and A (Standard and Poor's).

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. The magnitude and duration of any basis risk shortfall will determine the extent of basis risk incurred.

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 were terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. The City would be liable to the counterparty for a payment equal to the swap's fair value if it were negative at the time of the termination. 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.

14 – COMMITMENTS AND CONTINGENCIES, continued
e -- Derivative Instruments, continued

Swap payments and associated debt. As of September 30, 2006, 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) Principal	Interest	Interest Rate Swaps, Net	Total
2007	$ 7,000	4,511	(147)	4,364
2008	1,200	4,391	(143)	4,248
2009	--	4,361	(142)	4,219
2010	--	4,361	(142)	4,219
2011	830	4,351	(142)	4,209
2012-2016	70,940	17,414	(567)	16,847
2017-2021	19,830	6,653	(216)	6,437
2022-2026	23,775	1,449	(47)	1,402
Total	$ 123,575	47,491	(1,546)	45,945

Swap for the Airport System

Objective of the swap. In order to lower its borrowing costs 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") on July 2, 2004. The variable rate bonds were 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 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 were 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. A summary of the terms and fair value of the swap, as of September 30, 2006, is as follows:

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Fair 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%	$ (9,332,035)

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 fair value as of September 30, 2006, of $(9,332,035). 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. The 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.

14 – COMMITMENTS AND CONTINGENCIES, continued
e -- Derivative Instruments, continued

The 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, 2006, the City was not exposed to credit risk on its outstanding swap since the swap had a negative fair value. However, should interest rates change and the fair values of the swap become positive, the City's exposure is the amount of the swap's positive fair value. This amount may become positive if interest rates increase in the future. The current credit ratings of Morgan Stanley are Aa3 (Moody's Investor Services, Inc.) A+ (Standard & Poor's) and AA- (Fitch). 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 (Moody's Investor Services, Inc.) and A (Standard & Poor's).

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. The magnitude and duration of any basis risk shortfall will determine the extent of basis risk incurred.

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 were terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. The City would be liable to the counterparty for a payment equal to the swap's fair value, if it were negative at the time of the termination. 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.

Swap payments and associated debt. As of September 30, 2006, 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	Airport Variable-Rate Bonds (in thousands) Principal	Interest	Interest Rate Swaps, Net	Total
2007	$ 9,550	10,699	1,182	11,881
2008	10,000	10,338	1,142	11,480
2009	10,475	9,959	1,101	11,060
2010	10,975	9,563	1,056	10,619
2011	11,500	9,147	1,011	10,158
2012-2016	66,425	39,246	4,335	43,581
2017-2021	68,000	28,322	3,129	31,451
2022-2026	113,925	9,529	1,052	10,581
Total	$ 300,850	126,803	14,008	140,811

14 – COMMITMENTS AND CONTINGENCIES, continued
e -- Derivative Instruments, continued

Swaps for the Hotel Occupancy Tax

Objective of the swaps. In order to lower its borrowing costs, the City entered into interest rate swaps in connection with its Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2005 (the "Series 2005 VRRB") on July 19, 2005. The variable rate bonds were issued to refund various outstanding bonds associated with the Hotel Occupancy Tax. The swaps were 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. At the same time, the City incurs no basis risk over the escrow period of the refunded bonds.

Terms, fair values, and credit risk. 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 were issued on August 17, 2005, with a principal amount of $119,290,000. The swaps were structured to match the likely principal amortization structure and dates of the Series 2005 VRRB.

The counterparty to the swap that fixes the bonds at 3.4007% was Lehman Brothers Derivative Products, a Lehman Brothers subsidiary. The counterparty to the swap portion that eliminates basis risk for the escrow period is Lehman Brothers Special Financing Inc. with a guarantee from Lehman Brothers. The table below contains a summary of the terms and fair value of the swaps as of September 30, 2006:

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Fair Value
Hotel Occupancy Tax Subordinate Lein Variable Rate Revenue Refunding Bonds, Series 2005	Nov 15, 2029	Lehman Brothers Derivative Products	Aaa/AAAt/AAA	BMA + 0.0525% to 11/15/09; 67% of 1 Mo USD-LIBOR thereafter	3.401%	$ 1,060,434
Hotel Occupancy Tax Subordinate Lein Variable Rate Revenue Refunding Bonds, Series 2005	Nov 15, 2009	Lehman Brothers Special Financing	A1/A/A+	VRRB Rate + 0.0525%	BMA + 0.0525%	$ --

The combination of variable rate bonds and a floating-to-fixed swap creates synthetic fixed-rate debt for the City. The transactions 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, and eliminating basis risk during the escrow period of the refunded bonds.

Fair value. The swaps had a fair value as of September 30, 2006, of $1,060,434. The 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. The 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 swaps.

Credit risk. As of September 30, 2006, the City was exposed to credit risk on its outstanding swaps since the swaps had a positive fair value of $1,060,434. The City's exposure is the amount of positive fair value. The current credit ratings of Lehman Brothers are A1 (Moody's Investor Services, Inc.) A (Standard & Poor's) and A+ (Fitch). The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if it is terminated.

14 – COMMITMENTS AND CONTINGENCIES, continued
e -- Derivative Instruments, continued

The swap agreements contain collateral agreements with the counterparties. 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, CIFG, maintains a credit rating above A3 (Moody's Investor Services, Inc.) and A- (Standard & Poor's).

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. The City bears no basis risk until November 15, 2009. Afterward, the swap has basis risk 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. The magnitude and duration of any basis risk shortfall will determine the extent of basis risk incurred.

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. Tax risk exists only after November 15, 2009. The City is receiving 67% 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 any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps were terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. The City would be liable to the counterparty for a payment equal to the swaps' fair value if it were negative at the time of the termination. The additional termination events in the agreement are limited to non-issuance of the Series 2005 VRRB and credit related events only. The ratings triggers are substantially below the current credit rating of the City.

Swap payments and associated debt. As of September 30, 2006, 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	Convention Center Variable-Rate Bonds (in thousands) Principal	Interest	Interest Rate Swaps, Net	Total
2007	$ --	4,473	(416)	4,057
2008	--	4,473	(416)	4,057
2009	--	4,473	(416)	4,057
2010	3,045	4,378	(408)	3,970
2011	4,145	4,230	(394)	3,836
2012-2016	22,935	18,638	(1,736)	16,902
2017-2021	27,015	13,918	(1,297)	12,621
2022-2026	32,020	8,334	(776)	7,558
2027-2031	30,130	1,936	(182)	1,754
Total	$ 119,290	64,853	(6,041)	58,812

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 Electric Utility Office Project, Series 1987
$ 14,000,000 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	$ 1,987,716	$ 2,631,885
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.

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 the excess amounts to the federal government. The estimated amounts payable at September 30, 2006, are as follows (in thousands):

	Business-type Activities			
Governmental Activities	Electric	Water and Wastewater	Airport	Total
$ 44	910	324	43	$ 1,277

i -- Capital Improvement Plan

As required by charter, the City has a *Capital Improvements Program* plan (capital budget) covering a five-year period which details anticipated spending for projects in the upcoming and future years. The City's 2007 Capital Budget includes new appropriations of $665.8 million for the City's enterprise funds and $45.7 million for general government projects. The City has substantial contractual commitments relating to its capital improvement plan.

The key projects in progress include improvements to and development of the transportation infrastructure, electric system, water and wastewater systems, airport, and urban growth management activities 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:		
General government	$ 105,747	16,388
Public safety	5,969	6,000
Transportation	209,222	32,102
Public health	4,652	400
Public recreation and culture	130,446	8,646
Urban growth management	54,233	7,326
Business-type activities:		
Electric	2,879,124	248,060
Water	817,844	837,202
Wastewater	645,811	538,086
Airport	93,623	118,127
Convention	21,805	4,100
Environmental and health services	29,282	21,741
Urban growth management	133,839	528,961
Total	$ 5,131,597	2,367,139

j -- 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, a portion of these future closure and postclosure care costs are reported as an operating expense in each period as incurred in the Solid Waste Services Fund, a nonmajor enterprise fund. The amount of costs reported is based on landfill capacity as of the City's fiscal year-end. The $8.4 million reported as accrued landfill closure and postclosure costs at September 30, 2006, represents the cumulative amount reported to date based on the use of 85.3% of the estimated capacity of the landfill. The Solid Waste Services Fund will recognize the remaining estimated cost of closure and postclosure care of $1.4 million as the remaining estimated capacity is filled over the next seven years. The total estimated costs of $9.8 million include costs of closure in 2013 of $2.5 million and postclosure costs over the subsequent thirty years of $7.3 million. These amounts are based on current cost estimates to perform closure and postclosure care in 2006. 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.

14 – COMMITMENTS AND CONTINGENCIES, continued
k -- 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 a self-insured PPO or an HMO for health coverage. Approximately 30% of city employees and 50% of retirees use the HMO option; approximately 70% of city employees and 50% 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. Premiums are charged to other city funds each year based on historical costs.
Workers' Compensation	Premium charges for this self-insured program are assessed to other funds each year based on historical costs.

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, up to a maximum of $1 million. During fiscal year 2006, no claim exceeded the stop-loss limit of $500,000; during fiscal year 2005, two claims exceeded the stop-loss limit of $500,000; and during fiscal year 2004, no claim exceeded the stop-loss limit of $500,000. 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 purchased insurance coverage for the last three years. 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. Claims liabilities for the Liability Reserve Fund are calculated based on an estimate of outstanding claims, which may differ from the actual amounts paid. The amount to be paid out ultimately may vary from the amount accrued at September 30, 2006. Possible losses are estimated to range from $21.2 to $35.9 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	
	2006	2005	2006	2005	2006	2005
Liability balances, beginning of year	$ 4,940	4,940	13,919	13,158	9,959	9,342
Claims and changes in estimates	2,786	3,252	(3,126)	6,091	3,113	4,295
Claim payments	(3,344)	(3,252)	(3,931)	(5,330)	(3,107)	(3,678)
Liability balances, end of year	$ 4,382	4,940	6,862	13,919	9,965	9,959

The Liability Reserve Fund claims liability balance at fiscal year end includes liabilities of $3.5 million discounted at 4.55% in 2006 and $4.0 million discounted at 4.72% in 2005.

14 – COMMITMENTS AND CONTINGENCIES, continued
l -- 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 approximately $16 million at September 30, 2006. 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 2007 and future years. In addition, the Electric Fund anticipates an additional amount up to $3.6 million, for environmental remediation of the Seaholm site. This amount has not been recorded in the financial statements of the Electric Fund, as a type 2 subsequent event.

The EPA issued an administrative order to Austin Water on April 29, 1999, which requires the utility to perform a series of activities designed to result in an improved wastewater collection system free from sanitary sewer overflows. These activities include Infiltration/Inflow studies, sanitary sewer evaluation studies, as well as subsequent design and construction of necessary improvements to the wastewater collection system to eliminate overflows by June 30, 2009. Construction costs are estimated to be $400 million, and Austin Water is on schedule to comply with the administrative order.

Austin Water is planning to close the Green Water Treatment Plant (GWTP) by November 2008. The estimated decommissioning cost to close the GWTP is $16 million. The financial statements include a decommissioning liability of approximately $5 million at September 30, 2006.

The Airport Fund may also incur costs for the environmental remediation of certain sites and has recorded an estimated liability of $732,000 as of September 30, 2006.

m -- Redevelopment of Robert Mueller Municipal Airport

In December 2004, City Council approved a master development agreement with Catellus Development Corporation (Catellus) to develop approximately 709 acres at the former site of the City's municipal airport near downtown Austin. Both the City and Catellus have numerous obligations under the agreement. Catellus will develop and market the property. The City will issue debt to fund infrastructure such as streets, drainage facilities, public parks, and greenways, which will be supported by taxes generated from this development. Additional water and wastewater infrastructure will also be constructed to enhance utility services to this site. To date, a portion of the property has been sold, and construction has begun on a new children's hospital, a regional retail shopping center, and two office buildings. Streets, greenways, and other infrastructure in the northwest quadrant of the property have been constructed, and work is progressing on a major feature of the development, a lake park and visitor center. With the signing of a 99-year ground lease with the University of Texas in October 2006, the project will also become home to the Dell Pediatric Research Institute.

In August 2005, the developer filed a site plan for the regional retail portion of the property. This action triggered a requirement that the City or the Mueller Local Government Corporation (MLGC), created by the City for this development, issue debt to be supported by the estimated sales tax revenue generated from the retail property. Debt was issued in the amount of $12 million by the MLGC in September 2006. Debt service payments will be funded through an economic development grant from the City of Austin and supported by sales tax proceeds from the development.

n -- Other Commitments and Contingencies
i -- Leases
The City is committed under various leases for building and office space, tracts of land and rights-of-way, and certain equipment. These leases are considered operating leases for accounting purposes. Lease expense for the year ended September 30, 2006, was $18.1 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 to finance personal computers and other equipment for both governmental and business-type activities. As mentioned in a preceding section of this note, certificates of participation have been issued by the Electric Fund and Water and Wastewater Fund for financing certain office buildings. 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.

14 – COMMITMENTS AND CONTINGENCIES, continued
n -- Other Commitments and Contingencies , continued
i – Leases, continued

The following summarizes assets recorded at September 30, 2006, under capital lease obligations (in thousands):

		Business-type Activities				
	Governmental		Water and			
Assets	**Activities**	**Electric**	**Wastewater**	**Airport**	**Nonmajor**	**Total**
Building and improvements	$ --	21,604	13,429	--	--	35,033
Equipment	1,500	146	111	868	200	1,325
Accumulated depreciation	(794)	(10,408)	(4,873)	(312)	(140)	(15,733)
Net assets	$ 706	11,342	8,667	556	60	20,625

ii -- Other Litigation
The City is currently in litigation related to the Convention Center, a non-major enterprise fund. Anticipated costs are estimated at $4 million.

15 – OTHER POST-EMPLOYMENT BENEFITS

In addition to the contributions made to the three pension systems, the City provides 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 and unmarried children dependent on the retiree for support. The children covered include children under age 25 that are: natural children; stepchildren; legally adopted children; children for whom the retiree has obtained court-ordered guardianship/conservatorship; qualified children placed pending adoption; grandchildren if claimed as a dependent on the retiree's or retiree 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 or their dependents. 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 approval 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	16% - 17%	11% - 12%
5 to 9 years	24% - 26%	17%
10 to 14 years	41% - 43%	28% - 29%
15 to 20 years	57% - 60%	39% - 41%
Greater than 20 years	81% - 85%	56% - 58%

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.

15 – OTHER POST-EMPLOYMENT BENEFITS, continued

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 an expense and corresponding revenue in the Employee Benefits Fund. Medical, dental and life insurance claims and premiums are reported in the Employee Benefits Fund. The estimated cost of providing these benefits for 2,682 retirees was $15.7 million in 2006 and $13.3 million in 2005 for 2,554 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, 2005, the City's portion of this obligation, $9.9 million, is not reflected in the financial statements of the Electric Fund.

16 – SUBSEQUENT EVENTS
a -- Bond Election

On November 7, 2006, Austin voters approved the following bond propositions totaling $567 million:

Proposition	Amount (in thousands)
1 – Street improvements	$103,100
2 – Drainage and water quality improvements	145,000
3 – Parkland acquisition, construction and improvements	84,700
4 – Community and cultural facilities construction and improvement	31,500
5 – Affordable housing facilities acquisition, construction and improvement	55,000
6 – New Central Library construction	90,000
7 – Public safety facilities construction and improvement	58,100

Projects associated with each bond proposition will be funded with the issuance of general obligation bonds.

b -- Electric System Revenue Bond Refunding Issue

In November 2006, the City issued $137,800,000 of Electric Utility System Revenue Refunding Bonds, Series 2006A. Proceeds from the bond refunding were used to refund Combined Utility System Revenue Refunding Bonds, Series 1996A in the amount of $74,585,000, Electric Utility System Revenue Refunding Bonds, Series 2001 in the amount of $48,500,000 and Electric Utility System Revenue Refunding Bonds, Series 2003 in the amount of $18,800,000. The debt service requirements on the refunding bonds were $197,506,917, with an interest rate of 5%. The City realized an economic gain of $6,277,592 on this transaction. The change in net cash flows that resulted was a decrease of $8,024,020. An accounting loss of $3,864,566, which will be deferred and amortized in accordance with FASB Statement No. 71, was recognized on this refunding.

In August 2007, the City issued $146,635,000 of Electric Utility System Revenue Refunding Bonds, Series 2007. Proceeds from the bond refunding were used to refund Combined Utility System Revenue Refunding Bonds, Series 1997 in the amount of $151,990,000. The debt service requirements on the refunding bonds are $199,169,492, with an interest rate of 5%. The City realized an economic gain of $8,784,770 on this transaction. The change in net cash flows that resulted was a decrease of $10,068,568. An accounting loss of $16,568,803, which will be deferred and amortized in accordance with FASB Statement No. 71, was recognized on this refunding.

c -- Water and Wastewater System Revenue Bond Refunding Issue

In December 2006, the City issued $135,000,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2006A. Proceeds from the bond refunding were used to refund $ 134,200,000 of the City's outstanding commercial paper issued for the water and wastewater utility system. The debt service requirements on the refunding bonds were $250,027,850, with interest rates ranging from 3.5% to 5%. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

16 – SUBSEQUENT EVENTS, continued
d – General Obligation Bond Issues

In October 2007, the City delivered $97,525,000 of Public Improvement Bonds, Series 2007. The proceeds from the issue will be used as follows: streets and signals ($62,000,000); parks and recreation ($8,675,000); affordable housing ($5,000,000); and public safety facilities ($21,850,000). These bonds will be amortized serially on September 1 of each year from 2008 to 2027. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2008. Total interest requirements for these bonds, at rates ranging from 4.64% to 4.80%, are $71,596,615.

In October 2007, the City delivered $3,820,000 of Certificates of Obligation, Series 2007. The proceeds from the issue will be used for the Circle C Metro Park ($2,500,000) and for a Compressed Natural Gas Facility ($1,320,000). These certificates of obligation will be amortized serially on September 1 of each year from 2008 to 2027. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2008. Total interest requirements for these bonds, at a rate of 4.88%, are $2,241,864.

In October 2007, the City delivered $9,755,000 of Public Property Finance Contractual Obligations, Series 2007. The proceeds from the issue will be used as follows: fire trucks ($4,035,000); public works transportation equipment ($1,500,000); water utility capital equipment ($2,173,000); and wastewater utility capital equipment ($2,047,000). These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2008 to 2017. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2008. Total interest requirements for these obligations, at a rate of 3.656%, are $1,680,905.

e – Convention Center Investigation

The Travis County District Attorney's office is pursuing a criminal investigation of the former director of the City's Convention Center. The City does not anticipate the results of the investigation to have a material effect on the financial statements.

Schedule of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual-Budget Basis
For the year ended September 30, 2006
(In thousands)

	2006					
			Actual-	Budget		Variance (3)
		Adjustments	Budget			Positive
	Actual	(1) (2)	Basis	Original	Final	(Negative)
REVENUES						
Taxes	$ 294,344	--	294,344	284,198	284,198	10,146
Franchise fees	30,677	--	30,677	29,425	29,425	1,252
Fines, forfeitures and penalties	18,832	--	18,832	17,897	17,897	935
Licenses, permits and inspections	22,131	--	22,131	15,768	15,768	6,363
Charges for services/goods	24,453	--	24,453	23,698	23,698	755
Interest and other	15,882	(850)	15,032	12,069	12,070	2,962
Total revenues	406,319	(850)	405,469	383,055	383,056	22,413
EXPENDITURES						
General government						
Municipal Court	9,018	373	9,391	9,524	9,544	153
Public safety						
Police	186,762	(1,338)	185,424	184,317	184,575	(849)
Fire	97,418	(814)	96,604	91,706	96,014	(590)
Emergency Medical Services	34,943	356	35,299	35,995	36,151	852
Public Safety & Emergency Mgmt	3,883	(197)	3,686	3,696	3,693	7
Transportation, planning and sustainability						
Transportation, Planning and Sustainability	262	--	262	160	160	(102)
Public health:						
Health	29,824	(153)	29,671	29,632	29,760	89
Public recreation and culture						
Parks and Recreation	28,214	76	28,290	27,676	27,726	(564)
Austin Public Library	19,385	(79)	19,306	19,691	19,772	466
Urban growth management						
Neighborhood Planning and Zoning	3,758	(49)	3,709	4,227	4,300	591
Development Services and Watershed Protection	12,943	(123)	12,820	12,657	12,892	72
General city responsibilities (4)	54,494	(45,584)	8,910	14,402	9,534	624
Total expenditures	480,904	(47,532)	433,372	433,683	434,121	749
Excess (deficiency) of revenues over expenditures	(74,585)	46,682	(27,903)	(50,628)	(51,065)	23,162
OTHER FINANCING SOURCES (USES)						
Transfers in	97,658	25,850	123,508	98,508	140,400	(16,892)
Transfers out	(16,611)	(47,033)	(63,644)	(63,966)	(105,536)	41,892
Total other financing sources (uses)	81,047	(21,183)	59,864	34,542	34,864	25,000
Excess (deficiency) of revenues and other sources over expenditures and other uses	6,462	25,499	31,961	(16,086)	(16,201)	48,162
Fund balance at beginning of year	105,342	(37,785)	67,557	34,245	32,945	34,612
Fund balance at end of year	$ 111,804	(12,286)	99,518	18,159	16,744	82,774

(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.

1 – BUDGET BASIS REPORTING

a -- General

The City of Austin prepares its annual operating budget based on the modified accrual basis. 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.

The General Fund budget includes other revenues and requirements, which are presented in the general city responsibilities category. The expenditure budget for these general city requirements includes the following: tuition reimbursement ($85,000), accrued payroll ($679,000), expenditures for workers' compensation ($3,027,009), liability reserve ($2,500,000) and public safety ($2,625,850).

b -- Reconciliation of GAAP Basis and Budget Basis Amounts

The primary differences between GAAP-basis and budget-basis reporting for the General Fund are the reporting of encumbrances and the reporting of certain 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	$ 6,462
Adjustments - increases (decreases) due to:	
Accrued payroll expenditures	2,441
Net compensated absences accrual	(2)
Outstanding encumbrances established in current year	(4,045)
Payments against prior year encumbrances	3,002
Transfer to Airport Fund	(700)
Transfer from Budget Stabilization reserve	25,000
Other	(197)
Excess (deficiency) of revenues and other sources over expenditures and other uses - budget basis	$ 31,961

c -- Budget Amendments

The original budget of the General Fund was amended several times during fiscal year 2006 primarily for increased public safety and urban growth management costs. These increases were offset by decreases in general city responsibilities. The original and final budget is presented in the accompanying financial statements.

RETIREMENT PLANS

Trend Information

Information pertaining to the latest actuarial valuation 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						
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%
2004	1,356,800	1,678,200	321,400	80.8%	326,600	98.4%
2005	1,398,800	1,794,200	395,400	78.0%	348,600	113.4%
Police Officers						
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%
2004	343,447	451,580	108,133	76.1%	86,674	124.8%
2005	371,505	494,641	123,136	75.1%	93,429	131.8%
Fire Fighters (2)						
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%
2005	493,567	580,054	86,487	85.1%	65,885	131.3%

(1) UAAL – Unfunded Actuarial Accrued Liability (Excess)
(2) The actuarial study for the Fire Fighters' plan is performed biannually.

Information on where to obtain financial statements and supplementary information for each plan can be found in Footnote 8.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE

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

Selected Definitions

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

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

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

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

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

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

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

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

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

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

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

"Capital Fund" shall mean the fund so designated in the Ordinance.

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

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

"Construction Fund" shall mean the fund so designated in the Ordinance.

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

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

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

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

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

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

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

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

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

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

"Debt Service Reserve Fund Requirement" shall mean the amount required to be maintained in the Debt Service Reserve Fund. Such amount shall be computed and recomputed annually as a part of the City's budget process and upon the issuance of each series of Revenue Bonds to be the arithmetic average of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Revenue Bonds then Outstanding including the series of Revenue Bonds then being issued. In no event, however, will the amount deposited in the Debt Service Reserve Fund that is allocable to the Revenue Bonds or Additional Revenue Bonds, in accordance with section 1.148-6 of the regulations promulgated under the Code, exceed the least of (a) 10% of the stated principal amount of each issue of which such Revenue Bonds or Additional Revenue Bonds are a part, (b) the maximum annual principal and interest requirements of such issue or (c) 125% of the average annual principal and interest requirements of such issue, unless there is received an opinion of nationally recognized bond counsel to the effect that such additional amount will not cause the Revenue Bonds and any Additional Revenue Bonds to be "arbitrage bonds" within the meaning of section 148 of the Code and the regulations promulgated from time to time thereunder.

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

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

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

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

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

(a) proceeds of any Prior Lien Bonds, Revenue Bonds and Subordinate Obligations;

(b) interest or other investment income derived from Prior Lien Bonds, Revenue Bonds and Subordinate Obligation proceeds and Subordinate Obligations deposited to the credit of a construction fund, and all other interest or investment income not required to be transferred or credited to the Revenue Fund;

(c) any monies received as grants, appropriations, or gifts, the use of which is limited by the grantor or donor to the construction or acquisition of Airport System facilities, except to the extent any such monies shall be received as payments for the use of the Airport System facilities;

(d) any revenues derived from any Special Facilities which are pledged to the payment of Special Facilities Bonds;

(e) insurance proceeds other than loss of use or business interruption insurance proceeds;

(f) the proceeds of the passenger facility charge currently imposed by the City and any other per-passenger charge as may be hereafter lawfully authorized;

(g) sales and other taxes collected by the Airport System on behalf of the State of Texas and any other taxing entities;

(h) Federal Payments received by the Airport System unless the City first receives an opinion from nationally recognized bond counsel to the effect that such payments, if included in Gross Revenues, would not cause the interest on the Bonds to be includable within the gross income of the Owners thereof for federal income tax purposes;

(i) the proceeds received by the City from the sale or other disposition of Airport System property, except amounts representing interest or finance charges in a deferred sale or other similar method of conveyance where a portion of the sale price is payable on a deferred basis, in which case any interest or finance charges shall be considered Gross Revenues; and

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

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

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

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

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

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

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

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

(a) any allowance for depreciation;

(b) costs of capital improvements;

(c) reserves for major capital improvements, Airport System operations, maintenance or repair;

(d) any allowance for redemption of, or payment of interest or premium on, Prior Lien Bonds, Revenue Bonds and Subordinate Obligations;

(e) any liabilities incurred in acquiring or improving properties of the Airport System;

(f) expenses of lessees under Special Facilities Leases and operation and maintenance expenses pertaining to Special Facilities to the extent they are required to be paid by such lessees pursuant to the terms of the Special Facilities Leases;

(g) any charges or obligations incurred in connection with any lawful Airport System purpose, including the lease, acquisition, operation or maintenance of any facility or property benefiting the Airport System, provided that the payment of such charges or obligations is expressly agreed by the payee to be payable solely from proceeds of the Capital Fund;

(h) liabilities based upon the City's negligence or other ground not based on contract; and

(i) so long as Federal Payments are excluded from Gross Revenues, an amount of expenses that would otherwise constitute Operation and Maintenance Expenses for such period equal to the Federal Payments for such period.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Revenue Fund" shall mean the fund so designated in the Ordinance.

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

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

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

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

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

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

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

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

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

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

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

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

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

"Variable Rate Bonds" shall mean Revenue Bonds which bear a Variable Rate.

Funds and Flow of Funds

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

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

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

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

(a) First, to provide for all payments of Operation and Maintenance Expenses required by the Prior Lien Ordinances or the Revenue Bond Ordinances.

(b) Second, to transfer all amounts to the Prior Lien Debt Service Fund required by the Prior Lien Ordinances.

(c) Third, to transfer all amounts to the Prior Lien Debt Service Reserve Fund required by the Prior Lien Ordinances.

(d) Fourth, to transfer all amounts to the Debt Service Fund required by the Revenue Bond Ordinances necessary to pay Debt Service on the Revenue Bonds and any Credit Agreement Obligations related thereto.

(e) Fifth, to transfer all amounts to the Administrative Expense Fund required to pay Administrative Expenses to the Persons entitled thereto when due.

(f) Sixth, to transfer all amounts to the Debt Service Reserve Fund required by the Revenue Bond Ordinances.

(g) Seventh, to transfer all amounts necessary to provide for the payment of Subordinate Obligations, or to provide reserves for such payment, as may be required by any ordinance authorizing such Subordinate Obligations and credit agreement obligations related thereto.

(h) Eighth, to transfer all amounts necessary to provide for the payment of principal of and interest on General Obligation Airport Bonds.

(i) Ninth, to transfer all amounts to the Operation and Maintenance Reserve Fund required by the Revenue Bond Ordinances.

(j) Tenth, to transfer all amounts to the Renewal and Replacement Fund required by the Revenue Bond Ordinances.

(k) Eleventh, the balance shall be transferred to the Capital Fund.

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

Debt Service Reserve Fund. The City shall establish and maintain as provided in the Ordinance a balance in the Debt Service Reserve Fund equal to the Debt Service Reserve Fund Requirement. Each increase in the Debt Service Reserve Fund Requirement resulting from the issuance of Additional Revenue Bonds shall be funded at the time of issuance and delivery of such series of Additional Revenue Bonds by depositing to the credit of the Debt Service Reserve Fund either (A) proceeds of such Additional Revenue Bonds and/or other lawfully appropriated funds in not less than the amount which will be sufficient to fund fully the Debt Service Reserve Fund Requirement or (B) a Debt Service Reserve Fund Surety Bond sufficient to provide such portion of the Debt Service Reserve Fund Requirement. The City further expressly reserves the right to substitute at any time a Debt Service Reserve Fund Surety Bond for any funded amounts in the Debt Service Reserve Fund and to apply the funds thereby released, to the greatest extent permitted by law, to any of the purposes for which the related Revenue Bonds were issued or to pay debt service on the related Revenue Bonds. The City shall not employ any Debt Service Reserve Fund Surety Bond unless (i) the City officially finds that the purchase of such Debt Service Reserve Fund Surety Bond is cost effective, (ii) the Debt Service Reserve Fund Surety Bond does not impose upon the City a repayment obligation (in the event the Debt Service Reserve Fund Surety Bond is drawn upon) greater than can be funded in eighteen (18) monthly installments as provided below, payable out of Net Revenues on a parity with the monthly deposits that are otherwise required to be made to the Debt Service Reserve Fund, and (iii) that any interest due in connection with such repayment obligation does not exceed the highest lawful rate of interest which may be paid by the City at the time of delivery of the Debt Service Reserve Fund Surety Bond.

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

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

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

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

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

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

Renewal and Replacement Fund. The City has established the Renewal and Replacement Fund Requirement to be $5,000,000. On or before the last business day of each month, if the Renewal and Replacement Fund contains less than the Renewal and Replacement Fund Requirement, then after making all required transfers to the Prior Lien Debt Service Fund, the Prior Lien Debt Service Reserve Fund, the Debt Service Fund, the Debt Service Reserve Fund and the Administrative Expense Fund and any required transfers for Subordinate Obligations or General Obligation Airport Bonds as hereinabove provided, and to the Operation and Maintenance Reserve Fund, there shall be transferred from the Revenue Fund, to the extent funds are available therein, to the Renewal and Replacement Fund an amount equal to one-twelfth (1/12th) of the deficiency (being the amount by which the Renewal and Replacement Fund Requirement exceeded the unappropriated balance therein) as of the last day of the previous Fiscal Year and, at the discretion of the City, to pay directly from the Revenue Fund any other costs that could be paid from amounts on deposit in the Renewal and Replacement Fund. Such transfers shall be required to be made into the Renewal and Replacement Fund until such time as the Renewal and Replacement Fund Requirement has again been accumulated in the Renewal and Replacement Fund. Amounts from time to time credited to the Renewal and Replacement Fund may be used at any time first, to pay for any costs of replacing depreciable property and equipment of the Airport System and making repairs, replacements or renovations of the Airport System; second, to pay any Operation and Maintenance Expenses for which insufficient amounts are available in the Operation and Maintenance Fund; and third, to the extent any amounts are remaining, to be transferred to the Prior Lien Debt Service Fund, the Prior Lien Debt Service Reserve Fund, the Debt Service Fund, the Debt Service Reserve Fund and the Administrative Expense Fund or any similar fund created to provide for the payment, and reserves for the payment, of Revenue Bonds, Subordinate Obligations and General Obligation Airport Bonds to the extent of any deficiency therein.

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

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

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

Mueller Airport Disposition Fund. In connection with the issuance of the Series 1995A Bonds and the Series 1995B Bonds the City established the Mueller Disposition Fund for the purpose of paying or reimbursing costs and expenses incurred by the City necessary or incident to the closing of Robert Mueller Municipal Airport for aviation purposes and the disposition of the Mueller Airport Property. Subsequent to the issuance of the Series 1995A Bonds and the Series 1995B Bonds and the opening of the Airport, the Robert Mueller Municipal Airport was closed for aviation purposes and the Mueller Airport Property was transferred out of the Airport System and is no longer part of the Airport System. In connection with the transfer of the Mueller Airport Property, the City deposited certain funds into the Mueller Disposition Fund. Such funds, together with any other amounts deposited into the Mueller Disposition Fund, may be used for the payment or reimbursement of all costs and expenses incurred by the City necessary or incident to the closing of Robert Mueller Municipal Airport to aviation purposes and the disposition of the Mueller Airport Property. Any amounts thereafter remaining, if any, will be transferred to the City's aviation department.

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

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

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 Reserve Fund	Remains in fund until the applicable Debt Service Reserve Fund Requirement is satisfied; thereafter to the Revenue Fund
Administrative Expense Fund	Revenue Fund
Operation and Maintenance Reserve Fund	Remains in fund until fully funded; thereafter, to the Revenue Fund
Renewal and Replacement Fund	Remains in fund until Renewal and Replacement Fund Requirement is met; thereafter, to the Revenue Fund
Capital Fund - Capital Improvement Account	Remains in the fund or in the appropriate fund or account therein

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

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

Additional Bonds

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

(a) No Default. The City Manager and the Aviation Director certify that, upon the issuance of such Additional Revenue Bonds, the City will not be in default under any term or provision of any Revenue Bonds then Outstanding or any ordinance pursuant to which any of such Prior Lien Bonds or Revenue Bonds were issued unless such default will be cured by the issuance of such Additional Revenue Bonds.

(b) Proper Fund Balances. The City's Chief Financial Officer or trustee, if one has been appointed, shall certify that, upon the issuance of such Additional Revenue Bonds, the Debt Service Fund and the Prior Lien Debt Service Fund will have the required amounts on deposit therein and that the Debt Service Reserve Fund and the Prior Lien Debt Service Reserve Fund will contain the applicable Debt Service Reserve Fund Requirement or so much thereof as is required to be funded at such time.

(c) Projected Coverage for Additional Revenue Bonds. An Airport Consultant provides a written report setting forth projections which indicate that the estimated Net Revenues, together with the estimated Other Available Funds, of the Airport System for each of three (3) consecutive Fiscal Years beginning in the earlier of

(i) the first Fiscal Year following the estimated date of completion and initial use of all revenue producing facilities to be financed with Additional Revenue Bonds, based upon a certified written estimated completion date by the consulting engineer for such facility or facilities, or

(ii) the first Fiscal Year in which the City will have scheduled payments of interest on or principal of the Additional Revenue Bonds to be issued for the payment of which provision has not been made as indicated in the report of such Airport Consultant from proceeds of such Additional Revenue Bonds, investment income thereon or from other appropriated sources (other than Net Revenues),

are equal to at least 125% of the Debt Service Requirements on all outstanding Prior Lien Bonds and Revenue Bonds scheduled to occur during each such respective Fiscal Year after taking into consideration the additional Debt Service Requirements for the Additional Revenue Bonds to be issued.

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

(e) Refunding Bonds. If Additional Revenue Bonds are being issued for the purpose of refunding less than all previously issued Prior Lien Bonds or Revenue Bonds which are then Outstanding, neither of the certifications described in (c) or (d) above are required so long as the maximum annual Debt Service Requirements in any Fiscal Year after the issuance of such Additional Revenue Bonds will not exceed the maximum annual Debt Service Requirements in any Fiscal Year prior to the issuance of such Additional Revenue Bonds.

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

(g) Special Provisions for Completion Bonds. The provisions of paragraphs (c) and (d) above shall not apply to the issuance of Completion Bonds in accordance with the provisions of the Ordinance.

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

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

(a) a certificate of the consulting engineer engaged by the City to design the Project for which the Completion Bonds are to be issued stating that such Project has not materially changed in scope since the issuance of the most recent series of Prior Lien Bonds or Revenue Bonds for such purpose (except as permitted in the applicable ordinance authorizing such Prior Lien Bonds or Revenue Bonds) and setting forth the aggregate cost of the Project which, in the opinion of such consulting engineer, has been or will be incurred; and

(b) a certificate of the Aviation Director (i) stating that all amounts allocated to pay costs of the Project from the proceeds of the most recent series of Prior Lien Bonds or Revenue Bonds issued in connection with the Project for which the Completion Bonds are being issued were used or are still available to be used to pay costs of such Project; (ii) containing a calculation of the amount by which the aggregate cost of that Project (furnished in the consulting engineer's certificate described above) exceeds the sum of the costs of the Project paid to such date plus the moneys available at such date within any construction fund or other like account applicable to the Project plus any other moneys which the Aviation Director, in his discretion, has determined are available to pay such costs in any other fund; and (iii) certifying that, in the opinion of the Aviation Director, the issuance of the Completion Bonds is necessary to provide funds for the completion of the Project.

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

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

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

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

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

Particular Covenants

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

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

(i) all amounts required to be deposited in such Fiscal Year to the credit of the Prior Lien Debt Service Fund, the Prior Lien Debt Service Reserve Fund, the Debt Service Fund, the Debt Service Reserve Fund, and the Administrative Expense Fund and to any debt service or debt service reserve fund or account for Subordinate Obligations, or

(ii) an amount, together with Other Available Funds, not less than 125% of the Debt Service Requirements for Prior Lien Bonds and Revenue Bonds for such Fiscal Year plus an amount equal to 100% for anticipated and budgeted Administrative Expenses for such Fiscal Year.

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

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

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

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

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

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

Bondholders' Remedies. The Ordinance shall constitute a contract between the City and the Owners of the Revenue Bonds and the holders of Credit Agreement Obligations related thereto from time to time outstanding and the Ordinance shall be and remain 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) $4.50 derived from each passenger facility charge so imposed and collected by the City for the payment of debt service on the Prior Lien Bonds and the Revenue Bonds in the following Fiscal Year, unless the City receives a report from an Airport Consultant showing that an alternative use of all or a portion of such passenger facility charges will not reduce the forecast coverage of Debt Service Requirements by forecast Net Revenues during the following Fiscal Year (or such longer forecast period as may be covered in the Airport Consultant's Report) to less than 125%.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

[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

MULTI-MODAL PROVISIONS

MULTI-MODAL PROVISIONS

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APPENDIX G

MULTI-MODAL PROVISIONS

ARTICLE A-I

DEFINITIONS

Section A-101 Definitions. Capitalized terms used but not otherwise defined in this Appendix shall have the meanings set forth in the Ordinance adopted on August 4, 2005, by the City Council of the City of Austin (the "Ordinance"). The following terms shall, for all purposes herein and (except as the context may otherwise require) in the Ordinance, have the following meanings:

Alternate Credit Facility means a Credit Facility that is issued in substitution for a then-existing Credit Facility in accordance with, and pursuant to, Section A-501 hereof, as the same may be amended or supplemented from time to time.

Alternate Liquidity Facility means a Liquidity Facility that is issued in substitution for a then-existing Liquidity Facility in accordance with, and pursuant to, Section A-501 hereof, as the same may be amended or supplemented from time to time.

Alternate Rate means, on any Rate Determination Date, the BMA Index or if the BMA Index is no longer published, an index or a rate selected or determined by the City with the consent of the Insurer and the Credit Facility Issuer, which consent shall not be unreasonably withheld.

Auction Agent shall have the meaning set forth in Exhibit I hereto.

Auction Agreement shall have the meaning set forth in Exhibit I hereto.

Auction Date shall have the meaning set forth in Exhibit I hereto.

Auction Period shall have the meaning set forth in Exhibit I hereto.

Auction Period Rate shall have the meaning set forth in Exhibit I hereto.

Auction Procedures shall have the meaning set forth in Exhibit I hereto.

Auction Rate Mode means the mode during which the duration of the Auction Period and the interest rate is determined in accordance with Section A-206 hereof and Exhibit I hereto.

Authorized Denominations means with respect to Bonds of a subseries (i) in an Auction Rate Mode, $25,000 and any integral multiple thereof, (ii) in a Daily Rate Mode or Weekly Rate Mode, $100,000 and any integral multiple of $5,000 in excess thereof and (iii) in a Term Rate Mode or Fixed Rate Mode, $5,000 and any integral multiple thereof, provided, however, that if as a result of the change in the Mode of the Bonds of a subseries from a Term Rate Mode to an Auction Rate Mode, Daily Rate Mode or Weekly Rate Mode, it is not possible to deliver all the

Bonds of a subseries required or permitted to be Outstanding in a denomination permitted above, Bonds of a subseries may be delivered, to the extent necessary, in different denominations.

Bank Interest Rate means with respect to any amounts owing under any Bank Bond, the rate of interest which is (i) applicable to the amounts owing under such Bank Bond as specified in and computed in accordance with the Liquidity Facility and (ii) not in excess of the Maximum Rate.

Bank Bond means any Bond of a subseries during any period commencing on the day such Bond is owned by or held on behalf of the Liquidity Facility Issuer or its permitted assignee as a result of such Bond having been purchased pursuant to Article A-IV hereof from the proceeds of a draw under the Liquidity Facility and ending when such Bond is, pursuant to the provisions of the Liquidity Facility, no longer deemed to be a Bank Bond.

Bank Bond Maximum Rate means the per annum rate as determined by the City and consented to by the Liquidity Facility Issuer and set forth in the Liquidity Facility, but in no event higher than Maximum Rate.

BMA Index means The Bond Market Association Municipal Swap Index released by Municipal Market Data to its subscribers.

Bonds or **Bonds of a subseries** and words of like import shall mean any Bonds authorized pursuant to the Ordinance and issued in accordance with the Ordinance, or all such Bonds collectively, as the context may require.

Broker-Dealer shall have the meaning set forth in Exhibit I hereto.

Broker-Dealer Agreement shall have the meaning set forth in Exhibit I hereto.

Business Day means a day other than (i) a Saturday, Sunday or legal holiday, (ii) as applicable, a day on which the Paying Agent/Registrar, the Insurer, the Tender Agent, the Auction Agent (if the Bonds of a subseries are in an Auction Rate Mode), the Broker-Dealers (if the Bonds of a subseries are in an Auction Rate Mode), the Remarketing Agent, the Credit Facility Issuer, the Liquidity Facility Issuer or banks and trust companies in New York, New York are authorized or required to remain closed, or (iii) a day on which the New York Stock Exchange is closed.

Credit Facility means any letter of credit, standby bond purchase agreement, line of credit, policy of bond insurance, surety bond, guarantee or similar instrument, or any agreement relating to the reimbursement of any payment thereunder (or any combination of the foregoing), which is obtained by the City and is issued by a financial institution, insurance provider or other Person and which provides security or liquidity in respect of any Bond, but excluding, for purposes of this Appendix, any Liquidity Facility as defined below) which is obtained by the City pursuant to Section A-501 hereof and that provides (to the extent, and subject to the terms and conditions, set forth therein) for the payment of principal of and interest on the Bonds of a subseries becoming due and payable during the term thereof, as the same may be amended or supplemented from time to time.

Credit Facility Issuer means the issuer of a Credit Facility.

Current Mode has the meaning specified in Section A-207(b) hereof.

Daily Rate Mode means the Mode during which Bonds of a subseries bear interest at a Daily Rate.

Daily Rate means an interest rate determined pursuant to Section A-202 hereof.

Differential Interest Amount has the meaning specified in Section A-201 hereof.

Direct-Pay Credit Facility means a Credit Facility that is issued in the form of a direct-pay letter of credit.

Direct-Pay Credit Facility Drawing Account means the Account that may be established pursuant to Section A-502 hereof.

Electronic Means means telecopy, facsimile transmission, e-mail transmission or other similar electronic means of communication providing evidence of transmission, including a telephonic communication confirmed by any other method set forth in this definition.

Expiration Date means, with respect to a Credit Facility or Liquidity Facility with respect to the Bonds of a subseries, the stated expiration date of such Credit Facility or Liquidity Facility, or such stated expiration date as it may be extended from time to time as provided therein; provided, however, that the "Expiration Date" shall not mean any date upon which a Credit Facility or Liquidity Facility is no longer effective by reason of its Termination Date, the date on which all Bonds of such subseries bear interest at a Fixed Rate or an Auction Period Rate or the expiration of such Credit Facility or Liquidity Facility by reason of the obtaining of an Alternate Credit Facility or Alternate Liquidity Facility.

Expiration Tender Date shall have the meaning set forth in clause (a) of Section A-403 hereof.

Favorable Opinion of Bond Counsel means, with respect to any action the occurrence of which requires such an opinion, an opinion of nationally recognized bond counsel to the effect that such action is permitted under applicable law and the Ordinance, and that such action will not impair the exclusion of interest on such Bonds from gross income for purposes of federal income taxation (subject to the inclusion of any exceptions contained in the opinion delivered upon original issuance of the Bonds).

Fixed Rate means an interest rate fixed to the stated maturity date of the Bonds of a subseries.

Fixed Rate Mode means the period during which Bonds of a subseries bear interest at a Fixed Rate.

Interest Non-Reinstatement Tender Date shall have the meaning set forth in clause (c) of Section A-403 hereof.

Interest Payment Date means the following dates upon which interest is payable on Bonds of a subseries:

(a) the stated maturity date or any Mode Change Date;

(b) with respect to the Daily Rate Mode and the Weekly Rate Mode, the first Business Day of each calendar month;

(c) with respect to the Auction Rate Mode, each date that is specified as an "Interest Payment Date" in Exhibit I hereto;

(d) with respect to the Term Rate Mode, each May 1 and November 1 prior to the Purchase Date, and the Purchase Date;

(e) with respect to the Fixed Rate Mode, each May 1 and November 1, provided that the Interest Payment Dates for the Fixed Rate Mode may be changed in connection with the conversion to such Mode upon receipt of a Favorable Opinion of Bond Counsel; and

(f) with respect to a Bank Bond, each date that is specified as a date on which interest is payable thereon pursuant to the Liquidity Facility under which such Bank Bond was purchased.

Interest Period means the period of time that any interest rate (other than the Auction Rate) remains in effect, which period:

(i) with respect to Bonds of a subseries in the Daily Rate Mode, shall be the period from and including the Closing Date (if initially issued in the Daily Rate Mode) or the Mode Change Date that they began to bear interest at the Daily Rate to and excluding the next Business Day and thereafter commencing on each Business Day to and excluding the next Business Day;

(ii) with respect to Bonds of a subseries in the Weekly Rate Mode, shall be the period from and including the Closing Date (if initially issued in the Weekly Rate Mode) or the Mode Change Date that they began to bear interest at the Weekly Rate to and including the following Wednesday and thereafter commencing on each Thursday to and including the earlier of the Wednesday of the following week or the day preceding any Mandatory Purchase Date or the Maturity Date;

(iii) with respect to Bonds of a subseries in the Term Rate Mode, shall be the period from and including the Closing Date (if initially issued in the Term Rate Mode) or the Mode Change Date that they began to bear interest at the Term Rate to and including the date selected by the City prior to the Closing Date or the Mode Change Date, as the case may be, as the last day upon which an interest rate determined by the Remarketing Agent pursuant to Section A-204 hereof shall be in effect, and thereafter, shall be the period beginning on the day after the end of the prior Interest Period and ending on the date selected by the City prior to the end of such Interest Period as the last day upon which an interest rate determined by the Remarketing Agent pursuant to Section A-204 hereof shall be in effect; provided, that no Interest Period shall extend beyond the day preceding any Mandatory Purchase Date or the maturity date; and

(iv) with respect to Bonds of a subseries in the Fixed Rate Mode, shall be the period from and including the Mode Change Date that they began to bear interest at the Fixed Rate to and including the stated maturity date or date of redemption prior to the stated maturity date.

Liquidity and Credit Amount means at any time:

(i) in the case of a Credit Facility and/or a Liquidity Facility that is not also a Direct-Pay Credit Facility and with respect to (a) the Bonds of a subseries bearing interest at the Daily Rate or Weekly Rate, an amount to pay the Purchase Price equal to the principal amount (and, with respect to a Credit Facility, Redemption Price) of the Bonds of the Series then Outstanding plus an interest amount equal to 35 days' interest thereon calculated at the Maximum Rate on the basis of a 365 day year for the actual number of days elapsed; and (b) the Bonds of a subseries in the Term Rate Mode, an amount equal to the principal amount (and, with respect to a Credit Facility, Redemption Price) of such Bonds then Outstanding plus an interest amount equal to 187 days' interest thereon calculated at the then applicable Term Rate; and

(ii) in the case of a Credit Facility and/or a Liquidity Facility that is also a Direct-Pay Credit Facility and with respect to (a) the Bonds of a subseries bearing interest at the Daily Rate or Weekly Rate, an amount to pay the Purchase Price equal to the principal amount (and, with respect to a Credit Facility, Redemption Price) of the Bonds of the Series then Outstanding plus an interest amount equal to 45 days' interest thereon calculated at the Maximum Rate on the basis of a 365 day year for the actual number of days elapsed; and (b) the Bonds of a subseries in the Term Rate Mode, an amount equal to the principal amount (and, with respect to a Credit Facility, Redemption Price) of such Bonds then Outstanding plus an interest amount equal to 197 days' interest thereon calculated at the then applicable Term Rate.

Liquidity Facility means a letter of credit, standby bond purchase agreement, line of credit, loan, guaranty or similar agreement acceptable to the Insurer (but excluding, for purposes of this Appendix, any Credit Facility as defined above) which is obtained by the City pursuant to Section A-501 hereof and that provides (to the extent, and subject to the terms and conditions, set forth therein) for the payment of the Purchase Price of Bonds of a subseries tendered or deemed tendered to the Tender Agent during the term thereof, as the same may be amended or supplemented from time to time, including any Alternate Liquidity Facility.

Liquidity Facility Issuer means the issuer of a Liquidity Facility.

Liquidity Facility Purchase Account means the account by the name created pursuant to Section A-406 hereof.

Mandatory Purchase Date means any (i) Mode Change Date, (ii) the Interest Non-Reinstatement Tender Date, (iii) the Substitution Date, (iv) the Expiration Tender Date, (v) the Termination Tender Date and (vi) the Purchase Date of Bonds of a subseries in the Term Rate Mode.

Maximum Auction Rate shall have the meaning set forth in Exhibit I hereto.

Maximum Rate means (i) twelve percent (12%) per annum or such higher rate as determined by the City with the consent of the Insurer, which consent shall not be unreasonably withheld or (ii) with respect to Bonds of a subseries that are Bank Bonds, the Bank Bond Maximum Rate; provided, however, that in no event shall the Maximum Rate exceed the maximum rate permitted by applicable law, including Chapter 1204 of the Texas Government Code.

Mode means the Auction Rate Mode, the Daily Rate Mode, the Weekly Rate Mode, the Term Rate Mode or the Fixed Rate Mode.

Mode Change Date means, with respect to Bonds of a subseries, the date one Mode terminates and another Mode begins.

Mode Change Notice shall have the meaning specified in Section A-207(b) hereof.

Notice Parties means the City, the Paying Agent/Registrar, the Insurer, the Remarketing Agent (if any), the Tender Agent (if any), the Auction Agent (if any), all Broker-Dealers (if any), the Credit Facility Issuer (if any) and the Liquidity Facility Issuer (if any).

Owner means, with respect to any Bond, the Owner of such Bond pursuant to the Ordinance.

Purchase Date means with respect to any Bond of a subseries (i) in the Term Rate Mode, the Business Day after the last day of the Interest Period applicable thereto and (ii) during the Daily Rate Mode or Weekly Rate Mode, any Business Day upon which such Bond is tendered or deemed tendered for purchase pursuant to Section A-401 hereof.

Purchase Fund means the fund created in Section A-406 hereof.

Purchase Price means an amount equal to the principal amount of any Bond of a subseries purchased on any Purchase Date or Mandatory Purchase Date, plus, in the case of any Bond of a subseries that has been tendered pursuant to Section A-401 hereof, unless the Purchase Date for such Bond is also an Interest Payment Date, accrued interest to the Purchase Date.

Rate Determination Date means any date on which the interest rate on any Bonds (other than Auction Rate Bonds) of a subseries is required to be determined, being: (i) in the case of Bonds of a subseries in the Daily Rate Mode, each Business Day; (ii) in the case of any Bonds of a subseries in the Weekly Rate Mode, for any Interest Period commencing on a Mode Change Date, the Business Day immediately preceding the Mode Change Date, and for any other Interest Period, each Wednesday or, if such Wednesday is not a Business Day, the Business Day next preceding such Wednesday; and (iii) in the case of any Bonds of a subseries to be, or to continue to be, in the Term Rate Mode or Fixed Rate Mode, a Business Day prior to the first day of an Interest Period.

Rating Agencies means Fitch, Moody's and S&P or such other nationally recognized securities rating agencies selected by the City.

Record Date means, with respect to Bonds of a subseries (i) in the Auction Rate Mode, the Daily Rate Mode or the Weekly Rate Mode, the opening of business on the Business Day next preceding an Interest Payment Date and (ii) in the Term Rate Mode or Fixed Rate Mode, the fifteenth (15th) day (whether or not a Business Day) of the calendar month next preceding each Interest Payment Date.

Redemption Date means the date fixed for redemption of Bonds of a subseries subject to redemption in any notice of redemption given in accordance with the terms hereof.

Remarketing Agent means the remarketing agent, if any, appointed pursuant to Section A-601 of this Appendix.

Remarketing Agreement means the remarketing agreement entered into between the City and the Remarketing Agent with respect to the Bonds of a subseries pursuant to which the Remarketing Agent has agreed to use its best efforts to remarket the Bonds of such subseries on the Mandatory Purchase Date at a price of not less than 100% of the principal amount thereof.

Remarketing Proceeds Account means the account by that name created in Section A-406 hereof.

Securities Depository has the meaning set forth in Exhibit I.

Series means the series, or subseries, as the case may be, designation assigned to the Bonds.

Sinking Fund Installments mean the sinking fund installments for the Bonds as specified in the Pricing Certificate.

Substitution Date means:

(a) the second Business Day preceding the date that is specified in a written notice given to the City, the Remarketing Agent and the Tender Agent in accordance with the Liquidity Facility or the Credit Facility as the date on which the assignment of the obligation of the Liquidity Facility Issuer or the Credit Facility Issuer under such Liquidity Facility or Credit Facility shall be effective; provided, however, that any date specified in such written notice as the effective date of such assignment shall be treated as the effective date of such assignment even if the assignment fails to occur on such date; and

(b) the date that is specified in a written notice given by the City to the Tender Agent and the Remarketing Agent as the date on which an Alternate Credit Facility or an Alternate Liquidity Facility is to be substituted for a then-existing Credit Facility or Liquidity Facility in effect pursuant to Section A-501 hereof; provided, however, that any date so specified in the written notice shall be treated as a Substitution Date only if a written notice thereof is given to the Tender Agent and the Remarketing Agent at least sixteen (16) days preceding such date; provided further, however, that any date so specified in the written notice shall be treated as a Substitution Date for the purposes of the Ordinance even if the substitution of the Alternate Credit Facility or the Alternate Liquidity Facility fails to occur on such date.

Tender Agent means the tender agent, if any, appointed pursuant to Section A-602 hereof.

Tender Agency Agreement means the tender agency agreement entered into among the City and the Tender Agent with respect to the Bonds of a subseries.

Term Rate means an interest rate determined pursuant to Section A-204 hereof.

Term Rate Mode means the mode during which Bonds of a subseries bear interest at a Term Rate.

Termination Date means, with respect to a Credit Facility or a Liquidity Facility, (i) the date on which such Credit Facility or Liquidity Facility shall terminate pursuant to its terms or otherwise be terminated prior to its Expiration Date or (ii) the date on which the obligation of the Credit Facility Issuer or the Liquidity Facility Issuer to provide a loan shall terminate; provided, however, that "Termination Date" shall not mean any date upon which a Credit Facility or Liquidity Facility is no longer effective by reason of its Expiration Date.

Termination Tender Date shall have the meaning set forth in clause (b) of Section A-403 hereof.

Weekly Rate Mode means a period of time during which Bonds of a subseries bear interest at a Weekly Rate.

Weekly Rate means an interest rate determined pursuant to Section A-203 hereof.

Section A-102 Rules of Construction.

(a) This Appendix constitutes an integral part of the Ordinance and, except to the extent provided in the next sentence, has the same force and effect as if set forth in the forepart of the Ordinance. In the event of any conflict between this Appendix and the forepart of the Ordinance, the forepart of the Ordinance shall control.

(b) References in the Ordinance and in this Appendix to Articles or Sections with "A-" preceding the number of an Article or Section are to such Article or Section of this Appendix.

(c) To the extent that the Bonds are issued in or re-designated into two or more subseries, references in the Ordinance and in this Appendix to the Bonds of a subseries shall be deemed to refer to Bonds of such subseries. To the extent that the Bonds are not issued in or re-designated into two or more subseries, references in the Ordinance and in this Appendix (including Exhibit I hereto) to Bonds of a subseries shall be deemed to refer to the Bonds as a whole.

(d) Unless otherwise provided in the Ordinance and this Appendix, references in the Ordinance and in this Appendix to "time" shall be deemed to refer to New York, New York time.

ARTICLE A-II

INTEREST RATE MODES, INTEREST RATES AND PAYMENT

Section A-201 Denominations; Medium, Method and Place of Payment of Principal and Interest. The Bonds of each subseries shall be issued in Authorized Denominations. While Bonds are in the Auction Rate Mode, Daily Rate Mode or Weekly Rate Mode, accrued and unpaid interest on the Bonds of a subseries shall be due on the Interest Payment Dates and payable by wire transfer of immediately available funds to the account specified by the Owner in a written direction received by the Paying Agent/Registrar on or prior to a Record Date or, if no such account number is furnished, by check mailed by the Paying Agent/Registrar to the Owner at the address appearing on the books required to be kept by the Paying Agent/Registrar pursuant to the Ordinance. The payment of the Purchase Price of Bonds of a subseries on any Purchase Date or Mandatory Purchase Date shall be made by wire transfer in immediately available funds by the Tender Agent to the account specified by the Owner in a written direction received by the Tender Agent or, if no such account number is furnished, by check mailed by the Tender Agent to the Owner at the address appearing on the books required to be kept by the Paying Agent/Registrar pursuant to the Ordinance. Any such direction shall remain in effect until revoked or revised by such Owner by an instrument in writing delivered to the Paying Agent/Registrar or the Tender Agent, as the case may be.

Interest on Bonds of a subseries that are issued in the Daily Rate Mode or Weekly Rate Mode shall be calculated on the basis of a 365/366-day year for the actual number of days elapsed to the Interest Payment Date. Interest on Bonds of a subseries that are issued in the Term Rate Mode, the Fixed Rate Mode or 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 Bonds of a subseries 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.

The interest rates for Bonds of a subseries contained in the records of the Paying Agent/Registrar shall be conclusive and binding upon the City, the Remarketing Agent, the Tender Agent, the Auction Agent, all Broker-Dealers, the Credit Facility Issuer, the Liquidity Facility Issuer and the Owners.

Notwithstanding the provisions of Section A-202 through Section A-206, inclusive, each Bank Bond shall bear interest on the outstanding principal amount thereof, and on the amount (if any) of accrued and unpaid interest thereon, at the Bank Interest Rate for each day from and including the date such Bond becomes a Bank Bond to, but not including, the date such Bond is paid in full or is remarketed. The Owner of a Bond of a subseries other than the Liquidity Facility Issuer or its permitted assignee shall be paid (and shall be obligated to pay as part of the price paid by such Owner in connection with the remarketing to it of such Bonds) interest thereon for an Interest Period or Auction Period only in the amount that would have accrued thereon at the rate or rates established pursuant to Section A-202, Section A-203, Section A-204, Section A-205 or Section A-206, as applicable, regardless of whether such Bond was a Bank Bond during any portion of such Interest Period. Accrued interest in respect to any Bank Bond shall be payable to the Liquidity Facility Issuer or its permitted assignee on each Interest

Payment Date applicable thereto; provided that any Differential Interest Amount due to the Liquidity Facility Issuer or its permitted assignee shall be paid by the City at the times specified in the Liquidity Facility. For purposes of the preceding sentence "Differential Interest Amount" means the excess of (a) interest which has accrued on Bank Bonds at the Bank Interest Rate up to but excluding the Business Day on which such Bank Bonds are purchased from the Liquidity Facility Issuer, less (b) the interest accrued on such Bonds received by the Liquidity Facility Issuer as part of the Purchase Price as therein described.

No Bond of a subseries may bear interest at an interest rate higher than the Maximum Rate.

Section A-202 Determination of Interest Rate During Daily Rate Mode. The interest rate for any Bond of a subseries in the Daily Rate Mode shall be the rate of interest per annum determined by the Remarketing Agent on or before 9:30 a.m. on the Rate Determination Date as the minimum rate of interest that, in the opinion of the Remarketing Agent, would, under then existing market conditions, result in the sale of the Bonds of the Series in the Daily Rate Mode on the Rate Determination Date at a price equal to the principal amount thereof, plus accrued interest, if any. The Remarketing Agent shall make the rate available by Electronic Means to each other Notice Party by 10:30 a.m., on the Rate Determination Date or at such other times as may be agreed to by the City and the Remarketing Agent. With respect to any day that is not a Business Day, the interest rate shall be the same rate as the interest rate established for the immediately preceding Business Day. The determination of each interest rate by the Remarketing Agent shall, in the absence of manifest error, be conclusive and binding upon the Remarketing Agent, the Tender Agent, the Paying Agent/Registrar, the Liquidity Facility Issuer, the Credit Facility Issuer, the City and the Owners.

Section A-203 Determination of Interest Rate During Weekly Rate Mode. To the extent the Bonds of a subseries are initially issued in a Weekly Rate Mode, the interest rate for Bonds of such subseries for the initial Interest Period shall be the rate of interest per annum set forth in the Pricing Certificate. For any Interest Period that is not an initial Interest Period, the interest rate for Bonds of a subseries in a Weekly Rate Mode for each such Interest Period shall be the rate of interest per annum determined by the Remarketing Agent on and as of the applicable Rate Determination Date as the minimum rate of interest that, in the opinion of the Remarketing Agent, would, under then existing market conditions, result in the sale of the Bonds of the Series in the Weekly Rate Mode on the Rate Determination Date at a price equal to the principal amount thereof, plus accrued interest, if any. The Remarketing Agent shall make the rate available by Electronic Means to each other Notice Party by 5:00 p.m., on the Rate Determination Date or at such other times as may be agreed to by the City and the Remarketing Agent. The determination of each interest rate by the Remarketing Agent shall be conclusive and binding, in the absence of manifest error, upon the Remarketing Agent, the Tender Agent, the Paying Agent/Registrar, the Liquidity Facility Issuer, the Credit Facility Issuer, the City and the Owners.

Section A-204 Determination of Term Rate(s) and Fixed Rate.

(a) Term Rates. To the extent the Bonds of a subseries are initially issued in a Term Rate Mode, the Term Rate to be effective for the Interest Period commencing on the Closing

Date shall be the rate of interest set forth in the Pricing Certificate. The Term Rate to be effective for the Interest Period commencing on any Mode Change Date or Purchase Date after which Bonds of a subseries will bear interest at a Term Rate shall be determined by the Remarketing Agent. No later than 4:00 p.m. on the Business Day next preceding the Mode Change Date or the Purchase Date, as the case may be, the Remarketing Agent shall determine the Term Rate and shall make the Term Rate available by Electronic Means to each other Notice Party. The Term Rate shall be the minimum rate that, in the sole opinion of the Remarketing Agent, would result in a sale of the Bonds of the Series at a price equal to the principal amount thereof on the Rate Determination Date taking into consideration the duration of the Interest Period, which shall be established by the City.

(b) Fixed Rate. The Fixed Rate to be effective for the Interest Period commencing on any Mode Change Date after which Bonds of a subseries will bear interest at a Fixed Rate, shall be determined by the Remarketing Agent. No later than 4:00 p.m. on the Business Day next preceding the Mode Change Date, the Remarketing Agent shall determine the Fixed Rate and shall make the Fixed Rate available by Electronic Means to each other Notice Party. The Fixed Rate shall be the minimum rate that, in the sole judgment of the Remarketing Agent, would result in a sale of the Bonds of the Series at a price equal to the principal amount thereof on the Rate Determination Date taking into consideration the duration of the Interest Period.

(c) Failure to Establish Term Rate or Fixed Rate. If, for any reason, a Term Rate or Fixed Rate cannot be established on a Mode Change Date or Purchase Date, as the case may be, the Bonds of the Series affected, other than Bonds of a subseries in an Auction Rate Mode, will be changed automatically to the Weekly Rate Mode on the Purchase Date. Notwithstanding the foregoing, if the Bonds of a subseries have been in an Auction Rate Mode, the Bonds of the Series affected shall remain in the Auction Rate Mode for an Auction Period and bearing an Auction Period Rate as provided in Section A-207(c)(7). Notwithstanding the foregoing, if the Bonds of a subseries have been in a Term Rate Mode and there has been a failure to pay the Purchase Price of the Bonds of such subseries on the Purchase Date, the Bonds of such subseries shall continue to bear interest at the then-existing Term Rate until such Purchase Price has been paid.

Section A-205 Alternate Rate for Interest Calculation. In the event (i) the Remarketing Agent fails to determine the interest rate(s) or Interest Periods with respect to the Bonds of a subseries, or (ii) the method of determining the interest rate(s) or Interest Periods with respect to the Bonds of a subseries shall be held to be unenforceable by a court of law of competent jurisdiction, the Bonds of a subseries, other than Bonds of a subseries in an Auction Rate Mode, shall thereupon, (i) in the case of Bonds in the Daily Rate Mode and Term Rate Mode, be automatically converted to a Weekly Rate Mode, and (ii) in the case of Bonds in the Weekly Rate Mode, bear interest at the Alternate Rate for subsequent Interest Periods until such time as the Remarketing Agent again makes such determination or until there is delivered to the City a Favorable Opinion of Bond Counsel. Notwithstanding the foregoing, if the Bonds of a subseries have been in a Term Rate Mode and there has been a failure to pay the Purchase Price of the Bonds of such subseries on the Purchase Date, the Bonds of such subseries shall continue to bear interest at the then-existing Term Rate until such Purchase Price has been paid.

Section A-206 Determination of Interest Rate and Auction Period During Auction Rate Mode.

(a) During any Auction Rate Mode, the Bonds of a subseries shall bear interest at the Auction Period Rate for each Auction Period determined as set forth in this Section and Exhibit I hereto. The provisions of such Exhibit I constitute an integral part of this Appendix and the Ordinance and have the same force and effect as if set forth in the forepart of this Appendix or the Ordinance.

To the extent that the Bonds of any subseries are initially issued in an Auction Rate Mode, (i) the initial Auction Period for the Bonds of such subseries shall commence from and include the Closing Date and shall expire on and include the initial Auction Date, (ii) the initial Auction Date for the Bonds of such subseries (which will be the day of the week on which Auctions will generally be conducted) shall be the date set forth in the Pricing Certificate and (iii) the Auction Period Rate for the initial Auction Period for such Bonds of a subseries shall be the interest rate set forth in the Pricing Certificate. After the initial Auction Period, each Auction Period shall be an Auction Period set forth in the Pricing Certificate unless such Auction Period is adjusted or changed to a daily, 7-day, 28-day, 35-day or a Special Auction Period in accordance with Exhibit I hereto. For any other Auction Period that is not an initial Auction Period, the Auction Period Rate shall be the rate of interest determined in accordance with Exhibit I.

To the extent that the Mode that is applicable to the Bonds of a subseries is changed to an Auction Rate Mode, the initial Auction Period immediately after such change shall commence from and include the Mode Change Date and shall expire on and include the initial Auction Date. The initial Auction Date (which will be the day of the week on which Auctions will generally be conducted) immediately after any change in the Mode applicable to the Bonds of a subseries to an Auction Rate Mode shall be the date determined and certified (with a copy to the Remarketing Agent, the Broker-Dealer(s), the Auction Agent, the Insurer and the Credit Facility Issuer (if any)) by the City on or before the Mode Change Date. The Auction Period Rate for any initial Auction Period immediately after any change in the Mode applicable to the Bonds of a subseries to an Auction Rate Mode shall be the rate of interest per annum determined and certified to the City (with a copy to the Remarketing Agent, the Auction Agent, the other Broker-Dealers, if any, the Insurer and the Credit Facility Issuer (if any)) by the Broker-Dealer designated by the City on a date not later than the Mode Change Date as the minimum rate of interest which, in the opinion of such Broker-Dealer, would be necessary as of such date to market Bonds of a subseries in an Auction Rate Mode in a secondary market transaction at a price equal to the principal amount thereof; provided that such interest rate shall not exceed the Maximum Rate. After the initial Auction Period, each Auction Period shall be an Auction Period certified (with a copy to the Remarketing Agent, the Broker-Dealer(s), the Auction Agent, the Insurer and the Credit Facility Issuer (if any)) by the City on or before the Mode Change Date, unless such Auction Period is adjusted or changed to a daily, 7-day, 28-day, 35-day or a Special Auction Period in accordance with Exhibit I hereto. For any other Auction Period that is not an initial Auction Period, the Auction Period Rate shall be the rate of interest determined in accordance with Exhibit I.

(b) During any Auction Rate Mode, upon the occurrence of a default by the Insurer in the payment of principal, Sinking Fund Installment or interest on any Bond of a subseries in the

Auction Rate Mode which is unpaid by the City after the same shall have become due, whether at maturity, upon redemption from sinking fund installments or on an Interest Payment Date, the Paying Agent/Registrar shall immediately give notice of the occurrence of such events to the Auction Agent and the Broker-Dealers.

(c) (1) Less than all of the Bonds of a subseries then subject to a particular Auction Period may be converted to another Auction Period in accordance with Exhibit I; provided, however, that in such event such subseries shall be re-designated into two or more subseries for each separate Auction Period with a new CUSIP number for each subseries.

(2) If less than all of the Bonds of a subseries then subject to a particular Auction Period are converted to another Auction Period in accordance with Exhibit I, the particular Bonds of a subseries or portions thereof which are to be converted to a new Auction Period shall be selected by the Auction Agent in its discretion subject to the provisions hereof regarding Authorized Denominations of Bonds of a subseries subject to such Mode.

(3) All Bonds of any subseries shall be in the same Auction Period, except to the extent that the Bonds of any subseries are issued in or re-designated into two or more subseries. If the Bonds of any subseries are issued in or re-designated into two or more subseries, then all Bonds within any subseries shall be in the same Auction Period.

Section A-207 Changes in Mode.

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

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

(c) General Provisions Applying to Changes from One Mode to Another.

(1) The Mode Change Date must be a Business Day.

(2) Additionally, the Mode Change Date:

(a) from a Term Rate Mode shall be the Purchase Date of the current Interest Period; and

(b) from an Auction Rate Mode shall be the Interest Payment Date following the last day of an Auction Period.

(3) On or prior to the date the City provides, the notice to the Notice Parties pursuant to Section A-207(b) hereof, the City shall have received a letter from counsel acceptable to the City and addressed to the City and the other Notice Parties to the effect that it expects to be able to deliver a Favorable Opinion of Bond Counsel on the Mode Change Date.

(4) No change in Mode will become effective unless all conditions precedent thereto have been met and the following items shall have been delivered to the City by 11:00 a.m., or such later time as is acceptable to the Authorized Officer, on behalf of the City, and the City, on the Mode Change Date:

(a) except in the case of a change in Mode pursuant to Section A-204(c), Section A-205 or Section A-207(c)(6), a Favorable Opinion of Bond Counsel dated the Mode Change Date;

(b) except in the case of a change to Fixed Rate Mode or an Auction Rate Mode, a Liquidity Facility providing for the purchase of Bonds upon optional and mandatory tender for purchase thereof;

(c) if required, unless a Tender Agency Agreement and Remarketing Agreement is effective, an executed copy of such Tender Agency Agreement and Remarketing Agreement;

(d) a certificate of an authorized officer of the Tender Agent to the effect that all of the Bonds of a subseries tendered or deemed tendered, unless otherwise redeemed, have been purchased at a price at least equal to the Purchase Price thereof;

(e) with respect to a change in the Mode to an Auction Rate Mode, an executed copy of an Auction Agreement and one or more Broker-Dealer Agreements; and

(f) written consent of the Insurer.

(5) If all conditions to the Mode change are met, the Interest Period(s) or the Auction Period for the New Mode shall commence on the Mode Change Date and the Interest Rate(s) shall be determined by the Remarketing Agent in the manner provided in Section A-202, Section A-203, Section A-204 and Section A-206, as applicable.

(6) With respect to a change in the Mode from any Mode (other than an Auction Rate Mode) to any other Mode, in the event the foregoing conditions have not been satisfied by the Mode Change Date, the New Mode shall not take effect and the Bonds of the Series that are the subject of the Mode Change Notice will be changed to Bonds in the Weekly Rate Mode on the Mode Change Date.

(7) With respect to a change in the Mode from an Auction Rate Mode to any other Mode, in the event the foregoing conditions have not been satisfied, the Bonds of a subseries that are subject to the Mode Change Notice will not be subject to mandatory

tender for purchase, will continue to bear interest in the Auction Rate Mode and the Auction Period Rate for 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 the Auction Period commencing on the failed Mode Change Date shall be a seven-day Auction Period. Thereafter, the Auction Period Rate for each succeeding Auction Period shall be determined in accordance with Exhibit I and each Auction Period shall be a seven-day Auction Period until the length of the Auction Period is changed in accordance with Exhibit I.

(d) Serial and Term Bonds. The City may, in the notice given pursuant to Section A-207(b) hereof in connection with any change of Bonds of a subseries to the Term Rate Mode or Fixed Rate Mode, provide that all or some of such Bonds shall be serial or term Bonds. The total aggregate principal amount of Bonds due on any date shall be equal to the Sinking Fund Installment specified for such date, and the remaining Sinking Fund Installments shall continue to be sinking fund installments for the Bonds of the Series due on the stated maturity date, unless the City specifies otherwise in the notice. The interest rate for serial or term Bonds maturing on a particular date may be different from the interest rate or rates established for other Bonds.

(e) Partial Mode Changes and Subseries Designations. (1) Less than all of the Bonds of a subseries then subject to a particular Mode may be converted to another Mode pursuant to this Section; provided, however, that in such event such subseries shall be re-designated into two or more subseries for each separate Mode with a new CUSIP number for each subseries.

(2) If less than all of the Bonds of a subseries then subject to a particular Mode are converted to another Mode pursuant to this Section, the particular Bonds of a subseries or portions thereof which are to be converted to a New Mode shall be selected by the City in its discretion subject to the provisions hereof regarding Authorized Denominations of Bonds of a subseries subject to such New Mode.

ARTICLE A-III

REDEMPTION OF BONDS

Section A-301 Optional Redemption.

(a) Bonds of a subseries in the Auction Rate Mode shall be subject to redemption at the option of the City, in whole or in part, on any Interest Payment Date immediately following an Auction Period, at the 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 Bonds of a subseries in an Auction Rate Mode, the aggregate principal amount of Bonds of a subseries in an Auction Rate Mode which will remain outstanding shall be equal to or more than $10,000,000 unless otherwise consented to by each Broker-Dealer. To the extent the Bonds that are in a Mode other than the Fixed Rate Mode and are subject to optional redemption, the City, at least 20 days before the redemption date, unless a shorter period shall be satisfactory to the Paying Agent/Registrar, shall notify the Paying Agent/Registrar, the Auction Agent and any Broker-Dealers of such redemption date and of the principal amount of Bonds to be redeemed.

(b) Bonds of a subseries in the Daily Rate Mode or Weekly Rate Mode shall be subject to redemption at the option of the City, in whole or in part, on any Business Day, at the Redemption Price equal to the principal amount thereof, plus accrued interest to the Redemption Date.

(c) Bonds of a subseries in a Term Rate Mode during an Interest Period that is less than 4 years shall be subject to redemption at the option of the City, in whole or in part on their individual Purchase Dates, at the Redemption Price equal to the principal amount thereof, plus interest accrued to the Redemption Date.

(d) Bonds of a subseries in the Term Rate Mode during an Interest Period that is equal to or greater than 4 years or Bonds of a subseries in the Fixed Rate Mode are subject to redemption at the option of the City, in whole or in part, on any date following the "No Call Period" set forth below at the Redemption Prices set forth below:

OPTIONAL REDEMPTION DURING TERM RATE MODE AND FIXED RATE MODE

Duration of Interest Period in Term Rate Mode or Fixed Rate Mode	**No Call Period (commencing on the date of commencement of the Term Rate Mode or Fixed Rate Mode Interest Period)**	**Redemption Price**
Greater than or equal to 10 years	8 years	100%
Greater than or equal to 8 years and less than 10 years	6 years	100%
Greater than or equal to 4 years and less than 8 years	3 years	100%
Less than 4 years	Bonds are subject to optional redemption at any time	100%

(e) The City may, in connection with a change to a Term Rate Mode or Fixed Rate Mode or on any Purchase Date for Bonds of a subseries bearing interest at a Term Rate, alter its rights as described above in Section A-301(d) or in Article IV of the Ordinance to redeem any Bonds of such subseries on and after the Mode Change Date or Purchase Date, as the case may be, without the consent of Owners of the Bonds of such subseries; provided, that notice describing the alteration shall be submitted to the Tender Agent and the Remarketing Agent, together with a Favorable Opinion of Bond Counsel, addressed to them.

Section A-302 Redemption from Sinking Fund Installments. To the extent that the Pricing Certificate provides that Bonds of a subseries are subject to redemption from sinking fund installments, the date on which a Sinking Fund Installment shall be due when the Bonds of such subseries are in an Auction Rate Mode shall be the dates set forth in the Pricing Certificate, or if any such date is not an Interest Payment Date, the Interest Payment Date immediately succeeding such date.

Section A-303 Notice of Redemption of Bonds in Certain Modes.

(a) The Paying Agent/Registrar shall give notice of any redemption of Bonds that are in the Auction Rate Mode, Daily Rate Mode, Weekly Rate Mode or Term Rate Mode by sending notice by first class United States mail, postage prepaid, not less than 15 days before the date fixed for redemption, to the Owner of each Bond (or part hereof) to be redeemed, at the address shown on the Obligation Register.

(b) The notice shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment, and, if less than all the Bonds outstanding are to be redeemed, an identification of the Bonds or portions thereof to be redeemed.

(c) Any notice given as provided in this Section shall be conclusively presumed to have been duly given, whether or not the Owner receives such notice.

(d) If any subseries of Bonds in the Auction Rate Mode are to be redeemed and such Bonds are held by a Securities Depository, the Paying Agent/Registrar shall include in the notice delivered to the Securities Depository (i) a date placed under an item entitled "Publication Date for Securities Depository Purposes" and such date shall be three Business Days after the Auction Date immediately preceding such redemption date and (ii) an instruction to the Securities Depository to (x) determine on such Publication Date the Securities Depository Participants whose Securities Depository positions shall be redeemed and the principal amount of such Bonds to be redeemed from each such position (the "Securities Depository Redemption Information"), and (y) notify the Auction Agent immediately after such determination of (1) the positions of the Securities Depository Participants in such Bonds immediately prior to such Auction settlement, (2) the position of the Securities Depository Participants in such Bonds immediately following such Auction settlement, and (3) the Securities Depository Redemption Information.

Section A-304 Redemption of Bank Bonds.

(a) The Bank Bonds of a subseries shall be subject to redemption at the option of the City, in whole or in part, on any Business Day, at the Redemption Price equal to the principal amount thereof, plus accrued interest to the Redemption Date.

(b) The Bank Bonds of a subseries also shall be subject to mandatory redemption as provided in a Certificate of an Authorized Officer.

Section A-305 Bank Bonds To Be Redeemed First; Redemption in Part. In the event of redemption of less than all the Bonds of a subseries having the same Maturity Date and bearing the same interest rate, the Paying Agent/Registrar shall (unless otherwise provided in the Liquidity Facility applicable thereto) first select for redemption all then Outstanding Bank Bonds prior to selecting for redemption any Bonds of such subseries which are not Bank Bonds. The Paying Agent/Registrar shall promptly give the Liquidity Facility Issuer and the Remarketing Agent notice by telephone of the selection of any Bank Bonds for redemption pursuant to the foregoing provision. New Bonds of the Series representing the unredeemed balance of the principal amount thereof shall be issued in Authorized Denominations to the Owner thereof, without charge therefor. Any new Bond of a subseries issued pursuant to this Section shall be executed in manual or facsimile signatures by the Mayor and City Secretary of the City and authenticated by the Paying Agent/Registrar and shall be in an aggregate unpaid principal amount equal to the unredeemed portion of such Bond surrendered.

ARTICLE A-IV

PURCHASE OF BONDS

Section A-401 Optional Tenders or Bonds in Daily Rate Mode and Weekly Rate Mode.

(a) Any Bond of a subseries (or portions thereof in Authorized Denominations) in the Daily Rate Mode that is not a Bank Bond is subject to purchase, on the demand of the Owner thereof, at a price equal to the Purchase Price on any Business Day (such purchase to be made on the Business Day upon which such demand is made), upon irrevocable notice submitted by Electronic Means to the Tender Agent and the Remarketing Agent (promptly confirmed in writing by such Owner), delivered to the Tender Agent and the Remarketing Agent by telecopier by 11:00 a.m., New York City time, at their respective Principal Offices, which states the number and principal amount of such Bond being tendered and the Purchase Date. Such tender notice, once transmitted to the Tender Agent, shall be irrevocable with respect to the tender for which such tender notice was delivered and such tender shall occur on the Business Day specified in such Tender Notice. The Tender Agent shall, as soon as practicable, notify the City of the principal amount of Bonds of the Series being tendered. The contents of any such irrevocable telephonic tender notice shall be conclusive and binding on all parties.

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

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

Section A-402 Mandatory Purchase on Any Mode Change Date. Except for Bank Bonds, the Bonds of a subseries to be changed to any Mode from any other Mode are subject to mandatory tender for purchase on the Mode Change Date at the Purchase Price.

Section A-403 Mandatory Purchase Upon Expiration Date, Termination Tender Date, Interest Non-Reinstatement Date and Substitution Date. Except for Bank Bonds, the Bonds of a subseries shall be subject to mandatory tender for purchase on:

(a) the second Business Day preceding the Expiration Date of a Credit Facility or Liquidity Facility, which second Business Day is hereinafter referred to as an "Expiration Tender Date";

(b) the fifth calendar day (or if such day is not a Business Day, the preceding Business Day) preceding the Termination Date of a Credit Facility or a Liquidity Facility, which fifth calendar day is hereinafter referred to as a "Termination Tender Date", if the Liquidity Facility permits a draw thereon on the Termination Tender Date;

(c) the fifth calendar day (or if such day is not a Business Day, the preceding Business Day) following the receipt by the City of a written notice from the issuer of a Direct-Pay Credit Facility that such Direct-Pay Credit Facility will not be reinstated (in respect of interest) to an amount equal to the interest component of the Liquidity and Credit Amount required with respect to the Bonds of such subseries, which fifth calendar day is hereinafter referred to as an "Interest Non-Reinstatement Tender Date"; and

(d) the Substitution Date for a Credit Facility or a Liquidity Facility.

Section A-404 Mandatory Purchase at End of each Term Rate Mode Interest Period. Except for Bank Bonds, the Bonds of a subseries in the Term Rate Mode are subject to mandatory tender for purchase on each Purchase Date at the Purchase Price.

Section A-405 Notice of Mandatory Tender for Purchase.

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

(b) Upon receipt of a written notice from the Credit Facility Issuer, the Liquidity Facility Issuer or the City that the Credit Facility or the Liquidity Facility, as the case may be, will terminate or the obligation of the Credit Facility Issuer or Liquidity Facility Issuer, as the case may be, to provide a loan thereunder will terminate prior to its Expiration Date, the Paying Agent/Registrar shall within one (1) Business Day give notice of the mandatory tender of the Bonds of such subseries that is to occur on such Termination Tender Date if it has not theretofore received from the Credit Facility Issuer, the Liquidity Facility Issuer or the City, as the case may be, a notice stating that the event which resulted in the Credit Facility Issuer, the Liquidity

Facility Issuer or the City giving a notice of the Termination Date has been cured and that the Credit Facility Issuer, the Liquidity Facility Issuer or the City has rescinded its election to terminate the Credit Facility or Liquidity Facility, as the case may be. Notwithstanding anything to the contrary in subsection (f) below, such notice shall be given by Electronic Means capable of creating a written notice. Any notice given substantially as provided in this subsection (b) shall be conclusively presumed to have been duly given, whether or not actually received by each Owner.

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

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

(e) The Paying Agent/Registrar shall, at least fifteen (15) days prior to (i) any Mode Change Date or (ii) the end of an Interest Period with respect to Bonds of a subseries in the Term Rate Mode, give notice of the mandatory tender for purchase of such Bonds that is to occur on such date.

(f) Notice of any mandatory tender of Bonds of a subseries shall state that such Bonds are to be purchased pursuant to Sections A-402, A-403 or A-404, and shall be provided by the Paying Agent/Registrar or caused to be provided by the Paying Agent/Registrar by mailing a copy of the notice of mandatory tender by first-class mail to each Owner of Bonds of the Series at the respective addresses shown on the registry books. Each notice of mandatory tender for purchase shall identify the reason for the mandatory tender for purchase, and specify the CUSIP number, Mandatory Purchase Date, the Purchase Price, the place and manner of payment, that the Owner has no right to retain such Bonds and that no further interest will accrue from and after the Mandatory Purchase Date to such Owner. Each notice of mandatory tender for purchase caused by a change in the Mode applicable to the Bonds of a subseries shall in addition specify the conditions that have to be satisfied pursuant to Section A-207 hereof in order for the New Mode to become effective and the consequences that the failure to satisfy any of such conditions would have. In the event a mandatory tender of Bonds of a subseries shall occur at or prior to the same date on which an optional tender for purchase is scheduled to occur, the terms and conditions of the applicable mandatory tender for purchase shall control. The Paying Agent/Registrar shall give a copy of any notice of mandatory tender given by it to the other Notice Parties. Any notice mailed as provided in this Section shall be conclusively presumed to have been duly given, whether or not the Owner of any Bond receives the notice, and the failure of such Owner to receive any such notice shall not affect the validity of the action described in such notice. Failure by the Paying Agent/Registrar to give a notice as provided in this Section shall not affect the obligation of the Tender Agent to purchase the Bonds of a subseries subject to mandatory tender for purchase on the Mandatory Purchase Date.

Section A-406 Purchase Fund.

(a) Funds and Accounts. There is hereby established, and there shall be maintained with the Tender Agent for the Bonds of each Series, a separate fund to be known as the "Purchase Fund." The Tender Agent shall further establish separate accounts within such Purchase Fund to be known as the "Liquidity Facility Purchase Account" and the "Remarketing Proceeds Account." To the extent that the Bonds of a subseries are re-designated into two or more subseries, the Tender Agent shall establish and maintain a separate Purchase Fund with separate accounts therein for the Bonds of each such subseries.

(b) Remarketing Proceeds Account. Upon receipt of the proceeds of a remarketing of Bonds of a subseries on a Purchase Date or Mandatory Purchase Date, the Tender Agent shall deposit such proceeds in the related Remarketing Proceeds Account for application to the payment of the Purchase Price of such Bonds. Notwithstanding the foregoing, upon receipt of the proceeds of a remarketing of Bank Bonds, the Tender Agent shall immediately pay such proceeds to or for the account of the related Liquidity Facility Issuer to the extent of any amount owing to the Liquidity Facility Issuer.

(c) Liquidity Facility Purchase Account. Upon receipt by the Tender Agent of the proceeds of any draw on a Liquidity Facility supporting Bonds of a subseries that are transferred to such Tender Agent pursuant to subsection (a) of Section A-411 hereof, the Tender Agent shall deposit such moneys in the related Liquidity Facility Purchase Account for application to the payment of the Purchase Price of Bonds of such subseries. Any amounts deposited in the Liquidity Facility Purchase Account for a Series of Bonds and not needed with respect to any Purchase Date or Mandatory Purchase Date for the payment of the Purchase Price for any Bonds of such subseries shall be returned immediately to the Liquidity Facility Issuer.

(d) No Investment; Amounts Applied Solely to Related Series. Amounts held by the Tender Agent in the Liquidity Facility Purchase Account or the Remarketing Proceeds Account relating to the Bonds of a subseries shall not be deemed as Pledged Funds or Pledged Revenues under the Controlling Ordinances and shall be held uninvested and separate and apart from all other funds and accounts. Amounts so held or available to be drawn under the Liquidity Facility for deposit in a Liquidity Facility Purchase Account shall not be available to pay the Purchase Price of Bonds of any subseries other than Bonds of a subseries that are supported by such Liquidity Facility.

(e) Payment of Purchase Price by Tender Agent. The Tender Agent shall pay the Purchase Price of Bonds of a subseries to their Owners from the moneys in the Liquidity Facility Purchase Account or the Remarketing Proceeds Account in accordance with this Appendix by 3:00 p.m. on any Purchase Date or Mandatory Purchase Date.

Section A-407 Remarketing of Bonds of a subseries; Notices.

(a) Remarketing of Bonds of a subseries. The Remarketing Agent for Bonds of a subseries shall offer for sale and use its best efforts to find purchasers for (i) all Bonds of such subseries or portions thereof as to which notice of tender pursuant to Section A-401 has been given and (ii) all Bonds required to be tendered for purchase. To the extent a Direct-Pay Credit Facility is in effect, any Bonds of a subseries purchased pursuant to clause (c) of Section A-403 shall not be remarketed unless such Direct-Pay Credit Facility has been reinstated to the Liquidity and Credit Amount. To the extent a Liquidity Facility is in effect, no Bonds of a subseries supported by such Liquidity Facility shall be remarketed to the City, or any affiliate of the City, nor shall any Bank Bonds be remarketed unless the Liquidity Facility has been or will be, immediately upon such remarketing, reinstated by the amount of the reduction that occurred when such Bonds became Bank Bonds.

(b) Notice of Remarketing; Registration Instructions; New Bonds.

(1) The Remarketing Agent shall notify the Tender Agent by Electronic Means not later than 11:45 a.m. on (12:15 p.m. in the case of Bonds of a subseries in the Daily Rate Mode) on the Purchase Date or Mandatory Purchase Date of the registration instructions as may be necessary to re-register Bonds; and

(2) Unless otherwise permitted by the Securities Depository and the book-entry-only system applicable to a Series of Bonds, the Tender Agent shall authenticate and have available for delivery to the Remarketing Agent prior to 12:30 p.m. on the Purchase Date or Mandatory Tender Date new Bonds of the Series for the respective purchasers thereof.

(c) Transfer of Funds; Draw on Liquidity Facility.

(1) The Remarketing Agent shall at or before 11:45 a.m. (12:15 p.m. in the case of Bonds of a subseries in the Daily Rate Mode) on the Purchase Date or Mandatory Purchase Date, as the case may be, confirm to the City, the Paying Agent/Registrar and the Tender Agent the transfer of the Purchase Price of remarketed Bonds of the Series to the Tender Agent in immediately available funds at or before 12:00 noon (12:20 p.m. in the case of Bonds of a subseries in the Daily Rate Mode), such confirmation to include the pertinent Fed Wire reference number.

(2) To the extent a Liquidity Facility is in effect, the Paying Agent/Registrar shall draw on the Liquidity Facility, in accordance with the terms thereof, by 12:25 p.m. on the Purchase Date or Mandatory Purchase Date, as the case may be, in an amount equal to the Purchase Price of all Bonds of the Series tendered or deemed tendered less the aggregate amount of remarketing proceeds confirmed to the City, the Paying Agent/Registrar and the Tender Agent by the Remarketing Agent pursuant to clause (1) of this Section A-407(c) and shall cause the proceeds of such draw to be transferred to the Tender Agent by no later than 2:30 p.m. Notwithstanding the foregoing, the Paying Agent/Registrar shall draw on the Liquidity Facility, if any, in an amount equal to the Purchase Price of all Bonds of the Series tendered or deemed tendered for purchase on

each Purchase Date or Mandatory Purchase Date, as the case may be, if it does not receive a confirmation from the Remarketing Agent pursuant to clause (1) above of this Section A-407(c).

(3) To the extent a Liquidity Facility is in effect, the Paying Agent/Registrar shall confirm to the City by 2:40 p.m. on the Purchase Date or Mandatory Purchase Date, receipt of the proceeds of any draw on the Liquidity Facility.

(d) Notice to the City of Bank Bond Remarketing. The Remarketing Agent shall notify the City by Electronic Means of any proposed remarketing of Bank Bonds by the close of business on the Business Day preceding the proposed date of remarketing of such Bank Bonds.

Section A-408 Source of Funds for Purchase of Bonds of a subseries. On or before the close of business on the Purchase Date or Mandatory Purchase Date with respect to Bonds of a subseries, the Tender Agent shall purchase such Bonds from the Owners at the Purchase Price. Unless otherwise provided in a certificate of an Authorized Officer delivered to the Paying Agent/Registrar, the Insurer, the Tender Agent and the Remarketing Agent on a Purchase Date or Mandatory Purchase Date, funds for the payment of such Purchase Price shall be derived solely from the following sources in the order of priority indicated:

(a) immediately available funds on deposit in the Remarketing Proceeds Account with respect to Bonds of such subseries; and

(b) to the extent a Liquidity Facility is in effect, immediately available funds on deposit in the Liquidity Facility Purchase Account derived from the Liquidity Facility relating to Bonds of such subseries.

Notwithstanding the foregoing, unless otherwise provided in a certificate of an Authorized Officer delivered to the Tender Agent and the Remarketing Agent on a Purchase Date or Mandatory Purchase Date, the City shall have the option, but shall not be obligated, to transfer immediately available funds to the Tender Agent for the payment of the Purchase Price of any Bond that is tendered or deemed tendered for purchase in accordance with this Appendix and the Purchase Price of which is not paid on the Purchase Date or Mandatory Purchase Date from the source identified above. Any Bonds purchased with such funds from the City shall be cancelled unless otherwise consented to by the Insurer. None of the City, the Tender Agent nor the Remarketing Agent shall have any liability or obligation to pay or, except from the source identified above, make available such Purchase Price. Any Bonds held by or for the account of the City shall not be entitled to the benefit of a Liquidity Facility or the Bond Insurance Policy. Unless otherwise provided in a certificate of an Authorized Officer delivered to the Paying Agent/Registrar and Tender Agent on a Purchase Date or Mandatory Purchase Date, the failure to pay any such Purchase Price for Bonds of a subseries that have been tendered or deemed tendered for purchase from the source identified above shall not constitute an Event of Default under the Ordinance and in the case of such failure such Bonds shall not be purchased and shall remain in the Mode in effect immediately preceding such Purchase Date or Mandatory Purchase Date, as the case may be, unless such Mode is automatically converted to a Weekly Rate Mode pursuant to Section A-205 hereof; provided, however, that if such Bonds were in the Auction Rate Mode immediately preceding such Date, such Bonds shall remain in the Auction Rate

Mode for an Auction Period and bearing an Auction Period Rate as provided in Section A-207(c)(7).

Section A-409 Delivery of Bonds. Except as otherwise required or permitted by the book-entry-only system of the Securities Depository, the Bonds of a subseries shall be delivered as follows:

(a) Bonds of a subseries sold by the Remarketing Agent pursuant to Section A-407 shall be delivered by the Remarketing Agent to the purchasers of those Bonds by 3:00 p.m., on the Purchase Date or the Mandatory Purchase Date, as the case may be.

(b) The Tender Agent shall, as appropriate to the circumstances, either (i) register Bonds of a subseries purchased by the Tender Agent with moneys described in Section A-408(b), or if any such Bond is not delivered by the Owner thereof, a new Bond of such subseries in replacement of the undelivered Bond, in the name of the Liquidity Facility Issuer or, if directed in writing by the Liquidity Facility Issuer, its nominee or designee on the registry books on or before the close of business on the Purchase Date or Mandatory Purchase Date, as the case may be, and shall promptly deliver such Bonds to the custodian, if any, provided for in the Liquidity Facility or as the Liquidity Facility Issuer may otherwise direct in writing, and prior to such delivery shall hold such Bonds of such subseries in trust for the benefit of the Liquidity Facility Issuer or (ii) cause the beneficial ownership of such Bonds of such subseries to be credited to the account of the Liquidity Facility Issuer or, if directed in writing by the Liquidity Facility Issuer, its nominee or designee with DTC.

(c) When any Bank Bonds of a subseries are remarketed, the Tender Agent shall not release the Bonds so remarketed to the Remarketing Agent until the Tender Agent has received and forwarded to or for the account of the Liquidity Facility Issuer the proceeds of such remarketing and (i) the Liquidity Facility has been reinstated by an amount equal to the principal amount of Bank Bonds so remarketed plus the interest component of the Liquidity and Credit Amount calculated with respect to such principal amount of Bonds, which reinstatement the Tender Agent has confirmed with the Liquidity Facility Issuer, or (ii) if the Bonds of a subseries became Bank Bonds on a Mandatory Purchase Date and a Liquidity Facility is no longer in effect with respect to Bonds of such subseries after the Mandatory Purchase Date, any draws on such Liquidity Facility and interest thereon have been reimbursed to the Liquidity Facility Issuer.

Section A-410 Delivery and Payment for Purchased Bonds of a subseries; Undelivered Bonds. Except as otherwise required or permitted by the book-entry-only system of the Securities Depository, the Bonds of a subseries purchased pursuant to this Article shall be delivered by the Owners thereof (with all necessary endorsements) at or before 12:00 noon on the Purchase Date or Mandatory Purchase Date, at the office of the Tender Agent in New York, New York; provided, however, that payment of the Purchase Price of any Bond of a subseries purchased pursuant to Section A-401 hereof shall 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 shall be made by wire transfer in immediately available funds by the Tender Agent by the close of business on the Purchase Date or Mandatory Purchase 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 Bonds of a subseries to be purchased are not delivered by the Owners to the Tender Agent by 12:00 noon on the Purchase Date or Mandatory Purchase Date, the Tender Agent shall hold any funds received for the purchase of those Bonds in trust in a separate account and shall pay such funds to the former Owners upon presentation of the Bonds subject to tender. Any such amounts shall be held uninvested. Such undelivered Bonds shall be deemed tendered and cease to accrue interest as to the former Owners on the Purchase Date or Mandatory Purchase Date, and moneys representing the Purchase Price shall be available against delivery of those Bonds at the Principal Office of the Tender Agent; provided, however, that any funds which shall be so held by the Tender Agent and which remain unclaimed by the former Owner of any such Bond not presented for purchase for a period of three years after delivery of such funds to the Tender Agent, shall, to the extent permitted by law, upon request in writing by the City and the furnishing of security or indemnity to the Tender Agent's satisfaction, be paid to the City free of any trust or lien and thereafter the former Owner of such Bond shall look only to the City and then only to the extent of the amounts so received by the City without any interest thereon and the Tender Agent shall have no further responsibility with respect to such moneys or payment of the Purchase Price of such Bonds. The Tender Agent shall authenticate a replacement Bond of a subseries for any undelivered Bond of such subseries which may then be remarketed by the Remarketing Agent.

Section A-411 Draws on Liquidity Facility.

(a) To the extent a Liquidity Facility is in effect with respect to the Bonds of a subseries, by 12:25 p.m. on each Purchase Date or Mandatory Purchase Date with respect to Bonds of such subseries, as the case may be, the Paying Agent/Registrar shall draw on the Liquidity Facility supporting the Bonds of such subseries in accordance with the terms thereof and cause to have transferred the proceeds of such draw to the Tender Agent so as to have funds deposited with the Tender Agent by 2:30 p.m. on such date in an amount, in immediately available funds, sufficient, together with the proceeds of the remarketing of such Bonds on such date, to enable the Tender Agent to pay the Purchase Price in connection therewith. The Tender Agent shall deposit said proceeds in the related Liquidity Facility Purchase Account.

(b) Notwithstanding the foregoing provisions of this Section, the Paying Agent/Registrar shall not draw on a Liquidity Facility with respect to the Purchase Price of Bank Bonds or Bonds of a subseries owned by the City, any subsidiary or affiliate of the City, or the Liquidity Facility Issuer.

ARTICLE A-V

LIQUIDITY FACILITIES AND CREDIT FACILITIES

Section A-501 Liquidity Facility and Credit Facility.

(a) At any time, the City may provide for the delivery of (i) an initial and an Alternate Liquidity Facility with respect to the Bonds of any subseries, and/or (ii) an initial and an Alternate Credit Facility with respect to the Bonds of any subseries. The City shall not obtain a Liquidity Facility for the Bonds of a subseries or provide for the delivery of a Liquidity Facility for the Bonds of a subseries without the prior consent of the Credit Facility Issuer for the Bonds of such subseries. Any such Liquidity Facility or Credit Facility shall provide that a Termination Date which permits the City to make on the Termination Tender Date a draw under the Liquidity Facility or the Credit Facility, as the case may be, shall not occur unless written notice thereof is given to the City and the Tender Agent at least sixteen (16) days prior to the Termination Tender Date. To the extent that any Liquidity Facility or Credit Facility permits the issuer thereof to assign its obligation thereunder, such Liquidity Facility or Credit Facility, as the case may be, shall provide that such assignment shall not be effective unless a written notice of such assignment is given to the City, the Remarketing Agent and the Tender Agent at least sixteen (16) days prior to the effective date of such assignment. On or prior to the date on which a Liquidity Facility or Credit Facility is obtained or delivered to the City, the City shall obtain a Favorable Opinion of Bond Counsel. As provided in Section A-403 hereof, all Outstanding Bonds of the Series to which such Liquidity Facility or Credit Facility relates will become subject to mandatory tender for purchase on the Substitution Date.

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

(c) The City shall deliver to the Paying Agent/Registrar, the Tender Agent, the Credit Facility Issuer, the Insurer and the Remarketing Agent a copy of each Liquidity Facility or Credit Facility obtained pursuant to this article on the effective date of such Liquidity Facility or Credit Facility. If at any time there shall have been delivered (i) an Alternate Credit Facility or Alternate Liquidity Facility in substitution for the Credit Facility or Liquidity Facility with respect to Bonds of a subseries then in effect and (ii) a Favorable Opinion of Bond Counsel, then, providing that any condition to substitution contained in the existing Credit Facility or Liquidity Facility shall have been satisfied, the Paying Agent/Registrar shall accept such Alternate Credit Facility or Alternate Liquidity Facility and, subject to subsection (d) of this Section A-501, shall surrender the Credit Facility or Liquidity Facility then in effect to the Credit Facility Issuer or Liquidity Facility Issuer on the effective date of the Alternate Credit Facility or Alternate Liquidity Facility. In the event of an extension of the Expiration Date, the City shall give the Paying Agent/Registrar, the Tender Agent, the Credit Facility Issuer, the Liquidity Facility Issuer and the Remarketing Agent a written notice of the new Expiration Date at least sixteen (16) days prior to the Expiration Tender Date. In the event of a substitution of a Liquidity Facility with an Alternate Liquidity Facility or of a Credit Facility with an Alternate Credit Facility, the City shall give the Paying Agent/Registrar, the Tender Agent, the Insurer and the Remarketing Agent a written notice of the Substitution Date at least sixteen (16) days prior to such Substitution Date. The City shall give the Paying Agent/Registrar, Tender Agent, the Insurer and the Remarketing Agent a written notice of its election to terminate the Credit Facility or the Liquidity Facility at least sixteen (16) days prior to the Termination Tender Date resulting from its election to terminate such Credit Facility or Liquidity Facility.

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

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

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

Section A-502 Direct-Pay Credit Facility Drawing Account.

(a) If a Direct-Pay Credit Facility is in effect with respect to the Bonds of any subseries, there shall be created and established in accordance with the Ordinance a separate Account for the Bonds of such subseries in the Debt Service Fund, to be held by the City, to be known as the "[Name of Bonds of a subseries that are secured by such Credit Facility] Direct-Pay Credit Facility Drawing Account" (the "Direct-Pay Credit Facility Drawing Account"). The establishment of such Direct-Pay Credit Facility Drawing Account shall be evidenced in a certificate of an Authorized Officer of the City.

(b) The City shall make payments of principal and Redemption Price of and interest on the Bonds of a subseries in accordance with the Ordinance into the Debt Service Fund as and when the same shall become due and payable regardless of whether a Direct-Pay Credit Facility is in effect with respect to the Bonds of such subseries.

(c) If a Direct-Pay Credit Facility is in effect with respect to the Bonds of a subseries, the City shall take all action necessary to draw or make a claim on the related Direct-Pay Credit Facility in such amounts, at such times, and in such manner as shall be necessary to pay the principal and Redemption Price (including, to the extent amounts are available therefor under the Direct-Pay Credit Facility, Sinking Fund Installments) of and interest on all Bonds payable therefrom as and when the same shall become due and payable. The City shall promptly deposit into the related Direct-Pay Credit Facility Drawing Account all moneys so drawn by the City under the related Direct-Pay Credit Facility, which shall not be commingled with any other moneys held by the City and which shall be applied to the payment of such principal, Redemption Price and interest.

(d) Subject to the immediately succeeding paragraph, on each Principal Installment due date or Redemption Date, as the case may be, and Interest Payment Date, the Paying Agent/Registrar shall make payments of principal or Redemption Price of and interest on the Bonds of each Series to their Owners in accordance with the Ordinance.

If a Direct-Pay Credit Facility is in effect with respect to the Bonds of any subseries, notwithstanding the immediately preceding paragraph, the Paying Agent/Registrar shall make payments of principal or Redemption Price of and interest on the Bonds of such subseries to their Owners in the manner provided for in the Ordinance from the moneys deposited in the related Direct-Pay Credit Facility Drawing Account pursuant to subsection (c) of this Section A-502. If sufficient funds are not available in the related Direct-Pay Credit Facility Drawing Account, the City shall apply other moneys, if any, available in the Debt Service Fund (excluding moneys available in any other Direct-Pay Credit Facility Drawing Account established with respect to any other Series of Bonds), to the extent necessary to make such payment. If the principal or Redemption Price of and interest on the Bonds of a subseries has been paid in full when due and all payments required to be made under the Direct-Pay Credit Facility have been made, the City shall apply remaining moneys, if any, available in the Debt Service Fund (excluding moneys available in any other Direct-Pay Credit Facility Drawing Account established with respect to any other Series of Bonds) in an amount not to exceed the amount of the draw or borrowing under the Direct-Pay Credit Facility to reimburse the issuer of the Direct-Pay Credit Facility for such draw or borrowing after such draw or borrowing has been honored by the issuer of the Direct-Pay Credit Facility.

(e) Amounts held in each Direct-Pay Credit Facility Drawing Account shall be held uninvested and separate and apart from all other funds and accounts.

Section A-503 Amendments Relating to Credit Facilities and Liquidity Facilities. In addition to any amendments permitted pursuant to Article Nine of the Ordinance, the City, with the consent of the Insurer, may amend any provisions of the Ordinance, including without limitation any provisions of this Appendix, as the City deems necessary or appropriate in connection with the conversion to a Daily Rate Mode or a Weekly Rate Mode or with the delivery of any Credit Facility or Liquidity Facility.

ARTICLE A-VI

AGENTS

Section A-601 Remarketing Agent. The City shall appoint and employ the services of a Remarketing Agent while the Bonds of any subseries are in the Daily Rate Mode or the Weekly Rate Mode. The City shall appoint and employ the services of a Remarketing Agent, which is reasonably acceptable to the Insurer, prior to any Purchase Date or Mode Change Date while the Bonds of any subseries are in the Auction Rate Mode or Term Rate Mode.

Any Remarketing Agent may at any time resign and be discharged of the duties and obligations created by the Ordinance and the Remarketing Agreement by giving notice to the City, the related Credit Facility Issuer, the related Liquidity Facility Issuer and the Tender Agent in accordance with the Remarketing Agreement. Any Remarketing Agent may be removed at any time, at the direction of the City, by an instrument filed with the related Remarketing Agent and the related Tender Agent in accordance with the Remarketing Agreement. Any Remarketing Agent may be removed by the Insurer for failure to perform its duties under the Ordinance or for a suspension of its remarketing activity.

Any Remarketing Agent shall be selected by the City and shall be a member of the National Association of Securities Dealers, Inc., shall have a capitalization of at least fifteen million dollars ($15,000,000), and shall be authorized by law to perform all the duties set forth herein. The City's execution of a Certificate setting forth the effective date of the appointment of a Remarketing Agent and the name, address and telephone number of such Remarketing Agent shall be conclusive evidence that (i) such Remarketing Agent has been appointed and is qualified to act as Remarketing Agent under the terms of the Ordinance and (ii) if applicable, the predecessor Remarketing Agent has been removed in accordance with the provisions of the Ordinance and the Remarketing Agreement.

Each Remarketing Agent shall keep such books and records as shall be consistent with prudent industry practice and make such books and records available for inspection by the City at all reasonable times.

Section A-602 Tender Agent. The City shall appoint and employ the services of the Tender Agent while the Bonds of any subseries are in the Daily Rate Mode or the Weekly Rate Mode. The City shall appoint and employ the services of the Tender Agent prior to any Purchase Date or Mode Change Date while the Bonds of any subseries are in the Auction Rate Mode or Term Rate Mode.

The Tender Agent may at any time resign and be discharged of the duties and obligations created by the Ordinance and the Tender Agency Agreement by giving notice to the related Credit Facility Issuer, the related Liquidity Facility Issuer and the City in accordance with the Tender Agency Agreement, provided that a successor Tender Agent shall be appointed and acting hereunder on or prior to the effective date of such resignation or discharge. The Tender Agent may be removed at any time, at the direction of the City, by an instrument filed with the related Remarketing Agent and the Tender Agent in accordance with the Tender Agency Agreement, provided that a successor Tender Agent shall be appointed and acting hereunder on or prior to the effective date of such removal.

The Tender Agent shall be selected by the City and shall be a bank or other financial institution that satisfies the qualifications determined by the City and set forth in any applicable provisions of law. The City's execution of a Certificate setting forth the effective date of the appointment of a Tender Agent and the name, address and telephone number of such Tender Agent shall be conclusive evidence that (i) such Tender Agent has been appointed and is qualified to act as Tender Agent under the terms hereof and (ii) if applicable, the predecessor Tender Agent has been removed in accordance with the provisions hereof.

The Tender Agent shall keep such books and records as shall be consistent with prudent industry practice and make such books and records available for inspection by the City, the related Credit Facility Issuer and the related Liquidity Facility Issuer, at all reasonable times.

Section A-603 Auction Agent. The City shall appoint and employ the services of an Auction Agent while the Bonds of any subseries are in the Auction Rate Mode. The City shall have the right to remove the Auction Agent as provided in the Auction Agreement.

Section A-604 Broker-Dealers. The City shall appoint and employ the services of one or more Broker-Dealers, which are reasonably acceptable to the Insurer, for the Bonds of each Series that are in the Auction Rate Mode. The City shall have the right to remove any Broker-Dealer as provided in the applicable Broker-Dealer Agreement.

ARTICLE A-VII

MISCELLANEOUS

Section A-701 Modifications or Amendments to the Ordinance. The provisions of the Ordinance, including, without limitation, the provisions of the Pricing Certificate and this Appendix, may be modified or amended by obtaining the consent or deemed consent of the Insurer and consent of the Owners of all Outstanding Bonds of such subseries as follows:

(a) during a Weekly Rate Mode or Daily Rate Mode, if on the 30th day (or if such day is not a Business Day, on the next succeeding Business Day) after the date on which the Paying Agent/Registrar mailed notice of such proposed modification or amendment to Owners of the Outstanding Bonds of a subseries there is delivered to the City (a) a certificate of the Tender Agent to the effect that all Bonds that have been tendered for purchase by their Owners pursuant to Section A-401 after the date on which the Paying Agent/Registrar mailed such notice of the proposed modification or amendment have been purchased at a price equal to the Purchase Price thereof, (b) a written consent of the Remarketing Agent to the proposed modification or amendment and (c) a Favorable Opinion of Bond Counsel, the proposed amendment shall be deemed to have been consented by the Owners of the Bonds of such subseries;

(b) during any Mode other than the Fixed Rate Mode or an Auction Rate Mode, if on or prior to any Mandatory Purchase Date there is delivered to the City (i) a certificate of the Tender Agent to the effect that all Bonds of such subseries have been purchased at a price equal to the Purchase Price thereof, (ii) a written consent of the Remarketing Agent to the proposed modification or amendment, and (iii) a Favorable Opinion of Bond Counsel, and the proposed modification or amendment has been disclosed in the official statement or other disclosure document pursuant to which the Bonds of such subseries have been remarketed, the proposed amendment shall be deemed to have been consented by the Owners of the Bonds of such subseries; and

(c) during an Auction Rate Mode, in accordance with Section 2.07(b) of Exhibit I hereto.

Section A-702 Notices.

(a) Notices to Owners. All notices required to be given to Owners of Bonds of a subseries, unless otherwise expressly provided, shall be given by first class mail, postage prepaid.

(b) Notices to Rating Agencies. The City shall give written notice to the Rating Agencies of any of the following events:

(1) any material changes to the Ordinance that affect the Bonds;

(2) a conversion to the Term Rate Mode or Fixed Rate Mode;

(3) any redemption, defeasance or mandatory tender of all the Outstanding Bonds;

(4) any material changes to the Liquidity Facility, the Credit Facility, or any material changes to any agreement with the Liquidity Facility Issuer, Credit Facility Issuer, Remarketing Agent or Tender Agent pertaining to the Bonds; and

(5) any expiration, termination or extension of any Liquidity Facility or Credit Facility or the obtaining of an Alternate Liquidity Facility or Alternate Credit Facility pertaining to the Bonds.

(c) Demands; Requests. All notices, demands and requests to be given to or made hereunder by the City, the Tender Agent, the Remarketing Agents, the Auction Agent, the Broker-Dealers, the Credit Facility Issuers, the Liquidity Facility Issuers or the Rating Agencies shall, unless otherwise expressly provided herein, be given or made in writing and shall be deemed to be properly given or made if by United States registered or certified mail, return receipt requested, postage prepaid, addressed as set forth below. Notices, demands and requests that may be given by Electronic Means may be sent to the telephone or fax numbers, as applicable, set forth below:

(i)	As to the City:	The address, phone number and fax number specified in the Pricing Certificate.
(ii)	As to the Tender Agent:	The address, phone number and fax number specified in the Tender Agency Agreement.
(iii)	As to the Remarketing Agent(s):	The address, phone number and fax number specified in the related Remarketing Agreement.
(iv)	As to the Auction Agent:	The address, phone number and fax number specified in the Auction Agreement.
(v)	As to the Broker-Dealer(s):	The address, phone number and fax number specified in the related Broker-Dealer Agreement.
(vi)	As to the Insurer:	The address specified in the Ordinance.
(vii)	As to the Credit Facility Issuer(s) and Liquidity Facility Issuer(s):	The address, phone number and fax number specified in the related Credit Facility or Liquidity Facility, as the case may be.

or to such other address as is provided by the entity.

APPENDIX G

THE STANDBY PURCHASER

Dexia Credit Local

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

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

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

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

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

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

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