OFFICIAL STATEMENT
Dated December 5, 2012

Ratings: Moody's: "A1"
Standard & Poor's: "AA-"
Fitch: "AA-"
(See "OTHER RELEVANT INFORMATION – Ratings")

NEW ISSUES – Book-Entry-Only

Delivery of the Bonds is subject to the receipt of the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, to the effect that, assuming continuing compliance by the City of Austin, Texas (the "City") with certain covenants contained in the Eleventh Supplement described in this document, interest on the Series 2012A Bonds will be excludable from gross income for purposes of federal income taxation under existing law, subject to the matters described under "TAX MATTERS – SERIES 2012A BONDS" in this document, including the alternative minimum tax on corporations. Interest on the Series 2012B Bonds will be included in gross income for federal income tax purposes. See "TAX MATTERS – SERIES 2012B BONDS" in this document.

$267,770,000
CITY OF AUSTIN, TEXAS
(Travis, Williamson and Hays Counties)
Electric Utility System Revenue Refunding Bonds, Series 2012A

$107,715,000
CITY OF AUSTIN, TEXAS
(Travis, Williamson and Hays Counties)
Electric Utility System Revenue Refunding Bonds, Taxable Series 2012B

Dated: December 1, 2012, Interest to accrue from Date of Initial Delivery **Due: As shown on the inside cover page**

The bonds offered in this document are the $267,770,000 City of Austin, Texas Electric Utility System Revenue Refunding Bonds, Series 2012A (the "Series 2012A Bonds") and the $107,715,000 City of Austin, Texas Electric Utility System Revenue Refunding Bonds, Taxable Series 2012B (the "Series 2012B Bonds"). The Series 2012A Bonds and the Series 2012B Bonds are collectively referred to as the "Bonds". The Bonds are the eleventh and twelfth series, respectively, of "Parity Electric Utility Obligations" issued pursuant to the master ordinance governing the issuance of electric utility system indebtedness (the "Master Ordinance") and are authorized and being issued in accordance with two Supplemental Ordinances (the "Eleventh Supplement" pertaining to the Series 2012A Bonds and the "Twelfth Supplement" pertaining to the Series 2012B Bonds). The Master Ordinance provides the terms for the issuance of Parity Electric Utility Obligations and the related covenants and security provisions. The City must comply with the covenants and security provisions relating to the Prior First Lien Obligations (defined in this document) and Prior Subordinate Lien Obligations (defined in this document) while they remain outstanding. The Master Ordinance provides that no additional revenue obligations shall be issued on a parity with the Prior First Lien Obligations or Prior Subordinate Lien Obligations. Commercial Paper Obligations (defined in this document) currently authorized having a combined pledge of Electric Light and Power System and Water and Wastewater System revenues may continue to be issued on a subordinate lien basis to the Parity Electric Utility Obligations. The Bonds are special obligations of the City, payable as to both principal and interest solely from, and together with the outstanding Parity Electric Utility Obligations and Prior Subordinate Lien Bonds, equally and ratably secured only by a lien on and pledge of the Net Revenues of the City's Electric Utility System as provided in the Master Ordinance, the Eleventh Supplement, and the Twelfth Supplement. **The taxing power of the City and the State of Texas is not pledged as security for the Bonds.** See "SECURITY FOR THE BONDS" in this document.

The definitive Bonds will be issued in fully registered form in denominations of $5,000 or any integral multiple thereof within a maturity. Interest on the Bonds will accrue from the date of initial delivery and shall be payable on May 15, 2013 and each November 15 and May 15 thereafter until maturity or prior redemption. The Bonds will be registered initially in the name Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). The City reserves the right to discontinue such book-entry system. See "DESCRIPTION OF THE BONDS" in this document. BOKF, NA dba Bank of Texas, Houston, Texas, will serve as the initial paying agent/registrar (the "Paying Agent/Registrar") for the Bonds.

MATURITY SCHEDULE

See "Maturity Schedule" on the Inside Cover Page

The City reserves the right, at its option, to redeem the Bonds prior to their scheduled maturity. (See "DESCRIPTION OF THE BONDS - Optional Redemption for the Series 2012A Bonds" and "- Optional Redemption for the Series 2012B Bonds".)

The Bonds are offered for delivery when, as, and if issued and subject, among other things, to the opinions of the Attorney General of the State of Texas and Fulbright & Jaworski L.L.P., Bond Counsel for the City, as to the validity of the issuance of the Bonds under the Constitution and laws of the State of Texas. The opinion of Bond Counsel will be printed or attached to the Bonds. (See APPENDIX E – "Forms of Bond Counsel's Opinions"). Certain matters will be passed on for the Underwriters by their co-counsel, Haynes and Boone, LLP, Houston, Texas and Bracewell & Giuliani LLP, Austin, Texas.

It is expected that the Bonds will be delivered through the facilities of DTC on or about December 18, 2012.

Citigroup

Barclays **Cabrera Capital Markets, LLC** **Comerica Securities**
Edward Jones **Fidelity Capital Markets** **M. R. Beal & Company**
RBC Capital Markets **Rice Financial Products** **Robert W. Baird & Co.**
BOSC, Inc.
A subsidiary of BOK Financial Corp.

CITY OF AUSTIN, TEXAS

$267,770,000 Electric Utility System Revenue Refunding Bonds, Series 2012A
Base CUSIP No. 052414 (1)

MATURITY SCHEDULE

Maturity	Principal Amount	Interest Rate	Initial Yield	CUSIP Suffix (1)
11-15-2016	$ 4,820,000	3.000%	0.620%	MH9
11-15-2017	7,775,000	4.000%	0.790%	MJ5
11-15-2018	3,000,000	4.000%	1.040%	MK2
11-15-2018	5,090,000	5.000%	1.040%	MZ9
11-15-2019	3,000,000	4.000%	1.230%	ML0
11-15-2019	5,450,000	5.000%	1.230%	NA3
11-15-2020	8,910,000	5.000%	1.470%	MM8
11-15-2021	90,000	4.000%	1.720%	NE5
11-15-2022	95,000	4.000%	1.930%	NF2
11-15-2023	10,200,000	5.000%	1.970%*	MN6
11-15-2024	10,805,000	5.000%	2.080%*	MP1

Maturity	Principal Amount	Interest Rate	Initial Yield	CUSIP Suffix (1)
11-15-2025	$11,310,000	5.000%	2.170%*	MQ9
11-15-2026	2,000,000	2.500%	2.650%	MR7
11-15-2026	9,915,000	5.000%	2.250%*	NB1
11-15-2027	12,370,000	5.000%	2.310%*	MS5
11-15-2028	12,390,000	4.000%	2.620%*	MT3
11-15-2028	10,000,000	5.000%	2.370%*	NH8
11-15-2029	9,840,000	4.000%	2.710%*	MU0
11-15-2030	10,235,000	4.000%	2.790%*	MV8
11-15-2031	10,645,000	4.000%	2.850%*	MW6
11-15-2032	11,070,000	4.000%	2.910%*	MX4

$20,000,000 4.000% Series 2012A Term Bond due November 15, 2037, Initial Yield 3.160%*, CUSIP 052414NC9
$43,215,000 5.000% Series 2012A Term Bond due November 15, 2037, Initial Yield 2.830%*, CUSIP 052414ND7
$5,000,000 3.250% Series 2012A Term Bond due November 15, 2040, Initial Yield 3.380%, CUSIP 052414MY2
$40,545,000 5.000% Series 2012A Term Bond due November 15, 2040, Initial Yield 2.860%*, CUSIP 052414NG0

(Interest to accrue from Date of Initial Delivery)

*Priced to the optional redemption date.

Optional Redemption of the Series 2012A Bonds

The City reserves the right, at its option, to redeem the Series 2012A Bonds maturing on or after November 15, 2023, in whole or in part in the principal amounts of $5,000 or any integral multiple thereof, on November 15, 2022, or any date thereafter pursuant to the terms stated in this document under the subcaption "DESCRIPTION OF THE BONDS – Optional Redemption of the Series 2012A Bonds".

Mandatory Sinking Fund Redemption of the Series 2012A Bonds

The Series 2012A Bonds having stated maturities of November 15, 2037 and November 15, 2040, respectively, are subject to mandatory redemption prior to maturity in part, in the manner described in this document under the subcaption "DESCRIPTION OF THE BONDS – Mandatory Sinking Fund Redemption of the Series 2012A Bonds".

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data in this document is provided by CUSIP Global Services, managed by Standard and Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. CUSIP numbers are provided for convenience of reference only. None of the City, the Financial Advisor, or the Underwriters take any responsibility for the accuracy of such numbers.

CITY OF AUSTIN, TEXAS

$107,715,000 Electric Utility System Revenue Refunding Bonds, Taxable Series 2012B
Base CUSIP No. 052414 (1)

MATURITY SCHEDULE

Maturity	Principal Amount	Interest Rate	Initial Yield	CUSIP Suffix (1)	Maturity	Principal Amount	Interest Rate	Initial Yield	CUSIP Suffix (1)
11-15-2015	$18,835,000	0.672%	0.672%	NJ4	11-15-2022	$ 5,080,000	2.456%	2.456%	NQ8
11-15-2016	5,265,000	0.919%	0.919%	NK1	11-15-2023	6,015,000	2.606%	2.606%	NS4
11-15-2018	1,335,000	1.533%	1.533%	NL9	11-15-2024	6,190,000	2.806%	2.806%	NT2
11-15-2019	1,790,000	1.833%	1.833%	NM7	11-15-2025	9,220,000	2.906%	2.906%	NU9
11-15-2020	2,710,000	2.206%	2.206%	NN5	11-15-2026	20,870,000	3.006%	3.006%	NV7
11-15-2021	8,925,000	2.356%	2.356%	NP0	11-15-2027	21,480,000	3.156%	3.156%	NR6

(Interest to accrue from Date of Initial Delivery)

Optional Redemption of the Series 2012B Bonds

The City reserves the right, at its option, to redeem the Series 2012B Bonds prior to November 15, 2022, in whole or in part in the principal amounts of $5,000 or any integral multiple thereof, on any business day pursuant to the terms stated in this document under the subcaption "DESCRIPTION OF THE BONDS – Optional Redemption of the Series 2012B Bonds.

The City reserves the right, at its option, to redeem the Series 2012B Bonds maturing on or after November 15, 2023, in whole or in part in the principal amounts of $5,000 or any integral multiple thereof, on November 15, 2022, or any date thereafter pursuant to the terms stated in this document under the subcaption "DESCRIPTION OF THE BONDS – Optional Redemption of the Series 2012B Bonds".

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data in this document is provided by CUSIP Global Services, managed by Standard and Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. CUSIP numbers are provided for convenience of reference only. None of the City, the Financial Advisor, or the Underwriters take any responsibility for the accuracy of such numbers.

CITY OF AUSTIN

Elected Officials

		Term Expires June 15
Lee Leffingwell	Mayor	2015
Chris Riley	Councilmember Place 1	2014
Mike Martinez	Councilmember Place 2	2015
Kathryne B. Tovo	Councilmember Place 3	2014
Laura Morrison	Councilmember Place 4	2014
William Spelman	Councilmember Place 5	2015
Sheryl Cole, Mayor Pro Tem	Councilmember Place 6	2015

Appointed Officials

Marc A. Ott	City Manager
Mike McDonald	Deputy City Manager
Robert Goode	Assistant City Manager
Sue Edwards	Assistant City Manager
Bert Lumbreras	Assistant City Manager
Anthony Snipes	Interim Assistant City Manager
Elaine Hart, CPA	Chief Financial Officer
Greg Canally	Deputy Chief Financial Officer
Ed Van Eenoo	Deputy Chief Financial Officer
Karen Kennard	City Attorney
Shirley A. Gentry	City Clerk

BOND COUNSEL
Fulbright & Jaworski L.L.P.
Austin and Dallas, Texas

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

FINANCIAL ADVISOR
Public Financial Management, Inc.
Austin, Texas

INDEPENDENT AUDITORS
Deloitte & Touche LLP
Austin, Texas

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(512) 614–5323
waleyd@pfm.com

SELECTED FINANCIAL INFORMATION

Combined Electric, Water and Wastewater Systems

The selected financial information below presents selected historical information related to the Electric Utility System and the Water and Wastewater System of the City, presented on a combined basis. The financial information for the years ended September 30, 2008 through 2011 is derived from the City's audited financial statements. This information should be read in conjunction with the audited financial statements included in APPENDIX B – "Annual Financial Report".

Operating Summary

	12 Months Ended 6-30-12 (2)	(000's) Fiscal Year Ended September 30 (3) 2011	2010	2009	2008
Combined Gross Revenues	$1,727,017	$1,707,338	$1,520,637	$1,573,459	$1,628,261
Combined Maintenance and Operating Expenses	1,076,967	1,071,055	1,026,316	1,013,853	984,771
Combined Net Revenues	$ 650,050	$ 636,283	$ 494,321	$ 559,606	$ 643,490
Principal and Interest on Revenue Bonds (1)	$ 116,773	$ 122,169	$ 125,671	$ 125,831	$ 103,299
Debt Service Coverage on Revenue Bonds (1)	5.57x	5.21x	3.93x	4.45x	6.23x

(1) Prior First Lien Obligations and Prior Subordinate Lien Obligations only.
(2) Unaudited. See "OTHER RELEVANT INFORMATION – Independent Auditors" in this document.
(3) See "OTHER RELEVANT INFORMATION – Independent Auditors" in this document.

Electric Utility System Only

The selected financial information below presents selected historical information related to the Electric Utility System of the City. The financial information for the years ended September 30, 2008 through 2011 is derived from the City's audited financial statements. This information should be read in conjunction with the audited financial statements included in APPENDIX B – "Annual Financial Report."

Operating Summary

	12 Months Ended 6-30-12 (1)	(000's) Fiscal Year Ended September 30 2011	2010	2009	2008
Gross Revenues	$1,257,388	$1,258,871	$1,157,416	$1,179,688	$1,260,817
Maintenance and Operating Expenses	907,559	907,524	866,914	851,736	840,753
Net Revenues	$ 349,829	$ 351,347	$ 290,502	$ 327,952	$ 420,064
Principal and Interest on Prior First Lien/Prior Subordinate Lien Revenue Obligations	$ 72,387	$ 76,153	$ 79,511	$ 92,616	$ 78,094
Net Revenues available for Parity Electric Utility Obligations	$ 277,442	$ 275,194	$ 210,991	$ 235,336	$ 341,970
Principal and Interest on Parity Electric Utility Obligations	$ 96,344	$ 96,478	$ 86,098	$ 79,327	$ 65,106
Debt Service Coverage (Parity Electric Utility Obligations)	2.88x	2.85x	2.45x	2.97x	5.25x

(1) Unaudited. See "OTHER RELEVANT INFORMATION – Independent Auditors" in this document.

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND IS NOT INTENDED AS A SUMMARY OF THIS OFFERING. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL SCHEDULES AND APPENDICES ATTACHED TO THIS OFFICIAL STATEMENT, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

No dealer, salesman or any other person has been authorized by the City or by the Underwriters to give any information or to make any representations, other than the information and representations contained in this document, in connection with the offering of the Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by the City or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, any of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information and expressions of opinion contained in this document are subject to change without notice and neither the delivery of this Official Statement nor any sale made that references this document shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date of this document. The delivery of this Official Statement at any time does not imply that the information in this document is correct as to any time subsequent to its date. See "CONTINUING DISCLOSURE OF INFORMATION" in this document for a description of the City's undertaking to provide certain information on a continuing basis.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION ("SEC") AND CONSEQUENTLY HAVE NOT BEEN REGISTERED WITH THE SEC. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THE BONDS HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED FROM REGISTRATION SHOULD NOT BE REGARDED AS A RECOMMENDATION FOR THE PURCHASE OF THE BONDS.

CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau, and the City, Public Financial Management, Inc. and the Underwriters are not responsible for the selection or correctness of CUSIP numbers.

None of the City, Public Financial Management, Inc., or the Underwriters make any representation regarding the information contained in this Official Statement regarding DTC or its book-entry-only system, as such information has been furnished by DTC.

This Official Statement contains "forward–looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements to be different from the 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**. See "OTHER RELEVANT INFORMATION – Forward-Looking Statements" in this document.

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

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

NEITHER THE SEC NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE BONDS OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

TABLE OF CONTENTS

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OFFICIAL STATEMENT

Relating to

$267,770,000	$107,715,000
CITY OF AUSTIN, TEXAS	**CITY OF AUSTIN, TEXAS**
(Travis, Williamson and Hays Counties)	**(Travis, Williamson and Hays Counties)**
Electric Utility System Revenue Refunding Bonds, Series 2012A	**Electric Utility System Revenue Refunding Bonds, Taxable Series 2012B**

INTRODUCTION

This Official Statement is being furnished in connection with the proposed issuance by the City of Austin, Texas (the "City") of its $267,770,000 Electric Utility System Revenue Refunding Bonds, Series 2012A (the "Series 2012A Bonds") and its $107,715,000 Electric Utility System Revenue Refunding Bonds, Taxable Series 2012B (the "Series 2012B Bonds"). The Series 2012A Bonds and the Series 2012B Bonds are collectively referred to as the "Bonds". The Bonds are to be issued pursuant to authority conferred by the laws of the State of Texas, a master ordinance of the City Council (the "Master Ordinance") providing the terms for the issuance of Parity Electric Utility Obligations and the related covenant and security provisions, and two supplemental ordinances of the City Council (the "Eleventh Supplement" pertaining to the Series 2012A Bonds and the "Twelfth Supplement" pertaining to the Series 2012B Bonds) providing for the specific terms relating to the issuance of the Bonds in accordance with the Master Ordinance. A summary of certain provisions of the Master Ordinance is attached to this document as APPENDIX C. As noted under "PLAN OF FINANCING" below, the City will not issue any additional Prior First Lien Obligations or Prior Subordinate Lien Obligations but must comply with the covenants contained in the ordinances (collectively, the "Bond Ordinance"), authorizing their issuance while such obligations are outstanding. A summary of certain provisions of the Bond Ordinance is attached as APPENDIX D. **Capitalized terms not otherwise defined in this document have the meanings assigned in the Master Ordinance as modified by the Eleventh Supplement and the Twelfth Supplement, or the Bond Ordinance, as applicable (see APPENDICES C and D)**. All descriptions of documents contained in this document are only summaries and are qualified in their entirety by reference to each such document.

PLAN OF FINANCING

General

The Series 2012A Bonds are being issued as tax-exempt bonds pursuant to the provisions of the Eleventh Supplement (see "TAX MATTERS - SERIES 2012A BONDS" in this document) and the Series 2012B Bonds are being issued as taxable bonds pursuant to the provisions of the Twelfth Supplement (see "TAX MATTERS - SERIES 2012B BONDS" in this document).

A portion of the Series 2012A Bonds are being issued to refund a portion of the City's outstanding Parity Electric Utility System Obligations as described in SCHEDULE I attached hereto (the "Series 2012A Refunded Bonds"), for debt service savings. A portion of the Series 2012B Bonds are being issued to refund a portion of the City's outstanding Parity Electric Utility System Obligations as described in SCHEDULE I attached hereto (the "Series 2012B Refunded Bonds"), to restructure debt service. The Series 2012A Refunded Bonds and the Series 2012B Refunded Bonds are hereafter collectively referred to in this document as the "Refunded Bonds".

A portion of the Series 2012A Bonds will be issued to refund approximately $181,555,000 of the City's outstanding tax-exempt commercial paper notes issued for the Electric Utility System (the "Tax-Exempt Refunded Notes"), and a portion of the Series 2012B Bonds will be issued to refund approximately $43,730,698.69 of the City's outstanding taxable commercial paper notes issued for the Electric Utility System (the "Taxable Refunded Notes"), enabling the City to restore the available capacity under its tax-exempt commercial paper note program and its taxable commercial paper note program, respectively. The Tax-Exempt Refunded Notes and the Taxable Refunded Notes are hereafter collectively referred to in this document as the "Refunded Notes". Any interest on the Refunded Notes due is expected to be paid from available Electric Utility System Revenues. Proceeds of the Series 2012B Bonds to be used to refund $6,009,273.90 in principal amount of the Taxable Refunded Notes maturing January 15, 2013 (the "Escrowed Refunded Notes"), and the interest on the Escrowed Refunded Notes due at maturity and payable from available Electric Utility

System Revenues, will be deposited with the Escrow Agent (defined in "PLAN OF FINANCING – Series 2012A Refunded Bonds" in this document) and will be held un-invested by the Escrow Agent until the Escrowed Refunded Notes mature (see "PLAN OF FINANCING – Refunded Notes" in this document). Proceeds from the Bonds will also be used to pay costs of issuance. The Bonds represent the eleventh and twelfth encumbrances to be issued or incurred as Parity Electric Utility Obligations under the Master Ordinance. The City has issued certain Prior First Lien Obligations, Prior Subordinate Lien Obligations and Commercial Paper Obligations secured by a joint and several pledge of the net revenues of the City's Water and Wastewater System and Electric Utility System. Pursuant to the Master Ordinance, no additional Prior First Lien Obligations or Prior Subordinate Lien Obligations may be issued. When the Prior First Lien Obligations, Prior Subordinate Lien Obligations, and the Commercial Paper Obligations have been fully paid or discharged so that such obligations are no longer deemed to be outstanding under the terms of their respective ordinances and by law, all outstanding Electric Utility System revenue obligations shall be Parity Electric Utility Obligations, or obligations subordinate to the outstanding Parity Electric Utility Obligations, and shall be payable only from and secured only by a lien on, and pledge of, the Net Revenues of the Electric Utility System and the revenues deposited to the credit of the accounts and funds established and maintained as required by the ordinances providing for their issuance. The Master Ordinance governs the issuance of Parity Electric Utility Obligations and contains related covenants and security provisions. The City must comply with the covenants and security provisions relating to the Prior First Lien Obligations and Prior Subordinate Lien Obligations while any such obligations remain outstanding.

The City has also issued revenue obligations secured solely by the net revenues of the Water and Wastewater System pursuant to a master ordinance, the terms and provisions of which differ substantially from those of the Master Ordinance. As noted under "DEBT PAYABLE FROM SYSTEMS REVENUES" in this document, approximately $238.9 million of Prior First Lien Obligations (with maturities extending through May 15, 2019) and Prior Subordinate Lien Obligations (with maturities extending through May 15, 2028) were outstanding as of September 30, 2012 and no assurances can be given as to when or if such obligations will be defeased or paid prior to their stated maturity so as to allow the Parity Electric Utility Obligations (including the Bonds) to be first lien obligations of the Net Revenues of the Electric Utility System.

Series 2012A Refunded Bonds

The Series 2012A Refunded Bonds, and interest due on the Series 2012A Refunded Bonds, are to be paid on the scheduled interest payment dates and the maturity or redemption dates of such Series 2012A Refunded Bonds from funds to be deposited pursuant to a certain Special Escrow Agreement (the "2012A Escrow Agreement") between the City and BOKF, NA dba Bank of Texas, Houston, Texas (the "Escrow Agent"). The Eleventh Supplement provides that proceeds of the sale of the Series 2012A Bonds, together with other lawfully available funds of the City, if any, will be deposited with the Escrow Agent in an amount necessary to accomplish the discharge and final payment of the Series 2012A Refunded Bonds. Such funds will be held by the Escrow Agent in a special escrow account (the "2012A Escrow Fund") and used to purchase direct obligations of the United States of America (the "2012A Escrowed Securities") to be held in the 2012A Escrow Fund. Under the 2012A Escrow Agreement, the 2012A Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Series 2012A Refunded Bonds.

The Arbitrage Group, Inc., a nationally recognized accounting firm, will verify at the time of delivery of the Series 2012A Bonds the mathematical accuracy of the schedules that demonstrate that the 2012A Escrowed Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the 2012A Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Series 2012A Refunded Bonds. Such maturing principal of and interest on the 2012A Escrowed Securities, and other uninvested funds in the 2012A Escrow Fund, will not be available to pay the debt service on the Bonds. See "OTHER RELEVANT INFORMATION – Verification of Arithmetical and Mathematical Calculations" in this document.

By the deposit of the 2012A Escrowed Securities and cash with the Escrow Agent pursuant to the 2012A Escrow Agreement, the City will have entered into firm banking and financial arrangements for the discharge and final payment of the Series 2012A Refunded Bonds, in accordance with applicable law. As a result of such firm banking and financial arrangements, the Series 2012A Refunded Bonds will be outstanding only for the purpose of receiving payments from the 2012A Escrowed Securities and cash held for such purpose by the Escrow Agent, and such Series 2012A Refunded Bonds will not be deemed outstanding for the purpose of any limitation on debt or the pledge of Net Revenues.

The City has covenanted in the 2012A Escrow Agreement to make timely deposits to the 2012A Escrow Fund from lawfully available funds of any additional amounts required to pay the principal of and interest on the Series 2012A

Refunded Bonds if, for any reason, the cash balances on deposit or scheduled to be on deposit in the 2012A Escrow Fund are insufficient to make such payment.

Series 2012B Refunded Bonds

The Series 2012B Refunded Bonds, and interest due on the Series 2012B Refunded Bonds, are to be paid on the scheduled interest payment dates and the maturity or redemption dates of such Series 2012B Refunded Bonds from funds to be deposited pursuant to a certain Special Escrow Agreement (the "2012B Escrow Agreement") between the City and the Escrow Agent. The Twelfth Supplement provides that proceeds of the sale of the Series 2012B Bonds, together with other lawfully available funds of the City, if any, will be deposited with the Escrow Agent in an amount necessary to accomplish the discharge and final payment of the Series 2012B Refunded Bonds. Such funds will be held by the Escrow Agent in a special escrow account (the "2012B Escrow Fund") and used to purchase direct obligations of the United States of America (the "2012B Escrowed Securities") to be held in the 2012B Escrow Fund. Under the 2012B Escrow Agreement, the 2012B Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Series 2012B Refunded Bonds and the Escrowed Refunded Notes.

The Arbitrage Group, Inc., a nationally recognized accounting firm, will verify at the time of delivery of the Series 2012B Bonds the mathematical accuracy of the schedules that demonstrate that the 2012B Escrowed Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the 2012B Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Series 2012B Refunded Bonds and the Escrowed Refunded Notes. Such maturing principal of and interest on the 2012B Escrowed Securities, and other uninvested funds in the 2012B Escrow Fund, will not be available to pay the debt service on the Bonds. See "OTHER RELEVANT INFORMATION – Verification of Arithmetical and Mathematical Calculations" in this document.

By the deposit of the 2012B Escrowed Securities and cash with the Escrow Agent pursuant to the 2012B Escrow Agreement, the City will have entered into firm banking and financial arrangements for the discharge and final payment of the Series 2012B Refunded Bonds and the Escrowed Refunded Notes, in accordance with applicable law. As a result of such firm banking and financial arrangements, the Series 2012B Refunded Bonds and the Escrowed Refunded Notes will be outstanding only for the purpose of receiving payments from the 2012B Escrowed Securities and cash held for such purpose by the Escrow Agent, and such Series 2012B Refunded Bonds and the Escrowed Refunded Notes will not be deemed outstanding for the purpose of any limitation on debt or the pledge of Net Revenues.

The City has covenanted in the 2012B Escrow Agreement to make timely deposits to the 2012B Escrow Fund from lawfully available funds of any additional amounts required to pay the principal of and interest on the Series 2012B Refunded Bonds and the Escrowed Refunded Notes if, for any reason, the cash balances on deposit or scheduled to be on deposit in the 2012B Escrow Fund are insufficient to make such payment.

Refunded Notes

The Eleventh Supplement provides that from the proceeds of the sale of the Series 2012A Bonds, and the Twelfth Supplement provides that from the proceeds of the sale of the Series 2012B Bonds, in each case, together with other available funds of the City, the City will deposit or cause to be deposited with U.S. Bank National Association, in its capacity as the issuing and paying agent for the Refunded Notes (the "CP Issuing and Paying Agent"), the amount necessary to accomplish the discharge, defeasance and final payment of the Refunded Notes in accordance with the terms of the respective ordinances authorizing the issuance thereof. The principal of and interest on all of the Refunded Notes, except the Escrowed Refunded Notes, will be paid on the date of delivery of the Bonds, which is the scheduled maturity date of the Refunded Notes (other than the Escrowed Refunded Notes), from amounts deposited with the CP Issuing and Paying Agent. On the maturity date of the Escrowed Refunded Notes, the Escrow Agent will transfer to the CP Issuing and Paying Agent moneys sufficient to provide for the payment of the principal of and interest on the Escrowed Refunded Notes on their maturity date (see "PLAN OF FINANCING – General" in this document).

SOURCES AND USES OF FUNDS

The estimated sources and uses of funds for the Bonds are as follows.

	Series 2012A Bonds	Series 2012B Bonds	Total
Sources:			
Par Amount of Bonds	$267,770,000.00	$107,715,000.00	$375,485,000.00
Net Premium	46,138,359.80		46,138,359.80
Transfer from Debt Service Fund	561,704.98	270,399.18	832,104.16
Total Sources of Funds	$314,470,064.78	$107,985,399.18	$422,455,463.96
Uses:			
Commercial Paper Refunding	$181,571,954.98	$37,727,000.00	$219,298,954.98
Deposit to 2012A Escrow Fund	131,015,380.96		131,015,380.96
Deposit to 2012B Escrow Fund		69,527,111.63 (1)	69,527,111.63
Underwriters' Discount	1,233,017.81	467,174.36	1,700,192.17
Cost of Issuance	649,711.03	264,113.19	913,824.22
Total Uses of Funds	$314,470,064.78	$107,985,399.18	$422,455,463.96

(1) Includes amount to pay principal and interest on the Escrowed Refunded Notes at maturity.

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DEBT PAYABLE FROM SYSTEMS REVENUES
(As of September 30, 2012)

Combined Utility Systems Obligations	
Prior First Lien Obligations	$ 70,679,944
Prior Subordinate Lien Obligations	168,274,512
Sub-Total	$ 238,954,456
Parity Electric Utility Obligations (a)	$1,251,870,000
Water and Wastewater System Separate Lien Obligations (b)	
Parity Water and Wastewater Obligations	$2,118,355,000
Commercial Paper (c)	$ 79,770,000
General Obligation Bonds (d)	$ 18,117,255
Assumed Bonds and Obligations	
Assumed District Bonds (e)	$ 6,789,317
TOTAL (e)	$3,713,856,028

See "SECURITY FOR THE BONDS" in this document.

(a) Includes the Bonds, but excludes the Refunded Bonds.

(b) The Water and Wastewater System Separate Lien Obligations are payable from the Net Revenues of the Water and Wastewater System only.

(c) The City has a Tax-Exempt Commercial Paper Program in place for the Combined Utility Systems in an amount not to exceed $350,000,000 and a Taxable Commercial Paper Program for the Combined Utility Systems in an amount not to exceed $50,000,000. The outstanding amount shown above excludes the Refunded Notes and the Escrowed Refunded Notes. See "PLAN OF FINANCING" in this document. The Commercial Paper Notes and the reimbursement obligation to the respective banks providing the direct pay letter of credit supporting the Commercial Paper Notes are payable from the Net Revenues of both the Electric Utility System and the Water and Wastewater System after providing for the payment of the Prior First Lien Obligations, the Prior Subordinate Lien Obligations, the Parity Electric Utility Obligations and the Water and Wastewater System Separate Lien Obligations. The City's current Financial Policy provides that the proceeds of Commercial Paper Notes issued for the Electric Utility System can only be utilized (i) to finance capital improvements required for normal business operation for Electric Utility System additions, extensions, and improvements or improvements to comply with local, state and federal mandates or regulations without prior voter authorization; however, this shall not apply to new nuclear or conventional coal generation, or (ii) for voter authorized projects (although such voter authorization is not required by State law).

(d) Contractual Obligations and Public Improvement Bonds are payable from City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Electric Utility System and Water and Wastewater System.

(e) Such bonds are payable from City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Water and Wastewater System.

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DEBT SERVICE REQUIREMENTS (a)

Fiscal Year Ending 09/30	Outstanding Prior Lien Bonds	Outstanding Subordinate Lien Bond	Total Prior & Subordinate Lien Bond Requirements	The Bonds		Electric Utility System Obligations (a)	Water & WW Separate Lien Obligation Bonds	Assumed MUD Obligations (b)	Total Separate Lien and Combined Utility Systems Requirements (a)
				Principal	Interest				
2013	$ 61,293,113	$ 14,774,875	$ 76,067,988	$ -	$ 6,043,288	$ 123,948,827	$ 157,147,906	$ 717,086	$ 363,925,095
2014	504,700	15,587,313	16,092,013	-	14,799,890	120,788,753	195,430,849	714,462	347,825,966
2015	6,045,000	27,480,075	33,525,075	-	14,799,890	81,375,828	179,403,353	727,005	309,831,150
2016	6,045,000	28,236,025	34,281,025	18,835,000	14,736,604	68,628,493	172,568,642	645,526	309,695,290
2017	42,150,000	18,561,750	60,711,750	10,085,000	14,576,826	70,681,255	171,387,055	648,483	328,090,368
2018	62,050,000	18,796,325	80,846,325	7,775,000	14,324,833	56,774,810	140,869,049	659,459	301,249,475
2019	31,735,000	18,905,150	50,640,150	9,425,000	13,971,850	56,559,611	139,272,504	661,645	270,530,760
2020	-	21,503,738	21,503,738	10,240,000	13,561,712	56,263,057	152,722,691	669,724	254,960,922
2021	-	15,376,663	15,376,663	11,620,000	13,096,416	53,426,361	156,481,709	663,681	250,664,829
2022	-	21,377,563	21,377,563	9,015,000	12,736,838	56,325,979	152,740,772	666,568	252,862,720
2023	-	20,363,538	20,363,538	5,175,000	12,565,619	55,960,915	148,602,077	664,896	243,332,044
2024	-	20,079,763	20,079,763	16,215,000	12,167,961	45,953,676	154,684,954	668,673	249,770,026
2025	-	16,248,175	16,248,175	16,995,000	11,477,615	45,965,659	149,570,501	604,005	240,860,955
2026	-	413,313	413,313	20,530,000	10,703,928	45,848,628	142,259,342	-	219,755,210
2027	-	413,313	413,313	32,785,000	9,700,660	45,761,104	140,599,992	-	229,260,069
2028	-	10,138,313	10,138,313	33,850,000	8,465,904	45,749,654	131,244,259	-	229,448,130
2029	-	-	-	22,390,000	7,319,900	45,499,136	130,740,124	-	205,949,160
2030	-	-	-	9,840,000	6,625,300	45,407,604	122,591,780	-	184,464,684
2031	-	-	-	10,235,000	6,223,800	45,371,077	82,309,612	-	144,139,489
2032	-	-	-	10,645,000	5,806,200	35,828,283	67,955,946	-	120,235,429
2033	-	-	-	11,070,000	5,371,900	35,600,747	67,948,970	-	119,991,617
2034	-	-	-	11,515,000	4,880,725	31,511,780	67,878,813	-	115,786,318
2035	-	-	-	12,050,000	4,328,700	31,339,349	67,730,856	-	115,448,904
2036	-	-	-	12,615,000	3,751,025	31,141,925	67,980,790	-	115,488,740
2037	-	-	-	13,210,000	3,146,300	21,673,948	67,798,597	-	105,828,845
2038	-	-	-	13,825,000	2,513,375	21,539,120	58,780,017	-	96,657,512
2039	-	-	-	14,475,000	1,841,744	21,399,762	50,157,934	-	87,874,440
2040	-	-	-	15,170,000	1,129,056	8,690,945	50,236,329	-	75,226,330
2041	-	-	-	15,900,000	382,188	8,556,597	36,070,927	-	60,909,712
2042	-	-	-	-	-	-	24,796,875	-	24,796,875
2043	-	-	-	-	-	-	11,685,000	-	11,685,000

(a) Excludes the Refunded Bonds.

(b) Assumed MUD obligations are secured by and payable from City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Water and Wastewater System.

SECURITY FOR THE BONDS

Pledges of Net Revenues

Prior First Lien Obligations/Prior Subordinate Lien Obligations. . . The Net Revenues of both the City's Electric Utility System and Water and Wastewater System have been pledged, jointly and severally, (i) on a first lien basis to the payment and security of the Prior First Lien Obligations and (ii) on a second lien basis to the payment and security of the Prior Subordinate Lien Obligations. In the ordinances authorizing the issuance of the Prior First Lien Obligations and the Prior Subordinate Lien Obligations, the City retained the right to issue "Separate Lien Obligations", which are defined as obligations payable solely from the Net Revenues of either the Electric Utility System or the Water and Wastewater System, but not both, and such payments for their retirement by the terms of the ordinance authorizing their issuance are secured solely by a lien on and pledge of the Net Revenues of the Electric Utility System, or the Net Revenues of the Water and Wastewater System, but not both, of equal dignity with the lien on and pledge of these Net Revenues securing the payment of the Prior Subordinate Lien Obligations.

Parity Electric Utility Obligations . . . The Bonds are "Separate Lien Obligations" under the terms of the Bond Ordinance, and represent the eleventh and twelfth issues, or series, of Separate Lien Obligations of the City's Electric Utility System. The Master Ordinance, the Eleventh Supplement and the Twelfth Supplement pledge the Net Revenues of the Electric Utility System to the payment of the "Parity Electric Utility Obligations" (the Outstanding Parity Electric Utility Obligations, the Bonds and additional parity obligations issued or incurred subsequent to the issuance of the Bonds), and the Parity Electric Utility Obligations, together with the Prior Subordinate Lien Obligations, are equally and ratably secured by a parity lien on and pledge of the Net Revenues of the Electric Utility System, subject to the prior claim on and lien on the Net Revenues of the Electric Utility System to the payment and security of the Prior First Lien Obligations currently Outstanding, including the funding and maintenance of the special funds established and maintained for the payment and security of such Prior First Lien Obligations.

Additionally, the Parity Electric Utility Obligations are secured by a lien on the funds, if any, deposited to the credit of the Debt Service Fund, any special fund or funds created and maintained for the payment and security of the Parity Electric Utility Obligations pursuant to a Supplemental Ordinance and funds on deposit in any construction fund maintained and established with the proceeds of sale of Parity Electric Utility Obligations pending expenditure in accordance with the terms of the Master Ordinance and any Supplemental Ordinance. The Eleventh Supplement and Twelfth Supplement affirm that a Reserve Fund will be created and established only when the "Pledged Net Revenues" of the Electric Utility System for a Fiscal Year (the Net Revenues of the Electric Utility System in a Fiscal Year remaining after deducting the amounts, if any, expended to pay the annual debt service requirements for Prior First Lien Obligations and Prior Subordinate Lien Obligations in such Fiscal Year) are less than one hundred fifty per cent (150%) of the Annual Debt Service Requirements of the Parity Electric Utility Obligations due and payable in such Fiscal Year. When a Reserve Fund is required to be maintained, the amount to be accumulated is to be based on the amount of the shortfall of the Pledged Net Revenues below 150% of the annual Debt Service Requirements for the Parity Electric Utility Obligations and ranges from a maximum amount of 50% of the Maximum Debt Service Requirement when the Pledged Net Revenues for a Fiscal Year are less than 110% of the annual Debt Service Requirement for the Fiscal Year, to a minimum of 10% of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 150% of the annual Debt Service Requirement for that Fiscal Year, but greater than or equal to 140% of the annual Debt Service Requirement for that Fiscal Year. Currently, the Pledged Net Revenues are in excess of 150% of the Annual Debt Service Requirements, and therefore the City is not required, and currently does not intend, to fund a reserve fund for the Bonds (see "No Reserve Fund for Parity Electric Utility Obligations" below).

Rate Covenant Required By Prior First Lien Obligations and Prior Subordinate Lien Obligations

The City has agreed to establish rates and charges for the facilities and services of the Electric Utility System and the Water and Wastewater System to provide Gross Revenues in each Fiscal Year sufficient (i) to pay the Maintenance and Operating Expenses, (ii) to fund the reserves required for Prior First Lien Obligations, Prior Subordinate Lien Obligations, Separate Lien Obligations and other obligations or evidences of indebtedness payable only from and secured solely by a lien on and pledge of the combined Net Revenues of the Systems, and (iii) to produce Net Revenues (after satisfaction of the amount required in (ii) above) equal to at least (a) 1.25 times the annual principal and interest requirements (or other similar payments) for the then outstanding Prior First Lien Obligations and Separate Lien Obligations plus (b) 1.10 times the total annual principal and interest requirements (or other similar payments) for the then outstanding Prior Subordinate Lien Obligations and all other indebtedness, except Prior First Lien Obligations and Separate Lien Obligations, payable only from and secured solely by a lien on and pledge of the Net Revenues of either the Electric Utility System or the Water and Wastewater System, or both.

Rate Covenant Required by Master Ordinance

In the Master Ordinance, the City has agreed to fix, establish, maintain and collect such rates, charges and fees for electric power and energy and services furnished by the Electric Utility System and to the extent legally permissible, revise such rates, charges and fees to produce Gross Revenues each Fiscal Year sufficient: (i) to pay all current Operating Expenses; (ii) to produce Net Revenues, after (x) deducting amounts expended during the Fiscal Year from the Electric Utility System's Net Revenues for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations and (y) taking into account ending fund balances in the System Fund to be carried forward in a Fiscal Year, equal to an amount sufficient to pay the annual debt service due and payable in such Fiscal Year of the then Outstanding Parity Electric Utility Obligations; and (iii) to pay after deducting the amounts determined in (i) and (ii) above, all other financial obligations of the Electric Utility System reasonably anticipated to be paid from Gross Revenues.

If the Net Revenues in any Fiscal Year are less than the aggregate amount specified above, the City shall promptly, upon receipt of the annual audit for that Fiscal Year, cause such rates, charges and fees to be revised and adjusted to comply with such rate covenant or obtain a written report from a Utility System Consultant, after a review and study of the operations of the Electric Utility System has been made, concluding that, in their opinion, the rates, charges and fees then in effect for the current Fiscal Year are sufficient or adjustments and revisions need to be made to such rates, charges and fees to comply with the rate covenant described in the immediately preceding paragraph and such adjustments and revisions to electric rates, charges and fees are promptly implemented and enacted in accordance with such Utility System Consultant's report. The City shall be deemed to be in compliance with the rate covenant described in the immediately preceding paragraph if either of the actions mentioned in the preceding sentence are undertaken and completed before the end of the Fiscal Year next following the Fiscal Year the deficiency in Net Revenues occurred.

Reserve Fund for Prior First Lien Obligations and Prior Subordinate Lien Obligations

A separate reserve fund has been established for the benefit of the Prior First Lien Obligations and Prior Subordinate Lien Obligations. In 2002, the City obtained the consent of the Holders of at least 51% of the principal amount and Maturity Amount of the outstanding Prior First Lien Obligations and Prior Subordinate Lien Obligations to amend the provisions of the Bond Ordinance relating to the Reserve Fund to allow for the funding of all or a part of the amount required to be maintained in the Reserve Fund (the "Required Reserve") with Financial Commitments (defined below) and change the Required Reserve to an amount equal to the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior First Lien Obligations and Prior Subordinate Lien Obligations, as determined on (i) the date of the initial deposit of a Financial Commitment to the Reserve Fund or (ii) the date one or more rating agencies announces the rating of the insurance company or association providing the Financial Commitment for the Reserve Fund falls below the minimum requirement, whichever date is the last to occur. The term "Financial Commitments" means an irrevocable and unconditional policy of bond insurance or surety bond in full force and effect issued by an insurance company or association duly authorized to do business in the State of New York and the State of Texas and with financial strength rated in the highest rating category by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and Fitch Ratings ("Fitch") and, if rated, by A.M. Best on the date the Financial Commitment is deposited to the credit of the Reserve Fund.

The amount on deposit to the credit of the Reserve Fund under the Prior Lien Ordinance as of September 30, 2012 is $35,776,161.13 and is funded with cash. The City may at any time substitute one or more Financial Commitments for the cash and securities deposited to the credit of the Reserve Fund, and following such substitution, the cash and securities released from the Reserve Fund shall be deposited to the credit of one or more special accounts maintained on the books and records of the City and expended only to pay, discharge and defease Prior First Lien Obligations and Prior Subordinate Lien Obligations in a manner that reduces the principal amount and Maturity Amount of outstanding Prior First Lien Obligations and Prior Subordinate Lien Obligations.

No Reserve Fund for Parity Electric Utility Obligations

The Master Ordinance does not provide for a Reserve Fund for the Parity Electric Utility Obligations. The Eleventh Supplement and the Twelfth Supplement, however, affirm that a Reserve Fund shall not be required to be established or maintained by the City for the payment of the Parity Electric Utility Obligations so long as the "Pledged Net Revenues" of the Electric Utility System for a Fiscal Year (the Net Revenues of the Electric Utility System in a Fiscal Year remaining after deducting the amounts, if any, expended to pay the annual debt service requirements for Prior First Lien Obligations and Prior Subordinate Lien Obligations in such Fiscal Year) equal or exceed one hundred fifty per cent (150%) of the Annual Debt Service Requirements of the Parity Electric Utility Obligations due and payable in such Fiscal Year. If for any Fiscal Year such "Pledged Net Revenues" do not exceed 150% of the Annual Debt Service Requirements of the Parity Electric Utility Obligations, the City shall be obligated to establish and maintain on the books of the City a separate fund or account designated as the "Electric Utility System Revenue Obligation Reserve Fund" (the "Reserve Fund"). When a Reserve Fund is required to be established, the Required Reserve Amount to be accumulated and maintained in such Fund shall be determined and redetermined as follows:

(i) ten per cent (10%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 150% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 140% of the annual Debt Service Requirement for such Fiscal Year;

(ii) twenty per cent (20%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 140% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 130% of the annual Debt Service Requirement for such Fiscal Year;

(iii) thirty per cent (30%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 130% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 120% of the annual Debt Service Requirement for such Fiscal Year;

(iv) forty per cent (40%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 120% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 110% of the annual Debt Service Requirement for such Fiscal Year; and

(v) fifty per cent (50%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 110% of the annual Debt Service Requirement for such Fiscal Year.

When a Reserve Fund is required, the City may deposit cash to the Reserve Fund or acquire and deposit a surety bond to provide the Required Reserve Amount, or deposit a combination of such cash and a surety bond. In funding such Required Reserve Amount, or to increase the Required Reserve Amount pursuant to a Supplement, the Required Reserve Amount or increase in the Required Reserve Amount, as applicable, may be funded in up to twelve (12) substantially equal consecutive monthly deposits commencing not later than the month following the receipt of audited financial statements for the System for the preceding Fiscal Year.

Issuance of Additional Prior First Lien Obligations and Prior Subordinate Lien Obligations Precluded

The Master Ordinance provides that no additional revenue obligations will be issued on parity with the Prior First Lien Obligations or the Prior Subordinate Lien Obligations.

Issuance of Parity Electric Utility Obligations

Under the Master Ordinance the City reserves and shall have the right and power to issue or incur Parity Electric Utility Obligations for any purpose authorized by law pursuant to the provisions of the Master Ordinance and any Supplement. The City may issue, incur, or otherwise become liable in respect of any Parity Electric Utility Obligations if a Designated Financial Officer shall certify in writing: (i) the City is in compliance with all covenants contained in the Master

Ordinance and any Supplement, is not in default in the performance and observance of any of the terms, provisions and conditions in the Master Ordinance and any Supplement to the Master Ordinance, and the Funds and Accounts established for the payment and security of the Parity Electric Utility Obligations then Outstanding contain the amounts then required to be deposited in those Funds and Accounts, or the proceeds of sale of the Parity Electric Utility Obligations then to be issued are to be used to cure any deficiency in the amounts on deposit to the credit of such Funds and Accounts, if any, and (ii) the Net Revenues of the Electric Utility System, for the last completed Fiscal Year preceding the date of the then proposed Parity Electric Utility Obligations, or for any twelve (12) consecutive calendar month period ending not more than ninety (90) days before the date of the then proposed Parity Electric Utility Obligations and after deducting amounts expended from the Electric Utility System's Net Revenues during the last completed Fiscal Year for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations, exceed one hundred ten percent (110%) of the maximum Annual Debt Service Requirement of the Parity Electric Utility Obligations to be Outstanding after giving effect to the Parity Electric Utility Obligations then being issued.

For purposes of clause (ii) in the preceding paragraph, if Parity Electric Utility Obligations are issued to refund less than all of the Parity Electric Utility Obligations then Outstanding, the required Designated Financial Officer's certificate described above shall give effect to the issuance of the proposed refunding Parity Electric Utility Obligations (and shall not give effect to the Parity Electric Utility Obligations being refunded following their cancellation or provision being made for their payment).

In making a determination of Net Revenues, the Designated Financial Officer may take into consideration a change in the rates and charges for services and facilities afforded by the Electric Utility System that became effective at least thirty (30) days before the last day of the period for which Net Revenues are determined and, for purposes of satisfying the Net Revenues coverage test described above, make a pro forma determination of the Net Revenues of the Electric Utility System for the period of time covered by such certification based on such change in rates, charges and fees being in effect for the entire period covered.

Short-Term Parity Electric Utility Obligations

Pursuant to the Ordinance, the City may issue or incur additional Parity Electric Utility Obligations issued in the form of commercial paper. For the purposes of satisfying the Net Revenues coverage test for additional Parity Electric Utility Obligations, the term "Outstanding Funded Debt" shall include Subordinated Debt that matures by its terms, or that is renewable at the option of the City to a date, more than one year after the date of its issuance by the City. The terms and conditions pertaining to the issuance of Parity Electric Utility Obligations in the form of commercial paper, including, without limitation, the security, liquidity and reserves necessary to support such commercial paper obligations, shall be contained in a Supplemental Ordinance relating to their issuance.

Special Facilities Debt and Subordinated Debt

The City may incur Special Facilities Debt and Subordinated Debt without limitation.

Credit Agreements

Payments to be made under a Credit Agreement may be treated as Parity Electric Utility Obligations if the City Council makes a finding in the Supplement authorizing and approving the Credit Agreement that Gross Revenues will be sufficient to meet the obligations of the Electric Utility System, including sufficient Net Revenues to satisfy the Annual Debt Service Requirements of Parity Electric Utility Obligations then outstanding and the financial obligations of the City under the Credit Agreement, and such finding is supported by a certificate executed by a Designated Financial Officer of the City.

System Fund

The Master Ordinance recites that in accordance with the provisions of the ordinances authorizing the issuance of the Prior First Lien Obligations, the Prior Subordinate Lien Obligations and the Commercial Paper Obligations, the City has created and there shall be maintained on the books of the City while the Parity Electric Utility Obligations are Outstanding a separate fund or account known and designated as the "Electric Light and Power System Fund" (the "Electric Fund" or "System Fund"). All funds deposited to the credit of the System Fund and disbursements from such

Fund shall be recorded in the books and records of the City and moneys deposited to the credit of such Fund shall be in an account or fund maintained at an official depository of the City. The Gross Revenues of the Electric Utility System shall be deposited, as collected, to the credit of the System Fund and such Gross Revenues deposited to the credit of the System Fund shall be allocated, budgeted and appropriated to the extent required for the following uses and in the order of priority shown:

> FIRST: To the payment of Operating Expenses, as defined in the Master Ordinance or required by statute to be a first charge on and claim against the Gross Revenues.
>
> SECOND: To the payment of the amounts required to be deposited in any special funds or accounts created for the payment and security of the Prior First Lien Obligations, including the amounts required to be deposited to the credit of the common reserve fund established for the Prior First Lien Obligations and Prior Subordinate Lien Obligations.
>
> THIRD: Equally and ratably to the payment of the amounts required to be deposited to the credit of (i) the special fund created and established for the payment of principal of and interest on the Prior Subordinate Lien Obligations as the same becomes due and payable, and (ii) the special Funds and Accounts for the payment of the Parity Electric Utility Obligations.
>
> FOURTH: To pay Subordinated Debt, including amounts for the payment of the Commercial Paper Obligations, and the amounts, if any, due and payable under any credit agreement executed in connection therewith.

Any Net Revenues remaining in the System Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment, may be appropriated and used for any other City purpose permitted by law.

DESCRIPTION OF THE BONDS

General

The Bonds will be dated December 1, 2012, and interest will accrue from the date of their initial delivery and will be payable on May 15, 2013 and each November 15 and May 15 thereafter until maturity or prior redemption. The Bonds will mature on November 15 in the years and in the principal amounts set forth on the inside cover page hereof. Principal of the Bonds is payable at maturity, subject only to prior redemption as described in this document.

Optional Redemption of the Series 2012A Bonds

The City reserves the right at its option to redeem Series 2012A Bonds maturing on or after November 15, 2023, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on November 15, 2022, or any date thereafter, at the par value plus accrued interest to the date fixed for redemption.

Upon any optional redemption of Series 2012A Bonds, if less than all of the Series 2012A Bonds are to be redeemed, the City shall determine the respective maturities and amounts to be redeemed and, if less than all of a maturity is to be redeemed, the Series 2012A Bonds, or portion of the Series 2012A Bonds, within such maturity will be selected at random, by lot or other customary method selected by the Paying Agent/Registrar.

Mandatory Sinking Fund Redemption of the Series 2012A Bonds

The Series 2012A Bonds having stated maturities of November 15, 2037 and November 15, 2040, respectively (the "Series 2012A Term Bonds"), shall be subject to mandatory redemption in part prior to maturity at the redemption price of par plus accrued interest to the date of redemption on November 15 in each of the years and in principal amounts as follows:

4.000% Series 2012A Term Bond due November 15, 2037	
Year	
2033	$3,620,000
2034	3,800,000
2035	3,990,000
2036	4,190,000
2037*	4,400,000

5.000% Series 2012A Term Bond due November 15, 2037	
Year	
2033	$7,895,000
2034	8,250,000
2035	8,625,000
2036	9,020,000
2037*	9,425,000

3.250% Series 2012A Term Bond due November 15, 2040	
Year	Principal Amount
2038	$1,585,000
2039	1,665,000
2040*	1,750,000

5.000% Series 2012A Term Bond due November 15, 2040	
Year	Principal Amount
2038	$12,890,000
2039	13,505,000
2040*	14,150,000

*Stated maturity.

Approximately 45 days prior to each mandatory redemption date for the Series 2012A Term Bonds, the Paying Agent/Registrar shall select by lot the numbers of the Series 2012A Term Bonds within the applicable stated maturity to be redeemed on the next following November 15 from moneys set aside for that purpose in the Debt Service Fund. Any Series 2012A Term Bond not selected for prior redemption shall be paid on the date of their Stated Maturity.

The principal amount of the Series 2012A Term Bonds of a stated maturity required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced, at the option of the City, by the principal amount of Series 2012A Term Bonds of like maturity which, at least 50 days prior to the mandatory redemption date, (1) shall have been acquired by the City at a price not exceeding the principal amount of such Series 2012A Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

Optional Redemption of the Series 2012B Bonds

The Series 2012B Bonds are subject to redemption at the option of the City, prior to November 15, 2022, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof (and if within a stated maturity by lot by the Paying Agent/Registrar) on any business day, at a redemption price equal to the greater of:

(i) 100% of the principal amount of the Series 2012B Bonds to be redeemed; or

(ii) the sum of the present value of the remaining scheduled payments of principal and interest on the Series 2012B Bonds to be redeemed (exclusive of interest accrued to the date fixed for redemption), discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined below) plus 10 basis points, plus, in each case, accrued and unpaid interest on the Series 2012B Bonds being redeemed to the redemption date. The City may conclusively rely on the Treasury Rate determined as described below and will not be liable for such reliance.

"Treasury Rate" means, with respect to any redemption date for a particular Series 2012B Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

For the purposes of determining the Treasury Rate, the following definitions shall apply:

"Comparable Treasury Issue" means, with respect to any redemption date for a particular Series 2012B Bond, the United States Treasury security or securities selected by the Designated Investment Banker that has or have an actual or interpolated maturity comparable to the remaining life of the applicable Series 2012B Bonds to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the applicable Series 2012 Bonds to be redeemed.

"Comparable Treasury Price" means, with respect to any redemption date for a particular Series 2012B Bond, (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (2) if the Designated Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

"Designated Investment Banker" means one of the Reference Treasury Dealers appointed by the City.

"Reference Treasury Dealer" means three firms, specified by the City from time to time, that are primary U.S. Government securities dealers in the City of New York, New York (each a "Primary Treasury Dealer"); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the City shall substitute another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date for a particular Series 2012B Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third business day preceding such redemption date.

If less than all of the Series 2012B Bonds are to be redeemed pursuant to an optional redemption, the Issuer will determine the maturity or maturities and the amounts thereof to be redeemed and will direct the Paying Agent/Registrar to call by lot Series 2012B Bonds, or portions thereof with such maturity or maturities and in such amounts, for redemption.

On November 15, 2022, or any date thereafter, the Series 2012B Bonds maturing on and after November 15, 2023, are subject to redemption, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof (and if within a stated maturity by lot by the Paying Agent/Registrar), at the option of the City, at the par value thereof plus accrued interest to the date of redemption.

Notice of Redemption

Not less than thirty (30) days before a redemption date for the Bonds of either series, a notice of redemption shall be sent by United States mail, first-class postage prepaid, in the name of the City and at the City's expense, to the registered owner of each Bond to be redeemed in whole or in part at the address of the bondholders appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice, and any notice of redemption so mailed shall be conclusively presumed to have been duly given irrespective of whether received by the bondholder.

With respect to any optional redemption of the Bonds of either series, unless moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed shall have been received by the Paying Agent/Registrar before the notice of redemption is mailed, such notice may state that redemption may, at the option of the City, be conditional upon the receipt of such moneys by the Paying Agent/Registrar on or before the date fixed for such redemption, or upon the satisfaction of any prerequisites set forth in such notice of redemption; and, if sufficient moneys are not received, such notice shall be of no force and effect, the City shall not redeem such Bonds and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

Defeasance

The City may defease and discharge its obligation to the Holders of any or all of the Bonds of either series to pay the principal of, redemption premium, if any, and interest owing on the Bonds by depositing with the Paying Agent/Registrar, or other authorized escrow agent, in trust:

(a) cash in an amount equal to the principal amount of, redemption premium, if any, and interest to become due on the Bonds to the date of maturity or prior redemption; or

(b) Government Obligations, consisting of:
   (i) direct non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America; or
   (ii) non-callable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; or
   (iii) non-callable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date of acquisition by the City are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent.

Deposits of cash and Government Obligations to defease the Bonds shall be held in trust and are required to be affirmed by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to pay the principal of, redemption premium, and interest on such Bonds.

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Bonds is BOKF, NA dba Bank of Texas, Houston, Texas. The City retains the right to replace the Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Bonds of either series, the City will promptly cause written notice to be given to each registered owner of the Bonds of the affected series, which notice will also give the address of the new Paying Agent/Registrar. Any Paying Agent/Registrar selected by the City shall be a bank, trust company, financial institution or other entity duly qualified and legally authorized to act as and perform the duties of Paying Agent/Registrar in accordance with the terms of the Eleventh Supplement or the Twelfth Supplements, as the case may be.

Interest on the Bonds shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (defined in this document), and such interest shall be paid:

(i) by check sent United States Mail, first-class postage prepaid, to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar; or
(ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner.

Principal of the Bonds will be paid to the registered owner at their stated maturity upon their presentation to designated payment/transfer office of the Paying Agent/Registrar. If a date for making a payment on the Bonds, the taking of any action or the mailing of any notice by the Paying Agent/Registrar shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated corporate office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment, taking of action or mailing of a notice shall be the next day which is not a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and a payment, action or mailing on such date shall have the same force and effect as if made on the original date the payment was due or the action was required to be taken or the mailing was required to be made.

Record Date for Interest Payment

The record date ("Record Date") for the interest payable on any interest payment date for the Bonds means the close of business on the last business day of the month before each interest payment date. In the event of a non-payment of interest on the Bonds on one or more maturities on a scheduled payment date, and for thirty (30) days thereafter, a new record date for such interest payment for such maturity or maturities (a "Special Record Date") will be established by the Paying Agent/Registrar, if any, when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date", which is fifteen (15) days after the Special Record Date) shall be sent at least five (5) business days before the Special Record Date by United States mail, first-class postage prepaid, to the address of each registered owner of a bond of such maturity or maturities appearing on the books of the Paying Agent/Registrar at the close of business on the last business day before the date the notice is mailed.

Transfer, Exchange and Registration

In the event the Book-Entry-Only System should be discontinued, printed certificates delivered to the Holders and thereafter the Bonds may be transferred and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar, and such registration shall be at the expense of the City, except for any related tax or other governmental charge. 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 or Bonds of like series and aggregate principal amount will be delivered by the Paying Agent/Registrar to the last assignee (the new registered owner) in exchange for such transferred and assigned Bonds not more than three (3) days after receipt of the Bonds to be transferred in proper form. Such new Bond or Bonds must be in the denomination of $5,000 or any integral multiple thereof within a maturity.

Bondholders' Remedies

Neither the Master Ordinance, the Eleventh Supplement nor the Twelfth Supplement specify events of default with respect to the Bonds. If the City defaults in the payment of principal, interest or redemption price on the Bonds when due, or the City defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Master Ordinance, the Eleventh Supplement or the Twelfth Supplement, as applicable, the registered owners may seek a writ of mandamus to compel the City or City officials to carry out the legally imposed duties with respect to the Bonds of either series if there is no other available remedy at law to compel performance of the Bonds, the Master Ordinance, the Eleventh Supplement or the Twelfth Supplement, as applicable, and if the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, and rests with the discretion of the courts, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. None of the Master Ordinance, the Eleventh Supplement or the Twelfth Supplement provide for the appointment of a trustee to represent the interest of the holders of the Bonds upon any failure of the City to perform in accordance with the terms of the Eleventh Supplement or the Twelfth Supplement, as applicable, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, holders of the Bonds may not be able to bring such a suit against the City for breach of the Bonds or covenants contained in the Master Ordinance, the Eleventh Supplement or the Twelfth Supplement. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property.

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenue, such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or holders of the Bonds of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce creditors' rights would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

For a more detailed explanation of the various covenants and agreements with the Holders of the Bonds, including provisions for amendments to the Master Ordinance and any supplements thereto, and defeasance of the Bonds, see APPENDIX C attached hereto.

BOOK-ENTRY-ONLY SYSTEM

The City has elected to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York ("DTC"), as described under this heading. The obligation of the City is to timely pay the Paying Agent/Registrar the amount due under the Master Ordinance, the Eleventh Supplement and the Twelfth Supplement, as applicable. The responsibilities of DTC, the Direct Participants and the Indirect Participants to the Beneficial Owner of the Bonds are described in this document.

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (1) DTC will distribute payment of debt service on the Bonds, or redemption or other notices to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the beneficial owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered Bonds 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 Bonds, 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"). Direct Participants and Indirect Participants are referred to in this document as "Participants". DTC has a Standard & Poor's rating of AA+. 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.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the 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 Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, 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 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

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

All payments on the Bonds 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 Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Participants.

DTC may discontinue providing its services as depository with respect to the Bonds 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, Bond certificates are required to be printed and delivered.

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

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THE SYSTEMS

The City owns and operates an Electric Utility System (also referred to in this document as "Austin Energy") and a Water and Wastewater System (also referred to in this document as the "Water and Wastewater Utility") which provide the City, adjoining areas of Travis County and certain adjacent areas of Williamson County with electric, water and wastewater services. The City owns all the facilities of the Water and Wastewater System. The City jointly participates with other electric utilities in the ownership of coal-fired electric generation facilities and a nuclear powered electric generation facility. Additionally, the City individually owns gas/oil-fired electric generation facilities, which are available to meet Electric Utility System demand. The Electric Utility System had approximately 1,659 full-time regular employees as of September 30, 2012. The Water and Wastewater System had approximately 1,094 full-time regular employees as of the same date.

ELECTRIC SYSTEM
"AUSTIN ENERGY"

Management (as of September 30, 2012)

	Years at City	Additional Years of Experience	Total
General Manager			
Larry Weis	2	29	31
Deputy General Managers			
Cheryl Mele, PE, *Chief Operating Officer*	21	5	26
Kerry Overton, *Chief Administrative Officer*	13	11	24
Vice Presidents			
Ann Little, CPA, *Finance and Corporate Services*	13	18	31
David Wood, PE, *Power Supply and Market Operations*	20	7	27
Dan Smith, PE, *Electric Service Delivery*	9	16	25
Fred Yebra, PE, *Distributed Energy Services*	20	11	31
Jawana Gutierrez, PMP, *Customer Care*	21	5	26
Mark Dreyfus, Ph.D., *Regulatory Affairs and Corporate Communications*	13	12	25
Executive Team Years of Experience			246

A new governance model for the management of Austin Energy is currently being studied and reviewed by the City Council. No formal decision is expected in the foreseeable future.

Service Area

The service area for Austin Energy was established by the Public Utility Commission of Texas ("PUCT") pursuant to a certificate of convenience and necessity on April 3, 1978. The City's service area encompasses 206.41 square miles within the City itself and 230.65 square miles of surrounding Travis and Williamson Counties. The establishment of such a service area entitles Austin Energy to provide electric service within this area. As presently constituted, the City's service area overlaps with approximately 11 square miles of the service area of ONCOR Electric Delivery in Travis and Williamson Counties.

The City may not extend the service area for Austin Energy to an area receiving similar utility service from another utility service provider without first obtaining a certificate of convenience and necessity from the PUCT. The City has no plans to expand its present service area.

Real Estate Taxes

Austin Energy pays no real property taxes on facilities inside or outside the City, nor payments in lieu of taxes with respect to Austin Energy.

Customer Base – Average Monthly Number of Customers

For 12 Month Period ended June 30, 2012	Average Monthly Number of Customers	Percent
Residential	374,912	88.38%
Commercial	43,896	11.20%
Industrial	81	0.02%
Public Street & Highway	4	0.00%
Governmental Authorities	1,656	0.40%
Total Service Area Customers	420,549	100.00%

Source: Austin Energy.

Physical Property

The City either owns or has an ownership interest in a diverse mix of generation sources, including coal, nuclear and natural gas facilities. In addition, Austin Energy has renewable energy installations or contracts for purchased power from wind, landfill methane, and biomass projects. See "DESCRIPTION OF PHYSICAL PROPERTY" and "STRATEGIC PLANS, GOALS AND POLICIES – Austin Energy Resource, Generation and Climate Protection Plan to 2020" in this document.

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Generation Facilities– TABLE ONE

As of June 30, 2012, generation facilities wholly or partially owned by Austin Energy are as follows.

Unit	Year Installed	Nameplate Rating (MW)	Fuel
Fayette Power Project			
Unit No. 1	1979	285.0	Coal
Unit No. 2	1980	285.0	Coal
Decker Power Station			
Unit No. 1	1970	321.0	Gas
Unit No. 2	1977	405.0	Gas
Gas Turbines	1988	200.0	Gas
Sand Hill Energy Center			
Gas Turbines	2001	180.0	Gas
Gas Turbines	2010	90.0	Gas
Combined Cycle	2004	300.0	Gas
MEC CHP (Dell Children's Hospital)	2006	4.6	Gas
South Texas Project Electric Generating Station			
Unit No. 1	1988	200.0	Nuclear
Unit No. 2	1989	200.0	Nuclear
Total Capacity owned by Austin Energy		2,470.6	
Purchased Power (1)(2):			
LCRA Texas Wind Contract	1995	10.0	Wind
FPL Energy Upton Wind I, LP	1999-2001	76.7	Wind
RES North America Sweetwater Wind	2005	127.5	Wind
Whirlwind Energy LLC	2007	59.8	Wind
Hackberry Wind LLC	2008	165.6	Wind
Penascal Wind Power/Penascal II Wind Project	2011	195.6	Wind
Gemini Solar Development Co LLC	2011	30.0	Solar
Gas Recovery System, LLC	1994-2003	4.0	Landfill Methane
Ecogas Inc. and Energy Developments, Inc	2002-2003	7.8	Landfill Methane
Nacogdoches Power LLC	2012	100.0	Biomass
		777.0	
Total Capacity including Purchased Power		3,247.6	

(1) The City has also signed contracts to purchase electric energy to be provided in future years. See "CUSTOMER STATISTICS - Power and Energy Purchase Contracts" in this document.
(2) Purchased power portfolio is comprised of 100% renewable energy.
Source: Austin Energy.

See "CUSTOMER STATISTICS - Generation and Use Data - TABLE FOUR - System Peak Demand" in this document for more information on peak demand and generation capacity. Generation capacity is adequate to meet native load. Based on historical availability patterns, the Electric Reliability Council of Texas ("ERCOT") currently expects that only 8.7% of wind facilities' nameplate ratings will be included in capacity requirements to meet system peak demand.

Fuel Supply

The cost and availability of fuel are two of the factors that affect Austin Energy's finances. Fuel mix percentages (based on generation) by fuel type are provided below.

	Percentage of Generation As of September 30,				
Fuel Type	2007	2008	2009	2010	2011
Coal	32.2%	33.2%	28.3%	33.3%	28.9%
Natural Gas & Oil	27.3%	25.7%	26.5%	25.9%	25.8%
Nuclear	25.8%	27.1%	26.4%	23.0%	21.3%
Renewable Energy	5.1%	6.1%	9.5%	10.0%	9.5%
Purchased Power	9.6%	7.9%	9.3%	7.8%	14.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Austin Energy.

Fuel Type

Coal . . . Coal supply and rail transportation are procured through a portfolio of contracts designed to minimize cost. Typically, several weeks of coal inventory are maintained to protect against disruptions. Coal inventories are managed within targeted ranges, and depending on the efficiency of railroad performance, train sets are either removed from or added to service to maintain desired inventory levels. Coal inventory is presently 69 days at September 30, 2012.

Natural Gas . . . Austin Energy utilizes a portfolio of gas contracts and multiple pipelines in an effort to diversify risk and minimize cost.

Nuclear . . . The South Texas Project Nuclear Operating Company ("STPNOC"), on behalf of the owners of the South Texas Project (see "DESCRIPTION OF PHYSICAL PROPERTY - South Texas Project Electric Generating Station" in this document), is responsible for the supply of nuclear fuel and for the disposal of spent fuel for the South Texas Project Electric Generating Station ("STP"). Volatility in uranium prices and a number of industry-wide challenges to security of supply in the past few years have led to decisions to enter into long-term supply contracts and to carry a full reload of natural uranium hexafluoride.

DESCRIPTION OF PHYSICAL PROPERTY

Fayette Power Project

The Fayette Power Project ("FPP") is a power project co-owned by the Lower Colorado River Authority ("LCRA") and Austin Energy. Austin Energy is a 50% owner in Units 1 and 2 of the Fayette Power Project. A third unit, also at the facility, is 100% owned by LCRA. Pursuant to the Participation Agreement (between the City of Austin and LCRA), LCRA was appointed Project Manager and a Management Committee was established, supported by five Subcommittees (Environmental, Fiscal/Budget, Fuels, Water and Technical) composed of representatives from each participant to direct the operation of the project. The FPP is a 7,500 acre site located 8½ miles east of LaGrange, Texas, which is approximately 65 miles southeast of the City.

FPP installed scrubbers on Units 1 and 2 in 2011 to meet SO2 permit levels and to help meet limits of air toxics in the recently finalized federal Mercury and Air Toxics Standards (MATS) rules. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Environmental Regulation Related to Air Emissions – Mercury and Air Toxics Standards (MATS)" in this document. Austin Energy's share of the final cost is $197 million. The scrubbers, in combination with other existing control equipment, are expected to help the facility meet the majority of the MATS limits; however, some smaller scale add-on enhancements will likely be required to meet the mercury limits before the 2015 compliance deadline, at a projected cost of approximately $8 million for Austin Energy. For additional information regarding the FPP, see "STRATEGIC PLANS, GOALS AND POLICIES - Goals Summary" in this document.

Austin Energy Gas Generation Facilities

Austin Energy owns four gas generation facilities located in Austin Energy's service territory.

Decker Power Plant consists of two large steam-boiler units, Decker 1 and Decker 2, placed in service in 1970 and 1977, respectively. The plant also includes four Pratt and Whitney aeroderivative gas turbines placed into service in 1988. The Decker plant is served by two natural gas pipelines.

Austin Energy began commercial operation of a 300 MW combined cycle gas-fired electric generating facility at the Sand Hill Energy Center on September 1, 2004. The "one-on-one" combined cycle unit consists of one (1) "F" class combustion turbine ("CT"), one (1) natural circulation, duct fired, heat recovery steam generator ("HRSG"), and one (1) steam turbine and balance of plant equipment and controls. The unit was designed so that a future "F" technology CT/HRSG train may be added to achieve a nominal rating of 500 MW for this power block. In summer 2010, two General Electric LM6000 aeroderivative gas turbines were placed into service at the Sand Hill Energy Center. The two new units (45 MW each) are similar to the four existing peaking units installed at Sand Hill in 2001. The plant is served by three natural gas pipelines.

In July 2006, Austin Energy added electric generation at a central utility plant located at the redevelopment site of the former Robert Mueller Airport. The plant is a tri-generation facility producing steam, chilled water and power for adjacent buildings. Excess electric power generated at the facility is sent to the electric grid. The electric power is produced by a gas turbine rated at 4.6 MW. The gas turbine exhaust passes through a heat recovery steam generator producing steam for use by an adjoining hospital and/or in an absorption chiller. A 1.5 MW standby diesel generator provides the plant with "Black Start" capability. The plant is served by one natural gas pipeline.

South Texas Project Electric Generating Station

STP is a two-unit pressurized water reactor nuclear power plant system that produces 2,700 megawatts of electricity. It is located on a 12,220 acre site in Matagorda County, Texas, near the Texas Gulf Coast, approximately 200 miles southeast of Austin, Texas. On August 29, 2012, Dennis Koehl was announced as the new CEO and Chief Nuclear Officer. Mr. Koehl, a former Xcel Energy Inc. Sr. Vice President, assumed this new position on October 15, 2012.

South Texas Project Ownership

STP is a two-unit nuclear power plant with Unit 1 and Unit 2 (or Units 1 and 2) having a nominal output of approximately 1,350 MW each. Participant Ownership ("Participants") in STP Units 1 and 2 and their percentage of ownership are as follows:

	Ownership Effective February 2, 2006 (1)	
	%	MW (Approximate)
NRG Energy ("NRG")	44.0	1,188
CPS Energy (City of San Antonio)	40.0	1,080
City of Austin – Austin Energy	16.0	432
	100.0	2,700

(1) In 2006, Texas Genco, holder of a 44% interest in STP, was acquired by NRG Energy, Inc. NRG Energy holds its interest in STP Units 1 and 2 in NRG South Texas LP.

STP is operated by STPNOC, financed and directed by the Participants pursuant to an operating agreement among the Participants and STPNOC. Currently, a four-member board of directors governs the STPNOC, with each of the three Participants appointing one member to serve. The fourth member is STPNOC's chief executive officer and president. All costs and generation output are shared in proportion to each Participant's interest.

STP Units 1 and 2 each have a 40-year Nuclear Regulatory Commission ("NRC") license that expires in 2027 and 2028, respectively. Under NRC regulations, the STP owners can request a 20-year license renewal. The STP license renewal project process is underway for Units 1 and 2. NRC review of the license renewal application is proceeding on schedule and with no significant challenges. Three hundred requests for additional information were received from the NRC. The

NRC is presently preparing draft Supplemental Environmental Impact Statements in support of the new extended license. Contention petitions were denied and are now closed. While the process for licensing new and existing plants will move forward, the NRC has voted that no final licensing decisions will be made until burial waste issues are resolved.

On November 13, 2008, NRG South Texas LP, one of the STP partners, provided Austin Energy with notice of an updated proposal to add Units 3 and 4 at the South Texas Project site. The City had the right to participate in the ownership of the proposed new units, up to its existing 16 percent share of the South Texas Project. Austin Energy evaluated the City's ownership option and provided City Council with an analysis on which to base a decision. The City Council elected to decline participation in this expansion as currently proposed.

Low Pressure turbine upgrades were completed in 2007 for both units. The replacement resulted in an additional 136.9 MW of capacity, of which Austin Energy's share is 21.9 MW. A major capital project was the replacement of reactor vessel heads in 2009 and 2010 as a proactive move to eliminate reactor head corrosion issues found throughout the industry and reported at other facilities.

CUSTOMER RATES

Retail Service Rates

The City Council has original jurisdiction over Austin Energy's retail electric rates. Ratepayers can appeal rate changes to the PUCT under section 33.101 of the Public Utility Regulatory Act (Texas Utilities Code, Chapter 33, "PURA") by the filing of a petition with the PUCT containing the requisite number of valid signatures from residential ratepayers who take service outside the City's corporate limits.

State courts have held that the PUCT may apply the same ratemaking standards to the City as are applied to utilities over which the PUCT has original jurisdiction. See "CUSTOMER STATISTICS - Electric Rates - TABLE THREE" in this document for the current Electric Utility System rates by customer class.

In June 2012, following an 18-year period with no change in its base electric rates, City Council approved the revenue requirement and supported an immediate system average 7% rate increase for Austin Energy which was reflected on electric bills in October 2012. The increase is anticipated to provide Austin Energy an additional $71 million in base revenue in 2012 and an additional $21 million in 2015 from long-term contract customers. The City Council plans to further assess the rate adjustment in 2014. After the 2014 review, it is expected that rates will be reexamined every five years. The City Council also reaffirmed that future rate increases should not exceed 2% per year and that Austin Energy rates remain in the lower 50% among Texas electric utilities. The new rates will also include several line item charges that can change annually. The initial level of these changes for residential customers is shown below:

- Power Supply Adjustment (currently the Fuel Charge): recovers dollar-for-dollar fuel and power supply costs.
- Regulatory Charge: recovers dollar-for-dollar Austin Energy's retail transmission expense and other regulatory expenses, such as environmental costs.
- Customer Assistance: $1.72 per 1,000 kWh to fund utility bill discounts for low income customers (will more than double the number of customers assisted annually to 25,000).
- Service Area Streetlights: 93 cents per 1,000 kWh to maintain and power the streetlights and traffic signals in the City and all communities served by Austin Energy.
- Energy Efficiency Services: $2.89 per 1,000 kWh for energy efficiency programs, the least expensive offset to new generation.

New *residential* rates and structure: Based on current usage, summer electric bills would increase by less than $10 per month for the smallest users and between $13 and $24 per month for average users. Based on current usage, winter electric bills would increase by less than $7 a month for small and average energy users. The average increase for residential customers is about 14%. A new 5-tier inclining base rate structure provides customers who strive for greater energy efficiency and conservation the opportunity to keep their kWh costs at or very close to levels currently paid.

New *commercial* rates: The increase in base electric rates (Energy Charge and Demand Charge) for commercial customers ranges from 1% to 18%. Very large customers would generally experience a smaller increase because they receive power at a very high voltage and own and operate the equipment (transformers) that steps the voltage down to the proper level for their facilities.

New *industrial* rates: While new industrial rates were approved by City Council, all current industrial customers have signed contracts which are set to expire in 2015. The new approved rates would have resulted in an additional $21 million base revenue increase had the contracts not been in place.

Residential ratepayers taking service outside the City's corporate limits have appealed the rate change to the PUCT (PUC Docket No. 40627).

Fuel Adjustment Clause

The City assesses an annually updated Fuel Adjustment Clause charge based on a formula designed to recover the actual cost of fuel, purchased power, and wholesale fees and charges to meet the City's service area obligations. The intent of the fuel formula is to avoid any over or under recovery of costs associated with fuel. This charge was replaced by the Power Supply Adjustment for the vast majority of customers in October 2012. Only customers under contract through May of 2015 will continue to be assessed the Fuel Adjustment Clause.

Typical Residential Electric Bills of Large Texas Cities

City	Electric Bill*
San Antonio	$ 92.27
AUSTIN	93.24
Corpus Christi	103.56
Dallas/Fort Worth	106.61
Houston	106.81
El Paso	116.05

*Average residential bill for 1,000 KWh during the period July 2011 – June 2012, including fuel costs. The cities shown, other than Austin and San Antonio, are served by competitive retail service providers.
Source: Public Utility Commission of Texas and powertochoose.org.

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CUSTOMER STATISTICS

Five Year Electric Customer Statistics – TABLE TWO

TABLE TWO shows service area billed customer sales since the fiscal year ended September 30, 2008. The revenue per year varies in large degree due to the price of fuel which is passed through to customers in the fuel adjustment clause as stated above. MWH sales variances are due to a combination of customer growth and weather.

	Fiscal Year Ended September 30				12 Months Ended
	2008	2009	2010	2011	6-30-12 (1)
Revenue (000's)					
Residential	$ 416,809	$ 406,393	$ 407,074	$ 457,263	$ 456,605
Commercial	408,808	402,032	409,952	433,887	424,043
Industrial	138,901	132,792	122,714	145,553	161,244
Public Street & Highway	8,403	8,430	8,515	8,591	8,385
Sales to Government Authorities	86,069	82,751	81,875	85,447	85,772
Total	$1,058,990	$1,032,398	$1,030,130	$1,130,741	$1,136,049
MWH					
Residential	4,220,598	4,218,600	4,238,690	4,561,858	4,581,919
Commercial	4,534,964	4,480,902	4,553,866	4,675,615	4,684,101
Industrial	2,233,505	2,218,315	2,038,706	2,342,538	2,651,813
Public Street & Highway	47,690	47,831	48,078	48,327	48,702
Sales to Government Authorities	1,147,483	1,137,492	1,096,986	1,094,965	1,038,181
Total	12,184,240	12,103,140	11,976,326	12,723,303	13,004,716
Average Monthly Number of Customers					
Residential	352,574	363,217	368,700	372,329	374,912
Commercial	42,585	43,050	43,489	43,814	43,896
Industrial	79	80	80	82	81
Public Street & Highway	4	4	4	4	4
Sales to Government Authorities	1,549	1,575	1,597	1,636	1,656
Total	396,791	407,926	413,870	417,865	420,549
Average Monthly KWH per Customer					
Residential	998	968	958	1,021	1,018
Commercial	8,874	8,674	8,726	8,893	8,892
Industrial	2,356,018	2,310,745	2,123,652	2,383,535	2,733,828
Public Street & Highway	993,542	996,479	1,001,625	936,570	1,014,635
Sales to Government Authorities	61,732	60,192	57,242	55,771	52,230
Average Monthly Bill per Customer					
Residential	$ 98.52	$ 93.24	$ 92.01	$ 102.34	$ 101.49
Commercial	799.98	778.23	785.55	825.25	805.02
Industrial	146,520.04	138,325.00	127,827.08	148,100.33	166,230.65
Public Street & Highway	175,062.50	175,625.00	177,395.83	166,492.25	174,689.69
Sales to Government Authorities	4,630.35	4,378.92	4,272.33	4,352.17	4,315.15
Average Revenues per KWH					
Residential	$0.09876	$0.09633	$0.09604	$0.10024	$0.09965
Commercial	0.09015	0.08972	0.09002	0.09280	0.09053
Industrial	0.06219	0.05986	0.06019	0.06213	0.06081
Public Street & Highway	0.17620	0.17625	0.17711	0.17777	0.17217
Sales to Government Authorities	0.07501	0.07275	0.07464	0.07804	0.08262

(1) Unaudited.
Source: Austin Energy.

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Electric Rates – TABLE THREE

The following electric rates were effective October 1, 2012 by Ordinance 20120607-055.

Residential Electric Rates

Customer Classification	Customer Charge	Energy Charge ($/kWh) kWh Tier	Jun-Sep	Oct-May	Power Supply Adjustment ($/kWh)	Regulatory Charge ($/kWh)	Community Benefit Charge ($/kWh)
Residential	$10.00	0-500 kWh	$0.033	$0.018	Varies	$0.00728	$0.00554
		501-1000 kWh	$0.080	$0.056			
		1001-1500 kWh	$0.091	$0.072			
		1501-2500 kWh	$0.110	$0.084			
		Additional kWh	$0.114	$0.096			

Commercial Electric Rates

Customer Classification	Customer Charge	Electric Delivery Charge	Demand Charge ($/kW) Jun-Sep	Demand Charge ($/kW) Oct- May	Energy Charge ($/kWh) Jun-Sep	Energy Charge ($/kWh) Oct- May	Power Supply Adjustment ($/kWh)	Regulatory Charge	Community Benefit Charge ($/kWh)
Secondary < 10kW	$ 18.00	NA	NA	NA	$0.06198	$0.04598	Varies	$0.00711/kWh	$0.00461
Secondary ≥ 10 < 50 kW	$ 25.00	$4.00	$ 6.15	$ 5.15	$0.02914	$0.02414	Varies	$2.47/kW	$0.00379
Secondary ≥ 50 kW	$ 65.00	$4.50	$ 7.85	$ 6.85	$0.02247	$0.01747	Varies	$2.59/kW	$0.00346
Primary < 3 MW	$ 250.00	$2.50	$10.00	$ 9.00	$0.01263	$0.00763	Varies	$2.28/kW	$0.00305
Primary ≥ 3 < 20 MW	$2,000.00	$3.50	$11.25	$10.25	$0.01265	$0.00765	Varies	$2.92/kW	$0.00288
Primary ≥ 20 MW	$2,500.00	$3.50	$12.00	$11.00	$0.00760	$0.00260	Varies	$2.91/kW	$0.00274
Transmission	$2,500.00	NA	$12.00	$11.00	$0.00815	$0.00615	Varies	$2.48/kW	$0.00251

Other Electric Rates

Customer Classification	Customer Charge	Energy Charge ($/kWh) Jun-Sep	Energy Charge ($/kWh) Oct- May	Power Supply Adjustment ($/kWh)	Regulatory Charge	Community Benefit Charge ($/kWh)
Customer Owned Metered Lighting	$15.00	$0.06983	$0.05483	Varies	$0.00316	$0.00146
Customer Owned Non-Metered Lighting	NA	$0.02604	$0.02604	Varies	$0.00094	$0.00113

Customer Classification	100 Watt High Pressure Sodium	175 Watt Mercury Vapor	250 Watt High Pressure Sodium	400 Watt Mercury Vapor	Power Supply Adjustment ($/kWh)
Security Lights	$7.03	$12.05	$18.07	$28.12	Varies

Source: Austin Energy.

Transmission Rates

The PUCT has exclusive jurisdiction over rates and terms and conditions for the provision of transmission services by the City. On June 9, 2006, the PUCT approved the City's most recent wholesale transmission rate of $1.002466/kW. Transmission revenues totaled $63 million in fiscal year 2012 and are expected to total approximately $61 million in fiscal year 2013. Austin Energy will continue to manage and review the need for wholesale transmission rate increases as necessitated by its investment and cost to serve.

GreenChoice® Energy Rider

In March 2001, Austin Energy adopted a GreenChoice® Energy charge for renewable energy. Customers who subscribe to the GreenChoice program will pay, in lieu of the fuel adjustment factor, a renewable energy charge as determined by Austin Energy. Austin Energy's GreenChoice program has led all voluntary utility green-pricing programs in the nation in kilowatt-hours of renewable energy sold during its first decade of operation, as ranked by the National Renewable Energy Laboratory. Subscribers see the fuel charge on their electric bill replaced with a GreenChoice charge that remains fixed for 5 years or more, depending on the contracted renewable energy source. The GreenChoice program is Green-e certified. Green-e is the nation's leading independent consumer protection program for the sale of renewable energy and greenhouse gas reductions in the retail market.

Green Choice Sales (kWh) by Calendar Year	
2002	206,566,601
2003	235,478,890
2004	344,446,101
2005	434,040,739
2006	580,580,401
2007	577,636,840
2008	723,824,901
2009	764,895,830
2010	754,203,479
2011	698,703,263

Power and Energy Sales Contracts

Austin Energy has numerous enabling agreements in place with various market participants. The agreements are designed to facilitate energy transactions by providing a standard agreement and may be cancelled by either party upon thirty (30) days' written notice. Any transactions are by mutual agreement; no party is obligated to offer, sell or buy energy under the agreements. Austin Energy is an active participant in the ERCOT wholesale power market. In December 2010, ERCOT commenced operation of a nodal or Locational Market Price (LMP) market. Under this structure, Austin Energy generators are economically dispatched based on their cost against total ERCOT load rather than Austin Energy load. All load is likewise served by the ERCOT centralized dispatch. Bilateral power purchase and sale contracts are unaffected by this change and remain a key feature of the market.

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Generation and Use Data – TABLE FOUR

	Fiscal Year Ended September 30								12 Months Ended	
	2008		2009		2010		2011		June 30, 2012	
	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh
Net kWh Generated		11,446,861,000		10,780,499,000		10,275,574,000		10,142,406,000		9,580,516,000
kWh Received from ERCOT		2,067,170,000		2,763,237,000		2,832,001,000		3,433,333,000		4,085,106,000
Less: kWh Delivered to ERCOT		(355,061,000)		(401,123,000)		(390,666,000)		(184,992,000)		(202,691,000)
Less: kWh Delivered to Other Utilities		(369,236,000)		(483,631,000)		(198,682,000)		(30,221,000)		(40,542,000)
Total kWh Delivered to Service Area		12,789,734,000		12,658,982,000		12,518,227,000		13,360,526,000		13,422,389,000
Service Area Energy Use:										
Residential	352,574	4,226,036,265	363,217	4,218,600,234	368,700	4,238,690,401	372,329	4,561,857,688	374,912	4,581,918,905
General Service (Less UT & ENW)	43,342	7,566,322,558	43,829	7,477,806,302	44,305	7,362,471,563	44,660	7,766,695,257	44,748	8,032,087,875
	395,916	11,792,358,823	407,046	11,696,406,536	413,005	11,601,161,964	416,989	12,328,552,945	419,660	12,614,006,780
Public Street Lighting	4	35,142,877	4	47,830,865	4	48,077,910	4	48,327,221	4	48,702,469
City Utility Departments	179	210,643,582	187	214,401,264	177	189,961,003	235	219,180,770	210	213,343,110
Other City Departments	690	133,769,398	688	130,345,139	683	123,407,724	636	113,612,914	674	115,485,612
	873	379,555,857	879	392.577.268	864	361,446,637	875	381,120,905	888	377,531,191
Total Service Area Sales	396,789	12,171,914,680	407,925	12,088,983,804	413,869	11,962,608,601	417,864	12,709,673,850	420,548	12,991,537,971
Sales to UT & ENW (Nightwatchman)	1	14,124,875	1	14,156,478	1	13,717,834	1	13,629,431	1	13,177,424
Loss and Unaccounted For		603,694,445		555,841,718		541,900,565		637,222,719		417,673,605
Total kWh Delivered to Service Area	396,790	12,789,734,000	407,926	12,658,982,000	413,870	12,518,227,000	417,865	13,360,526,000	420,549	13,422,389,000
System Peak Demand (kW)		2,514,000		2,602,000		2,628,000		2,714,000		2,714,000

Source: Austin Energy.

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Energy Risk Management

In an effort to mitigate the financial and market risk associated with the purchase of natural gas and energy price volatility, Austin Energy has established an Energy Risk Management Program. This program is authorized by the City Council with an $800 million limit 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 over a five year time horizon. 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.

The City implemented GASB Statement 53, Accounting and Financial Reporting for Derivative Instruments, in fiscal year 2010, which addresses the recognition, measurement, and disclosure related to derivative instruments. In accordance with GASB Statement No. 53, the City is required to report the fair value of all derivative instruments on the statement of net assets. In addition, GASB Statement No. 53 requires that all derivatives be categorized into two types – (1) hedging derivative instruments and (2) investment derivative instruments. Hedging derivative instruments significantly reduce an identified financial risk by substantially offsetting changes in cash flows or fair values of an associated hedgeable item. Investment derivative instruments are entered into primarily for income or profit purposes or they are derivative instruments that do not meet the criteria of an effective hedging derivative instrument. Changes in fair value of hedging derivative instruments are deferred on the statement of net assets; and changes in fair value of investment derivative instruments are recognized as gains or losses on the statement of activities.

Premiums paid for options are deferred until the contract is settled. As of September 30, 2011, $11.2 million in premiums was deferred. As of September 30, 2011, the fair value of Austin Energy's futures, options, swaps, and congestion rights was an unrealized loss of $70.5 million, of which $77.6 million is reported as derivative instruments in liabilities and $7.1 million is reported as derivative instruments in assets. The fair values of these derivative instruments are deferred until future periods on the balance sheet using deferred outflows and deferred inflows.

Further explanation and historical information at last fiscal year end can be found in the footnotes to the financial statements for the fiscal year ended September 30, 2011 (see APPENDIX B – "Annual Financial Report – Note 9a – Energy Risk Management Program").

Power and Energy Purchase Contracts

The City has signed several long-term energy purchase agreements for conventional, wind, solar and landfill gas (methane) electric generation.

In December 1994, the City signed a 25-year contract with Alternative Power Limited Partnership ("APLP") to purchase electric energy generated by APLP's 3-megawatt landfill gas plant in Austin. After dissolution of APLP in 2002, the seller of electric energy under the contract is now Gas Recovery Systems, LLC, the former general partner of APLP. Another megawatt of capacity was added in 2003, bringing the total capacity to 4 MW.

In March 1995, the City signed a 25-year contract with LCRA to purchase up to 10 MW of electric energy per year from the LCRA Texas Wind Power Project located in the Delaware Mountains east of El Paso. The project went into commercial operation in September 1995.

In December 1999, Austin Energy signed a 10-year contract to purchase the output of a 20 MW wind energy project built by Texas Wind Power Company ("Texas Wind") in Upton County. Texas Wind assigned the contract to King Wind LP in December 1999. The original contract provided Austin Energy an option to agree to purchase an additional 78.4 MW of electricity from the project to be provided by an increase in the project capacity. In October 2000, the City Council approved execution of a contract amendment representing a partial exercise of that option and necessitating an increase in the project capacity by an additional 56.7 MW. In December 2000 King Wind LP assigned the contract to FPL Energy Upton Wind I, LP. The 76.7 MW wind farm began full-scale operation in September 2001. A fourth amendment was executed in July 29, 2011 to allow a contract extension through December 31, 2012.

In December 1999, Austin Energy signed two contracts for the purchase of energy from landfill methane-recovery projects to be developed by Ecogas Inc. and Energy Developments, Inc. ("EDI"). Ecogas Inc. assigned its rights to EDI in October 2000. In October 2002, EDI brought on the first 5.2 MW of landfill methane generation at its Tessman

Road facilities located in San Antonio, Texas. Another 2.6 MW of landfill methane generation was added in 2003, bringing the total capacity to 7.8 MW.

In February 2005, Austin Energy began purchasing 93 MW of wind power from the Sweetwater Phase II wind project near Sweetwater, Texas under a 12-year contract. In December 2005, Austin Energy increased its purchase to a total of 127.5 MW with additional capacity from Sweetwater Phase III.

In September 2006, Austin Energy signed a 20-year contract with Renewable Energy Systems ("RES") America Development, Inc. to purchase the output of a 59.8 MW wind energy project located in Northwest Texas. On October 10, 2006, RES assigned the contract to Whirlwind Energy, L.L.C. The project began full-scale commercial operation in December 2007.

In August 2007, Austin Energy signed a 15-year contract with RES to purchase the output of a 165.6 MW wind energy project located near Abilene, Texas. On September 6, 2007, RES assigned the contract to Hackberry Wind, LLC. The project began full-scale commercial operation in December 2008.

In August 2008, Austin Energy signed a 20-year contract with Nacogdoches Power LLC to purchase the output of a 100 MW biomass power plant fueled by wood waste such as forest residue, mill residue, waste pallets and municipal wood waste. The project is located near Nacogdoches, Texas and commenced commercial operation in June 2012.

In August 2009, Austin Energy signed a 25-year contract with Gemini Solar Development Company, LLC to purchase the output of a 30 MW solar power plant. The project is located on an Austin Energy site near Webberville just east of Austin and commenced commercial operation in December 2011.

In September 2011, Austin Energy signed a 25-year contract with Duke Energy Generation Services Holding, Inc. to purchase the output of a 201.6 MW wind energy project located in Willacy County, Texas. Also in September 2011, Austin Energy signed a 25-year contract with Whitetail Wind Energy, LLC to purchase the output of a 91 MW wind energy project located in Webb County, Texas. Both wind energy projects are expected to begin full-scale commercial operation in January 2013.

In October 2011, Austin Energy signed a 15-month power purchase agreement (the "PPA") with Penascal Wind Power LLC and Penascal II Wind Project LLC to purchase the combined output of a 195.6 MW wind energy project located in Kenedy County, Texas. On May 16, 2012, the term of the PPA was extended through December 31, 2015.

With respect to the contracts described above, Austin Energy is obligated to purchase all of the energy generated by each of the facilities up to the maximum amount as described above; to the extent energy is so generated. Many of the facilities described above do not run at full capacity for 24 hours a day; therefore, Austin Energy may be purchasing energy in amounts less than the maximum amounts that are shown above.

Electric Transmission and Distribution System Statistics

The transmission and distribution plant statistics of Austin Energy as of June 30, 2012 are as follows:

	Number of Substations	Miles of Lines	Kilovolts
Transmission	12	619	345/138/69
Distribution	60	11,363	35/12.5/7.2
Overhead Primary		2,375	
Overhead Secondary		3,076	
Underground Primary		2,922	
Underground Secondary		2,990	

The City and LCRA entered into the Fayette Power Project Transmission Agreement dated March 17, 1977, setting forth the duties, obligations and responsibilities with respect to the transmission of energy from the Fayette Power Project. The City has also entered into the STP 345 kV Transmission Line Agreement dated as of January 1, 1976 with the participants in STP, setting forth the duties, obligations and responsibilities with respect to transmission facilities associated with STP.

Austin Energy is interconnected with LCRA, CenterPoint Energy (formerly Houston Lighting & Power Co.), CPS Energy and American Electric Power. Austin Energy is a member of ERCOT. As a participant in ERCOT, Austin Energy is able to provide and be provided with a reliable backup supply of generation under normal and emergency conditions. The diversification of fuel sources of the member systems increases the potential for economic interchanges among the respective systems. Sale and purchase transactions generally maximize the use of less expensive fuel sources by all members of the interconnected system.

Historically, electric utilities operating in the State have not had any significant interstate connections, and hence investor owned utilities have not been subject to regulation by the Federal Energy Regulatory Commission ("FERC") and its predecessor agencies under the Federal Power Act. Over the past several years, successful efforts have been made to provide interstate connections. These efforts have resulted in protracted judicial and administrative proceedings involving ERCOT members. The settlement of such proceedings permits the ERCOT members to avoid federal regulation as the result of any interstate interconnection with another interstate connected utility.

ISO 9001 Registration

The Austin Energy division responsible for the construction, maintenance and operation of Austin's electric system has become the first of any utility in the nation to earn ISO 9001:2000 registration. ISO (International Organization for Standardization) 9000 is a series of international quality standards designed to ensure that all activities related to providing and delivering a product or service are appropriately quality assured. To earn the registration, applicants must develop a Quality Management System that reflects standards of performance for every major task, in this case, related to building, maintaining and repairing the electric system. Auditors from the National Standards Authority of Ireland ("NSAI"), the worldwide entity that administers the ISO quality management program, issued the registration on January 3, 2008. The certification followed a rigorous four-day review in December 2007 of the Electric Service Delivery Quality Management System by NSAI auditors.

In June 2010 Austin Energy's Customer Care unit was also registered as an ISO 9001:2008 organization. The Customer Care unit is responsible for receiving customer requests, responding to customer requests, billing customers, processing customer payments, and managing customer accounts.

In June 2012 Electric Service Delivery ("ESD") Quality Management System was re-registered under the current ISO 9001:2008 standard. An external auditor from the National Standards Authority of Ireland spent five days reviewing performance metrics, opportunities for improvements or corrective actions, and 20 work processes across various work groups. Austin Energy transmission and distribution work units are the first of any utility in the country to be so certified. ESD's next certification audit will occur in 2013.

Work has also begun to develop a quality management system and seek ISO registration for Power Supply and Market Operations. Employees from Energy & Market Operations, Power Production Engineering and Austin Energy power plants have spent the past year documenting over fifty (50) work processes related to operations, maintenance, planning, environmental compliance, plant engineering and market operations. Internal audits occurred between August and October, with the external ISO registration audit to take place in December 2012.

Conventional System Improvements

In September 2012, the 2013-2017 Capital Improvements Spending Plan was approved by the City Council in the amount of $1,092,963,000. Austin Energy's five-year spending plan provides continued funding for distribution and street lighting additions including line extensions for new service, system modifications for increased load, and relocations or replacements of distribution facilities in the central business district and along major thoroughfares. It also includes funding for transmission, generation and other general additions. Funding for the total Capital Plan is expected to be provided from current revenues and the issuance of commercial paper which from time to time will be fixed out with long-term debt.

$1.1 Billion Five Year Capital Spending Plan

$ in Millions	2012-13	2013-14	2014-15	2015-16	2016-17	Total
Distribution	$62	$53	$55	$57	$58	$285
Distribution Substation	$14	$10	$14	$15	$16	$69
Transmission	45	17	20	24	22	128
Electric Service Delivery	121	80	89	96	96	482
Power Production	65	57	119	173	53	467
Customer Service Billing & Metering	4	7	4	8	10	33
Facilities, Technology & Support Services	31	28	16	16	20	111
Total	$221	$172	$228	$293	$179	$1,093

Austin Energy Smart Meter Installation Program

Austin Energy initiated a pilot project in 2001 to evaluate the then new automated meter technology. Austin Energy installed (1-way) automated meter read ("AMR") meters at apartment buildings throughout Austin, 110,000 of which are still installed. In 2008, Austin Energy began the second phase of its smart meter program to exchange the remaining 300,000 customer meters with second generation-2-way AMR meters. These AMR meters communicate daily meter reads via radio signals. The 2-Way AMR meter deployment was completed in 2010. Austin Energy currently has approximately 421,000 AMR meters installed: 110,000 1-Way residential meters, 265,000 2-Way residential meters and 46,000 2-Way commercial and industrial meters.

STRATEGIC PLANS, GOALS AND POLICIES

Strategic Plan

In December 2003, the City Council approved a strategic plan for Austin Energy. The plan identified three strategies to position Austin Energy for continued success.

First, an overarching Risk Management Strategy guides Austin Energy to manage its exposure when considering future courses of action. This approach allows Austin Energy to prepare for future options without prematurely investing and allows time for more information to become known before major commitments are made.

Second, a strategy to provide Excellent Customer Service positions Austin Energy to meet evolving customer expectations in a rapidly changing energy industry. Under this strategy, Austin Energy intends to build employee and customer satisfaction so that it is positioned for competition or regulation in the future.

Third, an Energy Resource strategy directs Austin Energy to seek cost-effective renewable energy and conservation solutions to meet customers' new energy needs before resorting to traditional fossil fuel sources. In keeping with the risk management approach, Austin Energy has developed a Resource, Generation and Climate Protection Plan to 2020 discussed further in the next section.

Austin Energy Resource, Generation, and Climate Protection Plan to 2020

In February 2007, the City Council passed Resolution 20070215-023, directing the City Manager to develop, implement, and report to the City Council annually upon the implementation and progress of policies, procedures, and targets as necessary to make Austin the leading city in the nation in the effort to reduce and reverse the negative impacts of global warming. Soon thereafter, the Austin Climate Protection Program was created to implement this resolution and help the City build a more sustainable community.

The Austin Climate Protection Program has worked with all 23 departments to create a tailored climate protection plan to ensure that departmental operations were reducing greenhouse gas emissions from energy, water, waste, purchasing, education and transportation. Austin Energy developed the Resource, Generation, and Climate Protection Plan to 2020 (the "Plan") to meet these objectives for utility operations. The City Council adopted the Plan on April 22, 2010, as a resource planning tool that brings together demand and energy management options over the planning horizon.

Developing the Plan involved extensive analysis of the expected risks, costs, and opportunities to meet the future demand for electricity services. The goals outlined in this document are based on Austin Energy's current understanding of technology and of national, state and local energy policies. The primary goals of the Plan are by 2020 to achieve 800 MW in energy efficiency, 35% renewable energy generation, and CO_2 emissions 20% below 2005 levels.

The Plan is designed to be flexible and dynamic. As circumstances change, the City must maintain the flexibility to modify elements to respond to a range of factors, including economic conditions, customer load, fuel prices and availability, infrastructure build-out, technological development, law and regulations, policy direction, and customer needs. Therefore, as conditions change, the Plan will be adapted and modified to manage risk, maintain system and service reliability, achieve policy goals, and meet customer demand for excellence in all aspects of service. As each significant implementation step is undertaken through contracts, purchases or other arrangements, Austin Energy's recommendations to the City Council will be supported by assessment of impacts on all customers and by charting the progress each step will make toward achieving the goals outlined in this Plan.

Austin Energy will review the Plan annually and issue a report on performance against goals. Austin Energy will reassess the Plan in a public forum every two years, the first of which took place in 2012. Every major resource decision and Plan change will be taken before the City Council for review and authorization. The Plan demonstrates that customers and the community can indeed expect equitable, economic, and environmentally responsible electric services.

Goals Summary

Austin Energy has adopted the following changes and additions to its current resource planning goals, with a target of meeting these goals by 2020:

- Increase the energy efficiency goal from 700 MW to 800 MW
- Increase the renewable energy goal from 30% to 35%
- Increase the solar component of the renewable energy goal from 100 MW to 200 MW
- Establish a CO_2 reduction goal of 20% below 2005 level

Specific resource investments will be evaluated continually by Austin Energy, reinforcing that the goals are adaptable to changing legal/regulatory, market, and economic conditions. As explained further in the Plan, however, each individual investment will be considered by the City Council and subject to public review.

Coal/Nuclear. The Plan recognizes current ownership levels in the STP and the Fayette Power Plant. Plan implementation would effectively reduce by about 24% the amount of energy Austin Energy receives from the Fayette Power Project by 2020 to meet customer load. That reduction figures prominently in the Austin Energy goal to reduce its greenhouse gas emissions within the planning horizon by 20% from 2005 levels.

Natural Gas. The Plan calls for the build out of the gas-fueled Sand Hill Energy Center to add 200 megawatts of combined cycle capacity. This is in addition to the recently completed installation of 90 MW of peaking units at the facility.

Biomass. A total of 150 MW of biomass-fueled generation is projected to be developed. The City Council has approved a 20-year contract through which Austin Energy will purchase the annual output of a 100 MW wood chip-fueled biomass plant currently under construction 10 miles northwest of Nacogdoches, Texas. The plant, built by Nacogdoches Power LLC (a Southern Company subsidiary), commenced commercial operation in June 2012. An additional 50 MW of biomass is anticipated in later years.

Wind. The majority of the Austin Energy renewables goal will be met through wind-generated power. Current wind generation totals 635.2 MW of capacity, and Austin Energy has executed additional wind contracts for 292.6 MW of capacity with expected commercial operation in 2013. The Plan calls for total wind capacity by 2020 of 1,001 MW. See "CUSTOMER STATISTICS - Power and Energy Purchase Contracts" in this document.

Solar. Installed solar capacity will increase from 1 MW to 200 MW by 2020. In February 2009, the City Council approved a 25-year contract under which Austin Energy will purchase the annual output of a 30 MW solar farm to be built near Webberville on Austin Energy property. That project built by Gemini Solar Development Company, commenced commercial operation in December 2011 and is one of the nation's largest solar projects.

On October 6, 2011, the City Council passed Resolution 20111006-059, directing the City Manager to develop a report analyzing strategies relating to the FPP that were outlined in the Generation Plan. Specifically, the report would detail: the potential impact of the Cross-State Air Pollution Rule ("CSAPR") promulgated by the United States Environmental Protection Agency ("USEPA") and other proposed USEPA regulations that could impact FPP's costs of operation; the feasibility of selling the City's share of FPP to LCRA or a third party; and the feasibility of "mothballing" the City's share of FPP. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Environmental Regulation Related to Air Emissions" in this document. A presentation to the City Council on October 30, 2012 included an update to the Generation Plan and related strategic goals. The report noted that Austin Energy will continue to study options to achieve the CO_2 goal by 2020. FPP represents approximately 75% of annual CO_2 emissions so feasibility of reduction or removal of FPP's contribution will continue to be reviewed. Future actions to build, acquire, or remove resources will be presented to City Council with a current assessment of the impact to goals and affordability. There are no current plans to sell or mothball FPP.

Financial Policies

In a constantly changing electric utility industry, Austin Energy continues to follow strong financial policies aimed at maintaining financial integrity while allowing for flexibility to respond to market and regulatory challenges. Some of the more significant financial policies reviewed and approved annually by City Council during the budget process are:

- Current revenue, which does not include the beginning balance, will be sufficient to support current expenditures (defined as "structural balance"). However, if projected revenue in future years is not sufficient to support projected requirements, the ending balance may be budgeted to achieve structural balance.

- Debt Service coverage of a minimum of 2.0x shall be targeted for the Electric Utility Bonds. All short-term debt, including commercial paper, and non-revenue obligations will be included at 1.0x.

- A Strategic Reserve Fund shall be created and established, replacing the Debt Management Fund. It will have three components:
  - An Emergency Reserve with a minimum of 60 days of non-power supply operating requirements.
  - Up to a maximum of 60 days of additional non-power supply operating requirements set aside as a Contingency Reserve.
  - Any additional funds over the maximum 120 days of non-power supply operating requirements may be set aside in a Rate Stabilization Reserve.

- The Emergency Reserve shall only be used as a last resort to provide funding in the event of an unanticipated or unforeseen extraordinary need of an emergency nature, such as costs related to a natural disaster, emergency or unexpected costs created by Federal or State legislation. The Emergency Reserve shall be used only after the Contingency Reserve has been exhausted. The Contingency Reserve shall be used for unanticipated or unforeseen events that reduce revenue or increase obligations such as extended unplanned plant outages, insurance deductibles, unexpected costs created by Federal or State legislation, and liquidity support for unexpected changes in fuel costs or purchased power which stabilize fuel rates for Austin Energy customers. In the event any portion of the Contingency Reserve is used, the balance will be replenished to the targeted amount within two years. A Rate Stabilization Reserve shall be created and established, replacing the Competitive Reserve in FY 2012, for the purpose of stabilizing electric utility rates in future periods. The Rate Stabilization Reserve may provide funding for: (1) deferring or minimizing future rate increases, (2) new generation capacity construction and acquisition costs and (3) balancing of annual power supply costs (net power supply/energy settlement cost). The balance shall not exceed 90 days of net power supply costs. Funding may be provided from net revenue available after meeting the General Fund Transfer, capital investment (equity contributions from current revenue), Repair and Replacement Fund, and 45 days of working capital.

- The General Fund Transfer shall not exceed 12% of Austin Energy's three-year average revenues, calculated using the current year estimate and the previous two years' actual revenues from the City's Comprehensive Annual Financial Report.

A decommissioning trust shall be established external to the City to hold the proceeds for moneys collected for the purpose of decommissioning the STP. An external investment manager may be hired to administer the trust investments.

- A Non-Nuclear Plant Decommissioning Fund shall be established to fund plant retirement. The amount set aside will be based on a decommissioning study of the plant site. Funding will be set aside over a minimum of four years before the expected plant closure.

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

Rate Regulation

The City Council has original jurisdiction over Austin Energy's retail electric rates, while the PUCT sets Austin Energy's recoverable Transmission Matrix Expense. Certain residential ratepayers can appeal retail rate changes to the PUCT under section 33.101 of PURA by filing a petition with the PUCT containing the requisite number of valid signatures from residential ratepayers who take service outside the City limits. State courts have held that the PUCT may apply the same ratemaking standards in such an appeal as are applied to utilities over which the PUCT has original jurisdiction.

Section 35.004 of PURA requires the City to provide transmission service at wholesale to another utility, a qualifying facility, an exempt wholesale generator, a power marketer, power generation company, or a retail electric provider. Section 35.004 of PURA requires the City to provide wholesale services at rates, terms of access, and conditions that are not unreasonably preferential, prejudicial, discriminatory, predatory, or anti-competitive.

An Independent System Operator ("ISO") was established for ERCOT as a part of the rules that were adopted by the PUCT to establish access to the wholesale electric market in the State and was approved by the PUCT on August 21, 1996. The ISO received approval on May 5, 2000, of its certification under Senate Bill 7, adopted by the State legislature and signed into law in 1999 ("SB7"). The ISO's responsibilities as detailed in SB7 are to (1) ensure nondiscriminatory access to the ERCOT transmission system; (2) ensure the reliability and adequacy of the ERCOT network; (3) ensure timely and accurate customer switching; and (4) ensure the accuracy of accounts among wholesale buyers and sellers. Austin Energy is a member of ERCOT, and Austin Energy staff is very active in participating in the ERCOT stakeholder process.

SB7 amended PURA to provide for retail deregulation of the electric utility industry in the State. SB7 opened retail competition for Investor Owned Utilities ("IOUs") beginning January 1, 2002. SB7 allowed local authorities to choose when to bring retail competition to their Municipally Owned Utilities ("MOU"), and leaves key municipal utility decisions (like local rate setting and utility policies) in the hands of those who have a stake in the local community. Once a resolution to "opt in" for retail competition is adopted by the municipal utility's governing body, the decision is irrevocable. The City has not opted in to competition. As a result, retail competition is not allowed inside Austin Energy's service territory. Austin Energy participates in the wholesale power market.

State Wholesale Market Design Developments

In the summer of 2002, the PUCT initiated an investigation to convert the wholesale market in the ERCOT region from a zonal-based market design to a nodal market design. On September 22, 2003, the PUCT adopted a rule requiring that ERCOT use a stakeholder process to develop a nodal market design. The PUCT's purpose in ordering the change was to promote economic efficiency in the production and consumption of electricity, support wholesale and retail competition, support the reliability of electric service, and reflect the physical realities of the ERCOT electric system. The key components of the nodal market as ordered by the PUCT include: continued reliance on bilateral markets for energy and ancillary services; establishment of a day-ahead energy market; resource-specific bid curves for energy and ancillary services; congestion pricing incorporating direct assignment of all congestion rents to resources causing the congestion; tradable congestion revenue rights ("CRRs") made available through auctions; nodal energy prices for resources; energy trading hubs; and zonal energy prices for load settlement.

On September 23, 2005, ERCOT filed with the PUCT the nodal market Protocols developed through the ERCOT stakeholder process. The nodal Protocols incorporate specific provisions that allow Austin Energy to hedge congestion risk in the new market. For its generation resources in operation before September 1, 1999, Austin Energy receives pre-assigned CRRs at a discount to the market price which are allocated before the auction of CRRs. The service territory of Austin Energy is identified as a load zone for settlement purposes. On February 23, 2006, the PUCT voted to approve the nodal Protocols for the ERCOT region. The nodal market began operation in December of 2010.

Since the implementation of the ERCOT nodal market in 2010, each day, Austin Energy's Energy and Market Operations staff offer Austin Energy's generation resources into the ERCOT markets. All power to serve Austin Energy's load is procured from the ERCOT market as well. Participation in the centralized ERCOT wholesale market allows Austin Energy to procure the cheapest source of supply possible to service its customers, whether that power is produced from Austin Energy's own generation resources or procured from the ERCOT market.

Federal Rate Regulation

Austin Energy is not subject to Federal regulation in the establishment of rates, the issuance of securities or the operation, maintenance or expansion of Austin Energy under current Federal statutes and regulations. Austin Energy submits various reports to FERC and voluntarily utilizes the FERC System of Accounts in maintaining its books of accounts and records.

Austin Energy is not subject to FERC's jurisdiction under sections 205 and 206 of the Federal Power Act. Nevertheless, Austin Energy participates in a stakeholder organization established under State law that is similar to the Regional Transmission Organizations ("RTOs") envisioned in FERC Order No. 2000 and which predates the Order by several years. ERCOT is a stakeholder organization that includes stakeholders from all segments of the Texas electric market. ERCOT is responsible for the management and oversight of the day-to-day operations of the transmission network. Under PURA, the PUCT has specific responsibilities to oversee ERCOT operations and market participant compliance with ERCOT Protocols.

Under the Energy Policy Act of 2005, municipal entities are now subject to certain FERC authority on reliability. Specific reliability requirements have been developed by FERC. On July 20, 2006, FERC certified the North American Electric Reliability Council ("NERC") as the nation's Electric Reliability Organization responsible for developing and enforcing mandatory electric reliability standards under FERC's oversight. On April 19, 2007, FERC approved the Delegation Agreement between the NERC and the Texas Reliability Entity ("TRE") that governs the responsibilities of the TRE as the Regional Entity responsible for overseeing the NERC reliability standards in the ERCOT region. On June 4, 2007, FERC approved an initial set of NERC reliability standards that apply to entities operating in the ERCOT region. Austin Energy has established compliance programs in its Energy Markets; transmission systems planning, operations and reliability; and Information Technology and Telecommunications units to examine the requirements for compliance with the new standards and to evaluate and implement any needed changes to systems and procedures. This process is verified through external audits involving the TRE.

Environmental Regulation - General

Austin Energy's operations are subject to environmental regulation by Federal, State and local authorities. Austin Energy has processes in place for assuring compliance with applicable environmental regulations. Austin Energy's Environmental Services section consists of a staff of educated and trained environmental compliance professionals who are responsible for establishing and maintaining compliance programs throughout the utility. The Environmental Services section interprets existing Federal, State and local regulations and monitors changes to regulations that affect Austin Energy. Austin Energy maintains an Environmental Management Information System (EMIS) which delineates roles and responsibilities, and automatically schedules environmental compliance tasks throughout the organization. The Environmental Services section staff and facility personnel monitor conformance with the environmental requirements, report deficiencies to facility management, and coordinate corrective actions where appropriate. Environmental Services is also responsible for conducting environmental training for the organization.

Environmental Regulation Related to Air Emissions

Mercury and Air Toxics Standards (MATS)

Published in February 2012, USEPA's final MATS rule sets new emissions limits for mercury and other toxic air emissions from coal and oil-fired electric utility boilers to be achieved by 2015. For Austin Energy, this rule applies to the Fayette Power Project units 1 & 2. The flue gas desulphurization ("FGD") units or "scrubbers" that were put in operation in 2011 remove a significant portion of the air toxics to below the new limits. Although the scrubbers remove some mercury, a preliminary feasibility study conducted in early 2012 concluded that some additional "add-on" equipment will be necessary to enhance the removal of mercury in existing emissions control equipment to below the new limit. Austin Energy and co-owner LCRA are proceeding with the engineering and planning phase of installing that equipment. A preliminary estimate of Austin Energy's share of that capital expense is approximately $8 million. With the scrubbers already in operation, Austin Energy and LCRA are well-positioned to comply with the MATS rule.

Maintenance Start-up and Shutdown Permits

In 2011, Austin Energy and all owners of large electric generating units in Texas applied to the Texas Commission on Environmental Quality ("TCEQ") for permits to cover routine Maintenance, Start-up and Shut-down emissions ("MSS"). Amended permits that account for MSS emissions have been issued to all but one Austin Energy facility. The amended permit for the remaining facility is expected to be issued in calendar year 2013 and the facility is considered to be in compliance while the permit amendment is pending. Minor amendments to reflect MSS emissions are still pending for some facilities but expected to be issued in calendar year 2013.

Cross-State Air Pollution Rule and Clean Air Interstate Rule

Austin Energy's large facilities have been complying with the Clean Air Interstate Rule ("CAIR"), a cap-and-trade program for annual NOx and SO2 emissions, since 2009. The USEPA finalized a court-mandated replacement for CAIR in 2011, called the Cross-State Air Pollution Rule ("CSAPR"), with compliance to begin in 2012 for annual NOx, annual SO2 and ozone season NOx emissions in 23 eastern- and mid-U.S. states including Texas. A federal court stayed CSAPR in late 2011 pending judicial review of the rule and in August 2012, the court vacated CSAPR holding that the USEPA had exceeded its authority in the way it apportioned cleanup responsibilities among the affected states. The result of that decision is that CAIR remains in effect and Austin Energy continues to comply with CAIR until such time as the USEPA develops a replacement for CSAPR or the status of CSAPR is otherwise changed by a court.

Environmental Regulation Related to Water Discharges

Section 316(b) of the Clean Water Act establishes requirements to minimize the impact of cooling water intake structures on aquatic organisms. The USEPA proposed revised standards in 2011 that would require cooling water intake structures to be designed to limit organism impingement and entrainment. All major power plants with once-through cooling would be required to complete studies assessing impacts to aquatic organisms and appropriate mitigation measures, and design requirements would be enforced via state-issued Texas Pollution Discharge Elimination System (TPDES) permits. The proposed rule would impact Decker Creek Power Station and the Fayette Power Project, which both employ once-through cooling water; exact requirements and impacts of the proposal will not be known until the rule is final, which is scheduled for summer of 2013 per a consent decree. Austin Energy is similarly positioned to all power plants in Texas that employ once-through cooling.

Environmental Regulation Related to Hazardous Wastes and Remediation

The USEPA proposed a rule in 2010 that would set new requirements for the storage of Coal Combustion Residuals ("CCRs") and potentially reclassify those CCRs as a hazardous waste when stored in a landfill. The Fayette Power Project, like all coal burning plants, generates CCRs such as fly ash, bottom ash and gypsum. FPP currently recycles the majority of their CCR for beneficial use, such as for road base or as cement substitutes, with the remaining fractions stored onsite in a landfill for possible future use (recycle rates depend on market demand for the product). In 2011, Austin Energy and LCRA completed a project to permanently close a "wet" ash pond where ash slurry had previously been sent for dewatering before recycle, and converted ash handling to a dry system; the costs of the USEPA's proposed retrofit requirements for that ash pond would be avoided in the future since it is no longer active. A hazardous classification would result in new liability to Austin Energy and LCRA and likely costs to upgrade or design compliant landfills at the facility. The USEPA did not propose a hazardous classification for CCRs that are recycled for beneficial use, only stored; however, a hazardous classification could also result in reduced demand for CCRs and therefore greater volumes that would need to be stored in new onsite landfills. Austin Energy is in a similar position to all coal plants in the United States that burn coal and produce CCRs. It is not known when the USEPA will finalize the proposed rule and what future requirements will be.

Environmental - Other

Austin Energy began decommissioning the Holly Street Power Plant in 2011. The project includes the removal of the main power plant and adjacent support structures and the cleanup of historical contamination. The project is expected to be completed by the end of 2014.

Nuclear Regulation

Nuclear generation facilities are subject to regulation by the Nuclear Regulatory Commission ("NRC") and are required to obtain liability insurance and a United States Government indemnity agreement in order for the NRC to issue operating licenses. This primary insurance and the retrospective assessment discussed below are to insure against the maximum liability under the Price-Anderson Act for any public claims arising from a nuclear incident which occurs at any of the licensed nuclear reactors located in the United States.

STP is protected by provisions of the Price-Anderson Act, a comprehensive statutory arrangement providing limitations on nuclear liability and governmental indemnities even though the statutory protections for many non-commercial reactors are different. The Price-Anderson Act expires on December 31, 2025. The limit of liability under the Price-Anderson Act for licensees of nuclear power plants remains at $12.6 billion per unit per incident. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is $117.495 million per unit, subject to adjustment for inflation, for the number of operating nuclear units and for each licensed reactor, payable at $17.55 million per year per reactor for each nuclear incident. The City and each of the other participants of STP are subject to such assessments, which will be borne on the basis of their respective ownership interests in STP. For purposes of the assessments, STP has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the NRC, in accordance with the financial protection requirements of the Price-Anderson Act.

A Master Worker Nuclear Liability policy, with a maximum limit of $300 million for the nuclear industry as a whole, provides protection from nuclear-related claims of workers employed in the nuclear industry after January 1, 1988 who do not use the workers' compensation system as sole remedy and bring suit against another party. The limit increased to $375 million effective January 1, 2010.

NRC regulations require licensees of nuclear power plants to obtain on-site property damage insurance in a minimum amount of $1.06 billion. NRC regulations also require that the proceeds from this insurance be used first to ensure that the licensed reactor is in a safe and stable condition so as to prevent any significant risk to the public health or safety, and then to complete any decontamination operations that may be ordered by the NRC. Any funds remaining would then be available for covering direct losses to property.

The owners of STP currently maintain $2.75 billion of nuclear property insurance, which is above the legally required amount of $1.06 billion, but is less than the total amount available for such losses ($2.75 billion is the maximum amount available for purchase from NEIL). Nuclear property insurance consists of $500 million in primary property damage insurance and $2.25 billion of excess property damage insurance, both subject to a retrospective assessment being paid by all members of NEIL. In the event that property losses as a result of an accident at any nuclear plant insured by NEIL exceed the accumulated fund available to NEIL, a retrospective assessment could occur. The maximum aggregate assessment under current policies for both primary and excess property damage insurance is $30.7 million during any one policy year. This number changes annually and is calculated as 10 times the current premium for each policy.

The NRC regulations set forth minimum amounts required to demonstrate reasonable financial assurance of funds for decommissioning of nuclear reactors. Beginning in 1990, each holder of an operating license is required to submit to the NRC a bi-annual report indicating how reasonable assurance would be provided. The City provides the required report on its share of STP to the NRC which is based on the minimum amount for decommissioning, excluding waste disposal, as required by the NRC regulations of $105 million per unit (January 1986 dollars). This minimum is required to be adjusted annually in accordance with the adjustment factor formula set forth in the regulations. The 2008 report provided by the City based reasonable assurance on the minimum amount (January 1986 dollars) as adjusted by the adjustment factor formula set forth in the regulations. The City has established an external irrevocable trust for decommissioning with JPMorgan Chase Bank, N.A. The City has been collecting for its share of anticipated decommissioning activities which may begin as early as 2027 through its rates since Fiscal Year 1989. The decommissioning trust market value on September 30, 2011 was $176,325,016.90. For Fiscal Year 2012, Austin Energy estimates that it will continue to collect approximately $5 million for decommissioning expense. In 2007 dollars, the minimum amount for decommissioning the City's share of STP is $221 million. See "INVESTMENTS – Legal Investments" in this document.

Recent Events Affecting the Nuclear Industry

On March 11, 2011, a region of Japan sustained significant loss of life and destruction because of a major earthquake and resulting tsunami. Included in the damage areas were the Fukushima nuclear units, which lost power to components of the backup and safety control systems and began emitting radiation into the surrounding environment. Following the incident, the NRC began looking into the safety aspects of nuclear plant operations in the United States with the objective of assuring that events such as those at the Fukushima plant do not occur in this country. On August 31, 2012, the NRC issued Interim Staff Guidance ("ISG") to U.S. nuclear power plants to ensure proper implementation of three orders the agency issued in March, in response to lessons learned from the Fukushima Dai-ichi nuclear accident. The ISGs represent acceptable approaches to meeting the orders' requirements before their December 31, 2016 compliance deadline. The ISGs are not mandatory, but U.S. nuclear power plants would have to seek NRC approval in order to follow a different compliance approach. The NRC issued draft versions of the ISGs on May 31, 2012 and asked for public input; the final ISGs reflect information gained from the month-long comment period and subsequent public meetings.

The first NRC order requires all U.S. plants to better protect portable safety equipment put in place after the 9/11 terrorist attacks and to obtain sufficient equipment to support all reactors and spent fuel pools at a given site simultaneously. The ISG for this order endorses the industry's updated guidance for dealing with a scenario that knocks out all of a plant's alternating current electric sources. The updated approach includes the use of backup power supplies for devices that would burn off accident-generated hydrogen before it could accumulate to explosive levels. The staff concludes the updated approach will successfully implement the first NRC order. The ISG is available in the Agencywide Document Access and Management System ("ADAMS") under accession number ML12229A174; the associated industry document is available under accession number ML12242A378.

The second NRC order applies only to U.S. boiling-water reactors that have "Mark I" or "Mark II" containment designs. Mark I reactors must improve installed venting systems that help prevent core damage in the event of an accident; Mark II reactors must install these venting systems. The ISG for this order provides more detailed technical information on the vents, as well as how vent designs and operating procedures should avoid, where possible, relying on plant personnel taking actions under hazardous conditions. The second ISG is available in ADAMS under accession number ML12229A475.

The third NRC order requires all plants to install enhanced equipment for monitoring water levels in each plant's spent fuel pool. The ISG for this order largely endorses an industry document that the staff concludes will successfully implement the order. The ISG defines in more detail the water levels the new equipment must accurately report, as well as standards for equipment mounting, powering and testing, personnel training and other criteria. The final ISG notes several areas, including instrument qualifications and instrument protection from falling debris, where the industry revised its initial approach. An exception in the staff's endorsement sets specific seismic criteria to ensure the instruments will survive an earthquake. This ISG is available in ADAMS under accession number ML12221A399; the associated industry document is available under accession number ML12240A304.

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THE WATER AND WASTEWATER SYSTEM

Management

Name	Title	Length of Service with City*
Greg Meszaros	Director	5 Years
David Anders	Assistant Director, Finance and Business Services	25 Years
Jane Burazer	Assistant Director, Treatment	19 Years
George Calhoun	Assistant Director, Pipeline Operations	23 Years
Gopal Guthikonda, P.E.	Assistant Director, Engineering	25 Years
David Juarez, P.E.	Assistant Director, Water Resource Management	21 Years**
Daryl Slusher	Assistant Director, Environmental Affairs and Conservation	16 Years**

*As of September 30, 2012.
**Length of service not continuous.

WATER UTILITY

Service Area

The City supplies treated water to residential and commercial customers within the corporate limits of the City and to a portion of Travis and Williamson Counties. The presently defined service area totals approximately 538 square miles. The City also has contracted to supply treated water on a wholesale basis to five municipal utility districts ("MUDs"), one water control and improvement district ("WCID"), six water supply corporations, one private utility, the Cities of Manor, Rollingwood and Sunset Valley, and the Village of San Leanna. In addition, the City has had a Water Reclamation Initiative for nearly twenty years to develop facilities and processes to make treated wastewater effluent available for irrigation and cooling processes. The City is currently in the process of establishing operating and capital funds for a Reclaimed Water Utility in addition to the Water and Wastewater operating and capital funds. See "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water Reuse Facilities" in this document.

The City has previously acquired the systems and assets of eleven WCIDs. The City has paid off and canceled the bonded indebtedness of all of these WCIDs. The TCEQ is empowered to grant the City a certificate of convenience and necessity to provide water and wastewater service to retail customers outside the City's boundaries. The City is not required to obtain such a certificate. References to the TCEQ in this Official Statement are intended to include agencies whose duties and responsibilities have been assumed by the TCEQ.

Water Supply

In 1888, City leaders campaigned successfully for the first Austin Dam across the Colorado River, which was completed early in 1893. In 1934, a $4,500,000 loan and grant was obtained from the Public Works Administration to complete the Buchanan Dam. The LCRA finished the dam (which is 150 feet high, 11,200 feet long), and the lake it forms is thirty-two miles long and two miles wide, covering 23,000 surface acres.

Since that time, a stairway of lakes was created by building five additional dams, giving the area 150 miles of lakes. The Tom Miller Dam is within the City limits, and forms Lake Austin, which covers 1,590 surface acres; Mansfield Dam, the fifth largest masonry dam in the world, impounds Lake Travis, encompassing up to approximately 42,000 acres of surface area (conservation pool); Starcke Dam creates Lake Marble Falls, which spreads over 900 acres; Lake Lyndon B. Johnson, held by Alvin Wirtz Dam, has an area of 6,300 acres; and Roy Inks Dam forms Inks Lake, with a surface of 900 acres. The City owns Tom Miller Dam and has leased it to LCRA through December 31, 2050. The other dams are owned by LCRA.

The combined storage capacity of the six lakes is around 3,300,000 acre-feet of water, or more than a trillion gallons. Approximately 800,000 acre-feet of this capacity are reserved for flood control. Of the six dams on the Colorado River, two form major impounding reservoirs for the control of flood water; however, Mansfield Dam is the only designated flood control structure.

The City has also constructed Longhorn Dam on the Colorado River just downstream of Lady Bird Lake, and Decker Dam on Decker Creek, a tributary of the Colorado River that joins the river downstream of Longhorn Dam. Lady Bird Lake, which has a permitted capacity of approximately 3,500 acre-feet, is created by Longhorn Dam. Decker Dam creates Lake Walter E. Long, which has a permitted capacity of approximately 34,000 acre-feet.

United States Geological Survey ("USGS") records at Austin gauging station No. 08158000 show the following flows for the water year (October 1 through September 30):

1987 – 3,399,000 Acre Feet	1995 – 896,700 Acre Feet	2004 – 928,065 Acre Feet
1988 – 834,000 Acre Feet	1996 – 758,300 Acre Feet	2005 – 1,077,031 Acre Feet
1989 – 667,900 Acre Feet	1997 – 3,013,512 Acre Feet	2006 – 528,785 Acre Feet
1990 – 692,300 Acre Feet	1998 – 1,313,831 Acre Feet	2007 – 2,155,974 Acre Feet
1991 – 829,700 Acre Feet	1999 – 803,240 Acre Feet	2008 – 621,526 Acre Feet
1992 – 5,419,000 Acre Feet	2000 – 627,370 Acre Feet	2009 – 584,735 Acre Feet
1993 – 978,000 Acre Feet	2001 – 1,371,435 Acre Feet	2010 – 798,517 Acre Feet
1994 – 708,200 Acre Feet	2002 – 1,674,985 Acre Feet	2011 – 670,104 Acre Feet
	2003 – 1,017,294 Acre Feet	

Using the last twenty-five years from 1987-2011, the average flow was 1,294,780 acre-feet per year. Using the lowest year, 2006, the flow for the Colorado River at Austin was 528,785 acre-feet, or 172 billion gallons, which is over 3 times the amount of water treated for distribution (47 billion gallons) by the City for the fiscal year ended September 30, 2012. (2012 approved USGS data is not available)

<u>Water Rights</u>. The City holds independent rights to impound, divert and use the waters of the Colorado River and its tributaries, and additional rights to such water pursuant to agreements with LCRA.

The City's independent water rights have been adjudicated before the TCEQ in accordance with the Water Rights Adjudication Act, Texas Water Code, Section 11.301, et seq. The City's rights, as determined by the TCEQ, are set forth in the Final Determination of all claims of Water Rights in the Lower Colorado River Segment of the Colorado River Basin issued by the TCEQ on July 29, 1985. Both the City and LCRA appealed the Final Determination, seeking additional rights and contesting the rights awarded to each other, in a proceeding styled *In Re: The Exceptions of the Lower Colorado River Authority and the City of Austin to the Adjudication of Water Rights in the Lower Colorado River Segment of the Colorado River Basin*, Cause No. 115,414-A-1 in the District Court of Bell County, Texas, 264th Judicial District ("Cause No. 115,414-A-l").

The City and LCRA entered into a Comprehensive Water Settlement Agreement (the "Settlement Agreement") in settlement of Cause No. 115,414-A-1 on December 10, 1987. The Settlement Agreement generally improves the independent water rights of both the City and LCRA. Such rights for the City include: the rights to maintain Tom Miller Dam and Lake Austin, Longhorn Dam and Lady Bird Lake, and Decker Dam and Lake Walter E. Long; the right to divert and use 271,403 run of the river acre-feet of water per year from Lake Austin and Lady Bird Lake for municipal purposes; the right to divert and circulate an unlimited amount of water per year from Lady Bird Lake for industrial purposes so as to consumptively use not to exceed 24,000 acre-feet per year; the right to divert and circulate water from Lake Walter E. Long for industrial purposes so as to consumptively use not to exceed 16,156 acre-feet per year; and the right to divert and use water through Tom Miller Dam for the generation of hydroelectric power. LCRA's independent water rights, as determined by the TCEQ, include the rights to maintain Lakes Travis and Buchanan and to divert and use water therefrom. Pursuant to the Settlement Agreement and the final judgment in Cause No. 115,414-A-1, certain other pending water-related disputes between the City and LCRA were settled. LCRA was granted an option to acquire up to a 50% undivided interest in the City's proposed Water Treatment Plant No. 4 (discussed under "Water Treatment Plants" below and referred to as "WTP No. 4"). The District Court issued a final judgment consistent with the Settlement Agreement. Certificates of Adjudication have been issued by the TCEQ.

Pursuant to previous agreements between the City and LCRA, LCRA has agreed to supply the City additional water from storage in Lakes Travis and Buchanan and other sources. The City also has leased Tom Miller Dam, and the City's right to divert and use water for the generation of hydroelectric power through Tom Miller Dam, to LCRA. The Settlement Agreement provided for the City to receive water from Lake Travis for WTP No. 4, and for additional water for municipal and other purposes of use downstream of Lake Travis.

The City and LCRA executed the First Amendment to the Settlement Agreement (the "First Amendment") on October 7, 1999. This First Amendment extends the existing Settlement Agreement through the year 2050, and gives the City a 50-year assured water supply by providing additional water that the City can take from the Highland Lakes, a chain of lakes formed on the Colorado River that includes Lake Travis, Lake Austin and Lady Bird Lake, and other sources. Additionally, the First Amendment includes an option for the City to renew the Settlement Agreement through the year 2100. The City paid a discounted amount of $100.0 million to the LCRA as part of the First Amendment contract provisions. The $100.0 million payment to LCRA included compensation for the following terms:

- Pre-paid reservation fee for an additional 75,000 firm acre-feet of water supply, which increased the City's total water supply from 250,000 firm acre-feet to 325,000 firm acre-feet for the additional 50-year period with an option to renew for another additional 50-year period.
- Pre-paid water use charges that would be paid by the City for water use above 150,000 firm acre-feet up to 201,000 firm acre-feet.

Under the terms of this amendment, the Austin Water Utility will begin annual payments to LCRA for raw water diverted in excess of 150,000 acre-feet once Austin Water Utility diverts 201,000 acre-feet, which is unlikely to occur prior to 2021. The amendment also has numerous other provisions that benefit the City. Also, a legal issue regarding the building of WTP No. 4 was settled. LCRA's option to acquire up to 50% of the WTP No. 4 lapsed on January 1, 2000. All sections of the 1987 Settlement Agreement related to WTP No. 4 were deleted as part of the 1999 First Amendment. The First Amendment provides for mutual release of the City and LCRA from any claims or causes of action relating to the delayed construction of WTP No. 4.

Water Treatment Plants

Austin Water Utility has two water treatment plants (Davis and Ullrich) which have a combined rated capacity of 285 million gallons per day ("mgd"). These water treatment plants have a combined clear well storage capacity of 35 million gallons on site. In September 2008, the City decommissioned a third water treatment plant, the 80-year old Green Water Treatment Plant, which had reached the end of its functional life.

Austin Water Utility water distribution system includes approximately 3,672 miles of water mains of varying diameters, 38 distribution storage facilities with a storage capacity of approximately 170 million gallons, 25,703 City maintained fire hydrants, and 45 booster pump stations.

The City receives its water supply from the Colorado River through the two water treatment plants. The Davis Plant and the Ullrich Plant both take water from Lake Austin.

The Davis Plant, located at Mount Bonnell Road and West 35th Street, has a rated capacity of 118 mgd. The plant is of conventional design, with rapid mix basins, flocculation basins, sedimentation basins, gravity filters, clearwell storage, raw water, chlorine disinfection, and finished water pumping stations. The plant was constructed in 1954 and expanded in 1963, 1975 and 1986.

The Ullrich Plant, located on a site south of Red Bud Trail and Forest View Drive, has a rated capacity of 167 mgd. The existing plant facilities consist of an intake and raw water pumping station, raw water transmission main, seven upflow-solids contact clarifiers, eighteen filters, chlorine disinfection, clearwell reservoir, high service pumping station, and sludge handling facilities. A 67 mgd upgrade to the Ullrich Plant was completed in 2006. This expansion increased the rated capacity of the plant from 100 mgd to 167 mgd.

WTP No. 4 is under construction and is estimated to be completed by the spring of 2014. Located in northwest Austin, WTP No. 4 will draw its water from Lake Travis. To meet projected needs, the construction will add incremental initial capacity of 50 mgd with an intake structure rated at 100 to 300 mgd. Funding for the construction of WTP No. 4 comes from a combination of cash transferred from the operation fund and commercial paper which will be refunded by long-term debt.

Water Conservation Plan

Austin Water Utility has both a water conservation plan and a drought contingency plan, as required in Texas for large municipal water suppliers. Austin's Water Conservation Plan details incentive programs, educational efforts and regulations designed to reduce both peak and average day water use. Austin's Drought Contingency Plan outlines the City's response to emergency demand or supply conditions. In addition to year-round prohibitions against water waste and a mandatory watering schedule that allows not more than twice per week for outdoor irrigation, the plan calls for more restrictive stages if combined storage levels in the Highland Lakes fall below certain levels, or if daily pumpage exceed limits established by the Austin Water Utility Director. Watering times and days are further limited, and restrictions are placed on discretionary water uses such as ornamental fountains and vehicle washing. Water use restrictions are codified in Austin's City Charter, Chapter 6-4, which was revised by the Austin City Council on August 16, 2012. With this updated strategy, Austin Water Utility is striving to continue strengthening conservation efforts while also protecting the City's urban landscape and tree canopy. Inclining block rates, implemented April 1, 1994, are designed to promote water conservation by single family residential customers; it is believed that Austin has one of the highest rates in the country for customers using more than 25,000 gallons per month. Seasonal rates implemented in 2000 for commercial and multifamily customers are also designed to promote water conservation. Also see "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water Reuse Facilities" in this document.

Water Storage and Pumping Facilities

In addition to the water treatment plants, Austin Water Utility owns and operates the following storage facilities and major water pump stations.

		Total Storage Capacity (Millions of Gallons)	Firm Pumping Capacity (Gallons per Minute)
North System			
	Anderson Mill (1)	3	n/a
	Avery Ranch (1)	3	n/a
	Capital of Texas (1)	0.5	n/a
	East Austin	12	33,300
	Forest Ridge	3	5,000
	Four Points (1) (Elevated)	1	n/a
	Four Points (Ground)	7	7,800
	Guildford Cove	0.275	1,000
	Howard Lane 1	10	50,000
	Howard Lane 2	10	See above
	Jollyville	11	49,800
	Lookout Lane	0.3	800
	Martin Hill (1)	34	n/a
	North Austin	10	39,800
	Pond Springs (1)	3	n/a
	Spicewood Springs	10	58,000
	Tanglebriar (1)	0.2	n/a
South System			
	Barclay Road	0.5	3,000
	Center Street	8	31,400
	Davis Lane 1	10	39,500
	Davis Lane 2	10	See above
	LaCrosse (1)	2	n/a
	Leuthan Lane	3	SWB - 8,670 SWC - 2,700
	Lookout Lane	0.3	800
	Mt. Larson	0.1	100
	Never Bend Cove	0.06	1,599
	Pilot Knob	10	15,800
	Slaughter Lane	6	SWB - 15,000 SWC - 5,400
	Thomas Springs (1) (Elevated)	1.25	n/a
	Westlake Drive	0.01	500

(1) Storage only, no pumps.
Source: Austin Water Utility.

Historical Water Pumpage - TABLE EIGHT

The following table summarizes historical demand and maximum day water pumpage from fiscal years 2002 through 2012.

Fiscal Year	Total Pumpage (Millions of Gallons)	Percent Change	Maximum Day Pumpage (Millions of Gallons)
2002	50,883	1.5	214
2003	51,111	0.4	232
2004	48,469	(5.2)	197
2005	51,374	6.0	247
2006	56,603	10.2	241
2007	45,868	(19.0)	180
2008	53,066	15.7	227
2009	53,331	0.5	240
2010	43,827	(17.8)	190
2011	52,824	20.5	231
2012	47,143 (1)	10.8	202

(1) Preliminary data; subject to change.
Source: Austin Water Utility.

Projected Water Pumpage - TABLE NINE

The following table, based on actual operating experience, summarizes the annual water pumpage and maximum day pumpage projected by the City.

Fiscal Year	Total Pumpage (Millions of Gallons)	Maximum Day Pumpage (Millions of Gallons)
2013	48,763	234
2014	50,863	245
2015	51,104	246
2016	51,313	246
2017	51,644	248
2018	52,333	252
2019	53,086	255
2020	53,853	258
2021	54,630	263

Source: Austin Water Utility.

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Information Concerning Water Sales - TABLE TEN

	Fiscal Year Ended September 30									
	2007		2008		2009		2010		2011	
	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons
Thousand Gallons Pumped		45,867,627		53,065,960		53,331,330		43,827,360		52,823,662
Less: Sales to Other Water Utilities (1)		3,158,595		3,830,477		3,553,293		2,771,880		3,572,029
Thousand Gallons to System		42,709,032		49,235,483		49,778,037		41,055,480		49,251,633
Water Sales: (2)										
Urban	186,888	34,867,508	190,116	40,520,123	196,595	40,236,545	198,437	33,885,594	211,185	44,502,550
Rural	11,504	1,981,852	11,444	2,158,250	11,254	2,157,708	11,215	1,745,697		0
	198,392	36,849,360	201,560	42,678,373	207,849	42,394,253	209,652	35,631,291	211,185	44,502,550
City Departments	491	1,001,517	497	1,195,465	575	1,356,366	573	1,240,967	575	1,410,791
Total Sales to Ultimate Consumer	198,883	37,850,877	202,057	43,873,838	208,424	43,750,619	210,225	36,872,258	211,760	45,913,341
Used by Water Utility		1,445,523		174,946		70,090		90,417		69,262
Other Unmetered Usage		1,348,508		1,560,139		1,567,941		1,288,524		1,553,016
Loss and Unaccounted For		2,064,124		3,626,560		4,389,387		2,804,281		1,716,014
Thousand Gallons to System		42,709,032		49,235,483		49,778,037		41,055,480		49,251,633
Maximum Daily Consumption		176,979		227,144		228,234		193,110		220,552
Average Daily Consumption		112,355		130,697		129,600		108,614		135,532

(1) Includes sales to all wholesale customers.
(2) FY 2011 Water Sales include Urban and Rural combined.
Source: Austin Water Utility.

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Large Water Customers - TABLE ELEVEN

Water and Wastewater Utility
Large Water Customers
Five Year Comparative Data (2007 - 2011)

Fiscal Year Ended September 30
(Gallons and Dollars in Thousands)

	2007		2008		2009		2010		2011	
	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue
Samsung	783,881	$ 2,605	1,118,400	$ 4,020	1,024,144	$ 4,116	749,103	$ 3,150	1,212,413	$ 5,346
University of Texas	1,022,218	2,981	1,085,005	3,521	1,170,061	4,147	979,972	3,679	1,147,002	4,424
Water District 10	775,830	2,011	1,056,852	2,722	1,057,082	3,276	739,907	2,424	977,849	3,427
Freescale, Inc. (1)	886,402	2,909	748,582	2,696	698,391	2,816	675,872	2,855	690,252	3,044
Spansion	552,661	1,687	749,225	2,025	555,174	1,937	614,897	2,005	578,465	1,884
Wells Branch MUD	429,686	1,052	530,506	1,376	565,819	1,580	454,483	1,312	554,683	1,697
North Austin MUD	357,873	962	430,012	1,167	484,918	1,502	367,776	1,187	479,142	1,884
Northtown MUD	185,939	476	255,934	691	286,030	819	254,986	791	310,965	1,029
Lost Creek MUD	251,273	667	316,004	895	320,820	964	242,833	768	318,805	1,075
Shady Hollow MUD	202,342	586	225,365	642	242,315	774	201,921	685	268,087	963
	5,448,105	$15,936	6,515,885	$19,785	6,404,754	$21,931	5,281,750	$18,856	6,537,663	$24,773

(1) Totals for Freescale, Inc. include their east Austin plant site and their west Austin plant sites.
Source: Austin Water Utility.

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WASTEWATER SYSTEM

Service Area

Austin Water Utility provides wastewater service to customers within the corporate limits of the City and a portion of Travis and Williamson Counties. The City has entered into wholesale service contracts with four MUDs, one WCID, and the Cities of Manor, Rollingwood, Sunset Valley, and West Lake Hills to provide wastewater service.

Facilities

Austin Water Utility has two main wastewater treatment plants with a total permitted capacity of 150 mgd, one biosolids treatment and disposal facility, over 2,657 miles of sanitary wastewater mains and lines, and 124 lift stations. The two treatment plants are the Walnut Creek Wastewater Treatment Plant, which began operations in 1977, and the South Austin Regional Wastewater Treatment Plant, which started operating in 1986. A third plant, the Govalle Wastewater Treatment Plant, constructed in 1937 with permitted capacity of 10 mgd, was decommissioned in October 2006 after completion of a 25 mgd expansion at the South Austin Regional Wastewater Treatment Plant. The Hornsby Bend Biosolids Treatment Plant operates as a sludge treatment and disposal facility and was placed in operation in 1956. In 2009 and 2010, the City received from the TCEQ renewals of discharge permits (TPDES permits) for all its wastewater treatment plants. The permits are renewable again in five years.

The Walnut Creek Wastewater Treatment Plant is permitted to discharge an average flow of 75 mgd. During fiscal year 2012, average flows to the plant were approximately 58 mgd. Sludge from this plant is pumped to the anaerobic digesters at Hornsby Bend for stabilization and disposal. A 15 mgd upgrade to this plant (which resulted in the plant's current capacity of 75 mgd) was completed in 2004.

The South Austin Regional Wastewater Treatment Plant began operation in April 1986. The plant is now permitted to discharge at a rate of 75 mgd after a 25 mgd upgrade was completed in August 2006. During fiscal year 2012, average flows to the plant were approximately 46 mgd. An interceptor transfers wastewater from the former Govalle plant to the South Austin Regional Wastewater Treatment Plant. Waste sludge is pumped to the Hornsby Bend facility to anaerobic digesters which were constructed simultaneously with the plant.

The Hornsby Bend Biosolids Treatment Plant serves as the City's central biosolids treatment and disposal facility. Waste sludge from the Walnut Creek and the South Austin Regional plants is pumped to anaerobic digesters at Hornsby Bend. A greenhouse enclosed aquaculture pond is used to treat the pond water before its use for irrigation on utility owned land at the site. Major improvements recently completed at Hornsby Bend include sludge thickening facilities. Biosolids received at Hornsby Bend are thickened, anaerobically digested, dewatered in sludge drying basins or mechanically dewatered using belt presses and composted for marketing and distribution. Some dried biosolids are applied to on-site agricultural land. A Center for Environmental Research has been established with the cooperation of the City, The University of Texas and Texas A&M University. The City provides laboratory, offices and research facilities at Hornsby Bend for the two universities to conduct environmental research.

In 1985, the City entered into a contract with the Brushy Creek Water Control and Improvement District No. 1, Williamson County MUD No. 2, Williamson County MUD No. 3 and the City of Round Rock to fund, construct, and operate a regional wastewater collection and treatment system (the "Project") serving the upper Brushy Creek watershed. In 1994, the Project participants terminated the agreement. The City and the City of Round Rock subsequently entered an interlocal agreement where the two cities assumed the obligations and divided the Project assets and entered an interim operations and maintenance agreement. LCRA and the Brazos River Authority ("BRA") purchased Round Rock's share in the Project and have also purchased a portion of the City's share relating to the area now included in the City of Cedar Park's extraterritorial jurisdiction. The City of Cedar Park entered into a wastewater service agreement with LCRA and BRA in 1997. Final negotiations were completed, selling the City's remaining assets to the LCRA, effective October 1, 2000, with the City becoming a customer of the LCRA and BRA wastewater system. The agreement, which requires the City to pay for its portion of capital expansions and operations and maintenance costs on an annual basis, reserves enough wastewater capacity to adequately serve all of the area inside the City's city limits or extraterritorial jurisdiction and within the Brushy Creek watershed. In December 2009, the City purchased an operating interest from LCRA for approximately $12 million.

Similar to other municipal wastewater systems, the USEPA had mandated that the City take corrective actions and make necessary infrastructure improvements to eliminate all overflows from its sanitary sewer system by June 30, 2009. On May 4, 2009 the USEPA issued a letter stating the City had satisfactorily completed all mandated corrective actions and infrastructure improvements and that the Administrative Order had been closed.

Stormwater is collected in an entirely separate gravity-fed storm wastewater system and is segregated from the sanitary wastewater system. The storm wastewater system is operated and maintained by the City's Department of Public Works and Transportation.

Lift Stations

In addition to the wastewater treatment plants, the Austin Water Utility owns and operates the following major lift stations.

Name	Firm Capacity (Gallons per Minute)
Boggy Creek East (1)	22,500
Tracor	5,580
Taylor Slough	3,400
Lake Creek	4,200
Davis Springs	3,600
Springfield (1)	2,400

(1) These lift stations control flow to the South Austin Regional Wastewater Treatment Plant.
Source: Austin Water Utility.

Historical Wastewater Flows - TABLE TWELVE

The following table summarizes the historical wastewater flows to the City's wastewater treatment facilities from fiscal years 2002 through 2012.

Fiscal Year	Total Wastewater Flow (Millions of Gallons)	Percent Change
2002	34,146	(1.9)
2003	33,314	(2.4)
2004	31,762	(4.7)
2005	32,638	2.8
2006	30,273	(7.2)
2007	37,142	22.7
2008	32,006	(13.8)
2009	32,184	(0.6)
2010	37,287	15.9
2011	32,951	(11.6)
2012	38,212 (1)	16.0 (1)

(1) Estimated.
Source: Austin Water Utility.

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Projected Wastewater Flows - TABLE THIRTEEN

The following table, based on actual operating experience, summarizes the annual wastewater flows projected to be received at the City's wastewater treatment plants.

Fiscal Year	Total Wastewater Flow (Millions of Gallons)
2013	35,679
2014	36,006
2015	36,333
2016	36,660
2017	36,988
2018	37,315
2019	37,642
2020	37,970
2021	38,297

Source: Austin Water Utility.

The rated capacity of the Walnut Creek Wastewater Treatment Plant was increased from 60 mgd to 75 mgd during 2004 and the South Austin Regional Wastewater Treatment Plant was upgraded from 50 mgd to 75 mgd in 2006.

COMBINED WATER AND WASTEWATER SYSTEM INFORMATION

Future Capital Improvements for Water and Wastewater System

Based on the approved FY 2013-17 capital spending plan, it is anticipated that the Water and Wastewater System will require approximately $1.017 billion for system improvements for such period. Such improvements will include treatment facilities, reservoir, pump station and lift station improvements, and major transmission distribution and collection improvements. It is anticipated that such improvements will be financed as follows: (1) the issuance of $685 million additional Parity Water/Wastewater Obligations (including refunding of commercial paper issued to provide interim financing for such improvements) and (2) the application of $332 million of anticipated transfers from current Water and Wastewater System revenues and amounts on hand.

Services Financed by Utility Districts

On August 19, 1981, the City Council enacted an ordinance establishing the basic requirements for the City's consent to the creation of a MUD, a WCID, a Fresh Water Supply District or any other water district created under State law for the purpose of supplying water and/or wastewater service to land within the extraterritorial jurisdiction or the city limits of the City. That ordinance has been modified by the City's enactment of its Land Development Code, which contains provisions relating to the City's consent to MUDs and WCIDs. In February 2011, the City Council further clarified the City's policy by resolution, as described below.

MUDs and WCIDs supply water and wastewater service to areas within and outside the City limits and function as a financing mechanism for development of land.

Under the current process, the City consents to the formation of a district by approval of a consent ordinance, a consent agreement, and a utility construction contract, if necessary. These contracts among the City, the petitioners seeking formation of the district and the district itself establish a detailed set of requirements and policy statements governing the construction within, operation of and issuance of bonds by such district.

Under the creation agreements with the districts, the districts may be annexed separately and dissolved by the City. Upon annexation and dissolution of the districts, the City would assume the district's outstanding debts and other obligations, which pursuant to State law would become payable from ad valorem taxes levied and collected within the City or, in some cases, from a surcharge fee assessed by the City to utility users within the boundaries of the annexed district. Upon annexation, the City is empowered to issue any authorized but unissued bonds of the district and to use the proceeds for improvements within the annexed district. Alternatively, some of the districts may be annexed but not dissolved at the option of the City. If so, the City would be required only to provide services other than water and wastewater services and not to assume the district's outstanding debt. In December 1997, the City annexed ten MUDs and assumed their outstanding utility system debt.

In February 2011, the City Council approved a resolution establishing a policy and general criteria under which the City Council will consider requests to create municipal utility districts. The policy states that the Council shall consider the following criteria: adherence to the comprehensive plan; extension of public infrastructure with MUD or developer financing; affordable housing; environmental improvement; public transportation facilities; open space; green building; development standards; amenities; school and public safety sites; City provision of water and wastewater services; and financial viability.

In April 2011, the City Council approved resolutions consenting to special legislation that would create nine new MUDs, subject to criteria that would protect the City's interests. The City's MUD policy provides for consideration of extraordinary public benefits, superior development, and enhancement of other City interests when negotiating the consent agreement. These MUDs were subsequently created by the Texas Legislature, conditioned upon the City entering into a consent agreement with each MUD. Each MUD's enabling legislation also allows continuation of the district as a "limited district" after full-purpose annexation by the City if the district and the City enter into a strategic partnership agreement ("SPA"). The City is requiring a SPA as a condition of its consent. If the City does not consent to the creation of the district or enter into such agreements as are required by the terms of the City's consent ordinance, the MUDs will be dissolved. Following staff and board and commission review, in March 2012 the City Council conducted public hearings and approved ordinances consenting to the creation of the MUDs. In April 2012, the City Council conducted public hearings regarding a strategic partnership agreement. The SPAs are to be adopted by the City after each MUD has adopted the SPA.

Water Reuse Facilities

The City, acting through the Water and Wastewater Utility, has implemented a water reclamation initiative to develop facilities and processes to make treated wastewater effluent available for irrigation, manufacturing, toilet flushing, and cooling uses. The water reuse facilities operated by the Water and Wastewater Utility include three pump stations, two pressure zones with a boosted area, three water storage facilities with 3.5 MG in storage, and 44.7 miles of mainlines. An additional 7.3 miles of mainlines are in design or under construction. The water reuse facilities presently serve a total of forty-two customers.

Customer demand is highly dependent on weather conditions. In 2012, customers used 1,521 billion gallons (BG) of reclaimed water. Efforts to promote the use of reclaimed water are focused on existing large-volume commercial and industrial potable water users that can convert a portion of their use of treated potable water to reclaimed water. The water reuse facilities extend from the eastern edge of the City, where the water originates at the wastewater treatment plants, to the center of the City, where most of the reclaimed water customers are located.

Water and Wastewater Rates

Rates for water and wastewater services are established by the City Council. Any rate increase to be effective for succeeding fiscal years must be approved by the City Council, and no assurances can be given that the Water and Wastewater System will seek future rate increases or whether the City Council will implement any future rate increases.

The City is not subject to regulation by the TCEQ with regard to the rates charged for water and wastewater services to customers within the boundaries of the City. The TCEQ has appellate jurisdiction to determine municipal water and wastewater rates outside the City's boundaries.

State law allows water districts to appeal the City's water and wastewater rates to the TCEQ.

The following schedules present the monthly retail and wholesale customer water and wastewater rates.

Water Service Rates Effective November 1, 2011 – TABLE FOURTEEN

Monthly Customer Charges

Customer Account Charge	Customer Account Charge per Month	Meter Size	Retail Equivalent Meter Charge/Fire Protection Component Charge/Revenue Stability Fee per Month (1)	Total Retail Minimum Charge per Month
Retail Customer Account Charge ($/Month)	$4.83	5/8	$ 6.67	$ 11.50
	4.83	3/4	11.77	16.60
	4.83	1	16.67	21.50
	4.83	1¼	23.52	28.35
	4.83	1½	31.17	36.00
	4.83	2	48.17	53.00
	4.83	3	116.17	121.00
	4.83	4	200.17	205.00
	4.83	6	405.17	410.00
	4.83	8	1,165.17	1,170.00
	4.83	10	1,325.17	1,330.00
	4.83	12	1,441.17	1,446.00

	Customer Account Charge per Month	Meter Size	Wholesale Equivalent Meter Charge per Month	Total Wholesale Minimum Charge per Month
Wholesale Customer Account Charge ($/Month)	$4.60	5/8	$ 3.40	$ 8.00
	4.60	3/4	4.40	9.00
	4.60	1	5.40	10.00
	4.60	1¼	9.40	14.00
	4.60	1½	10.40	15.00
	4.60	2	15.40	20.00
	4.60	3	35.40	40.00
	4.60	4	55.40	60.00
	4.60	6	115.40	120.00
	4.60	8	145.40	150.00
	4.60	10	195.40	200.00
	4.60	12	245.40	250.00

(1) The Revenue Stability Fee is a new fee, first assessed with the retail water service rates effective November 1, 2011. The amount of the fee currently is $4.40/month. The Revenue Stability Fee is intended to produce reserves to address volatility in revenue collection that may occur, based on factors such as decreases in revenue collections resulting from weather conditions.

Source: Austin Water Utility.

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Volume Unit Charge (1)

<u>Unit Cost per 1,000 Gallons</u>	
Single-Family Residential (2)	
0 – 2,000 Gallons	$ 1.17
2,001 – 9,000 Gallons	3.08
9,001 – 15,000 Gallons	7.92
15,001 – 25,000 Gallons	10.95
25,001 – Over Gallons	12.19
Multifamily (3)	
Off Peak	$ 3.93
Peak	4.32
Commercial (3)	
Off Peak	$ 4.69
Peak	5.15
Large Volume (3)	
Freescale	
Off Peak	$ 4.41
Peak	4.86
Hospira	
Off Peak	$ 4.69
Peak	5.15
Samsung	
Off Peak	$ 4.56
Peak	5.02
Sematech	
Off Peak	$ 4.45
Peak	4.90
Spansion	
Off Peak	$ 4.54
Peak	5.00
University of Texas	
Off Peak	$ 4.69
Peak	5.15

(1) Wholesale unit charges vary between $2.99 and $8.24 for each 1,000 gallons.
(2) The City has approved an inclining block rate structure to promote water conservation for Single Family Residential customers. These rates will be administered on the basis of 100 gallon increments.
(3) Off Peak (November 1 – June 30 Bills). Peak (July 1 – October 31 Bills).
Source: Austin Water Utility.

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Wastewater Service Rates Effective November 1, 2012 – TABLE FIFTEEN

Customer Account Charge

	Retail Customers	Wholesale Customers
Customer Account Charge ($/month)	$10.00	$10.00

Volume Unit Charge (1)

	Unit Cost per 1,000 Gallons (2)
Retail	
Single-Family	
0 - 2,000 Gallons	$4.31
2,001 - Over Gallons	8.92
Multifamily	8.21
Commercial	8.23
Large Volume:	
Freescale	7.67
Hospira	8.01
Samsung	6.93
Sematech	7.19
Spansion	7.06
University of Texas	8.21

(1) Wholesale unit charges vary between $3.88 and $5.52 for each 1,000 gallons.
(2) Applied to average water consumption during December, January and February billing periods, or actual water consumption, whichever is lower.
Source: Austin Water Utility.

The Wastewater minimum charge and volumetric service rates effective November 1, 2012, reflect a 6.0% increase over the wastewater rates charged in the prior year. Water utility rate changes are planned during calendar year 2013.

Water and Wastewater Capital Recovery Fees

On September 3, 1982, the City Council adopted an ordinance under which all new non-industrial and non-commercial customers of the Water and Wastewater System must pay a Capital Recovery Fee at the time that the customer's new tap is purchased. The fee has been revised a number of times since that date and is currently applied to all connections added to the Water and Wastewater System unless expressly waived by the City Council. In 1989, the City Council appointed an Impact Fee Advisory Committee and reauthorized the Capital Recovery Fee in compliance with procedures and methodology established by State law. The total Water and Wastewater Capital Recovery Fee was implemented August 5, 1999 and revised effective October 1, 2007. The revised fees are shown below. There are a number of express exemptions from payment of these fees. The City's policy is to use Capital Recovery Fee receipts to either service debt, defease debt or finance growth-related capital improvement projects, thus reducing the amount required to be debt financed and saving the Water and Wastewater Utility the related financing costs. The fees listed below are based on one service unit (5/8" meter).

	Water	Wastewater	Total
Drinking Water Protection Zone in the City's extraterritorial jurisdiction	$2,500	$1,400	$3,900
Drinking Water Protection Zone in the City limits	2,200	1,200	3,400
Desired Development Zone in the City's extraterritorial jurisdiction	1,800	1,000	2,800
Desired Development Zone in the City limits	1,000	600	1,600
Urban watersheds	800	500	1,300
Central urban redevelopment combining district area and the area bounded by Lady Bird Lake, Lamar Boulevard, 15th Street, and IH-35	700	400	1,100
Outside of Austin extraterritorial jurisdiction	2,500	1,400	3,900

Analysis of Water Bills - TABLE SIXTEEN A

	Fiscal Year Ended September 30				
	2007	2008	2009	2010	2011
Average Monthly Bill Per Customer - Water					
Residential *	$ 22.93	$ 32.28	$ 37.23	$ 29.52	$ 46.56
Multifamily *	401.28	450.56	497.19	484.96	554.14
Commercial *	232.97	267.71	285.78	240.56	302.33
Large Volume	114,819.11	133,215.70	137,990.95	128,925.24	187,302.62
City Departments	524.49	559.07	665.31	504.56	697.92
Average Monthly Bill – Above Customers	$ 54.48	$ 67.42	$ 74.48	$ 63.07	$ 86.42
Sales to Other Water Utilities **	$ 34,079.94	$ 49,534.41	$ 50,551.73	$ 41,007.04	$ 55,663.29
Average Monthly Bill – All Customers	$ 57.91	$ 71.58	$ 78.84	$ 66.58	$ 91.14
Average Monthly Use in 1,000 Gallons – Water					
Residential *	6.86	8.35	8.78	6.76	8.81
Multifamily *	129.95	133.53	133.11	124.29	133.75
Commercial *	59.91	64.11	62.23	48.23	60.14
Large Volume	35,148.39	36,920.25	34,837.35	30,260.52	41,983.88
City Departments	171.02	197.55	200.44	179.61	201.22
Average Monthly Use – Above Customers	15.91	17.75	17.82	14.51	17.75
Sales to Other Water Utilities **	13,239.38	18,489.52	16,781.03	12,772.62	16,270.57
Average Monthly Use – All Customers	17.24	19.30	19.27	15.61	19.13
Average Revenue Per 1,000 Gallons – Water					
Residential *	$3.34	$3.87	$4.24	$4.37	$5.28
Multifamily *	3.09	3.37	3.74	3.90	4.14
Commercial *	3.89	4.17	4.59	4.99	5.03
Large Volume	3.27	3.61	4.01	4.26	4.46
City Departments	3.07	2.83	3.32	2.81	3.47
Average Revenue – Above Customers	$3.42	$3.80	$4.18	$4.35	$4.87
Sales to Other Water Utilities **	$2.57	$2.68	$3.01	$3.21	$3.42
Average Revenue – All Customers	$3.36	$3.71	$4.09	$4.27	$4.76

*Rural & Urban (Inside & Outside City) customers combined.
**Includes all Wholesale customers.
Source: Austin Water Utility.

Analysis of Wastewater Bills - TABLE SIXTEEN B

	Fiscal Year Ended September 30				
	2007	2008	2009	2010	2011
Average Monthly Bill Per Customer – Wastewater					
Residential *	$ 28.47	$ 33.08	$ 36.22	$ 32.49	$ 35.16
Multifamily *	605.42	715.29	749.26	800.32	847.28
Commercial *	276.11	319.00	333.47	314.11	322.84
Large Volume	130,895.01	160,122.61	155,973.46	144,699.09	196,261.93
City Departments	195.06	218.13	365.15	470.68	371.53
Average Monthly Bill – Above Customers	$ 64.04	$ 74.50	$ 78.34	$ 74.65	$ 79.46
Sales to Other Utilities **	$ 36,934.27	$ 44,450.94	$ 49,907.13	$ 49,409.22	$ 49,363.10
Average Monthly Bill – All Customers	$ 66.03	$ 76.85	$ 80.89	$ 77.15	$ 81.94
Average Monthly Use in 1,000 Gallons – Wastewater					
Residential *	4.54	4.63	4.85	4.16	4.28
Multifamily *	110.27	112.76	112.37	110.10	112.22
Commercial *	45.93	46.63	45.20	41.66	42.47
Large Volume	24,676.79	25,903.39	23,946.17	22,123.58	29,344.27
City Departments	30.04	30.87	51.30	59.61	47.05
Average Monthly Use – Above Customers	10.84	11.02	10.96	9.97	10.26
Sales to Other Utilities **	9,649.13	9,708.18	10,182.46	10,334.83	9,911.86
Average Monthly Use – All Customers	11.36	11.53	11.48	10.49	10.76
Average Revenue Per 1,000 Gallons – Wastewater					
Residential *	$6.27	$7.15	$7.47	$7.81	$8.21
Multifamily *	5.49	6.34	6.67	7.27	7.55
Commercial *	6.01	6.84	7.38	7.54	7.60
Large Volume	5.30	6.18	6.51	6.54	6.69
City Departments	6.49	7.07	7.12	8.27	7.90
Average Revenue – Above Customers	$5.91	$6.76	$7.15	$7.49	$7.74
Sales to Other Utilities **	$3.83	$4.58	$4.90	$4.78	$4.98
Average Revenue – All Customers	$ 5.81	$6.67	$7.05	$7.35	$7.61

*Rural & Urban (Inside & Outside City) customers combined.
**Includes all Wholesale customers.
Source: Austin Water Utility.

COMPARATIVE ANALYSIS OF ELECTRIC UTILITY SYSTEM AND WATER AND WASTEWATER SYSTEM OPERATIONS OCTOBER 1, 2007 TO SEPTEMBER 30, 2011

(in thousands rounded)

	Fiscal Year Ended September 30				
INCOME	2011	2010	2009	2008	2007
Revenue	$1,707,190	$1,518,352	$1,573,459	$1,628,261	$1,393,344
Operating Expense	(1,071,056)	(1,026,312)	(1,041,685)	(1,012,532)	(846,005)
Balance Available for Debt Service	636,134	492,040	531,774	615,729	547,339
Depreciation and Amortization Expense	(224,995)	(209,019)	(196,620)	(192,726)	(190,203)
Earnings Before Interest Expense	411,139	283,021	335,154	423,003	357,136
Interest Incurred on Debt	(181,665)	(174,497)	(181,899)	(175,301)	(180,957)
Other	(1,741)	(6,378)	(26,632)	(10,868)	(16,530)
INCOME (LOSS) BEFORE OPERATING TRANSFERS (a) (b) (c) (d)	$ 227,733	$ 102,146	$ 126,623	$ 236,834	$ 159,649
PERCENTAGES					
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%
Operating Expense	(62.74%)	(67.59%)	(66.20%)	(62.18%)	60.72%
Balance Available for Debt Service	37.26%	32.41%	33.80%	37.82%	39.28%
Depreciation and Amortization Expense	(13.18%)	(13.77%)	(12.50%)	(11.84%)	(13.65%)
Earnings Before Interest Expense	24.08%	18.64%	21.30%	25.98%	25.63%
Interest Incurred on Debt	(10.64%)	(11.49%)	(11.56%)	(10.77%)	(12.99%)
Other	(0.10%)	(0.42%)	(1.69%)	(0.67%)	(1.19%)
INCOME (LOSS) BEFORE OPERATING TRANSFERS	13.34%	6.73%	8.05%	14.55%	11.46%

(a) Income before transfers to the General Fund and Other Funds for the 12 months ended September 30, 2011, are as follows (in thousands rounded):
Transfer to General Fund $134,263
Transfers to Other Funds $ 5,488
(b) Excludes Combined Utility Funds' deferred costs recovered in future years of $29,216 for the 12 months ended September 30, 2011.
(c) There was no extraordinary gain or loss during each respective 12 month period.
(d) Excludes capital contributions of $32,898 for the 12 months ended September 30, 2011.
Source: City Controller's Office.

OPERATING STATEMENT
ELECTRIC UTILITY SYSTEM AND WATER AND WASTEWATER SYSTEM
(in thousands)

	Fiscal Year Ended September 30				
	2011	2010	2009	2008	2007
REVENUE					
ELECTRIC UTILITY					
Domestic and Rural Residential	$ 457,272	$ 402,597	$ 402,892	$ 408,827	$ 351,207
Commercial General	641,510	592,125	594,637	613,858	537,180
City Utility Departments	19,065	15,721	17,316	17,839	15,280
Public Street Lighting	6,507	6,396	6,343	6,365	6,056
City General Government Departments	7,400	8,152	8,670	8,647	7,691
Sales to Other Utilities	943	7,584	16,878	45,511	19,314
Transmission	59,066	60,746	57,003	56,004	57,237
Rent from Electric Property	3,206	3,255	2,722	2,485	2,405
Customers' Forfeited Discounts and Penalties	5,031	4,898	5,141	5,114	4,771
Miscellaneous	49,139	46,202	50,684	53,085	55,347
Total Electric Utility	$1,249,139	$1,147,676	$1,162,286	$1,217,735	$1,056,488
WATER UTILITY					
Water Services	$ 239,769	$ 169,055	$ 193,401	$ 178,266	$ 136,128
Miscellaneous Revenue	3,036	2,002	1,610	2,865	2,052
Reclaimed Revenue	579	399	469	383	170
Total Water Utility	$ 243,384	$ 171,456	$ 195,480	$ 181,514	$ 138,350
WASTEWATER UTILITY					
Wastewater Services	$ 201,422	$ 185,866	$ 193,596	$ 180,399	$ 150,833
Miscellaneous Revenue	3,234	3,323	2,813	3,202	3,202
Reclaimed Revenue	8	4	7	8	83
Total Wastewater Utility	$ 204,664	$ 189,193	$ 196,416	$ 183,609	$ 154,118
Interest	$ 10,003	$ 10,027	$ 19,277	$ 45,404	$ 44,388
TOTAL REVENUE	$1,707,190	$1,518,352	$1,573,459	$1,628,262	$1,393,344

Source: City Controller's Office.

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OPERATING STATEMENT
ELECTRIC UTILITY SYSTEM AND WATER AND WASTEWATER SYSTEM – (Continued)
(in thousands)

	Fiscal Year Ended September 30				
EXPENSE	2011	2010	2009	2008	2007
ELECTRIC UTILITY					
Production	$ 378,484	$ 339,221	$ 353,059	$ 391,628	$ 316,182
Joint Facility Production	202,217	201,024	187,374	180,674	142,194
System Control	13,663	12,336	12,852	12,121	11,628
Transmission and Distribution	107,035	113,959	105,552	92,559	84,713
Jobbing and Contract Work	415	(3)	751	(675)	56
Customer Accounting and Collection	18,374	14,327	15,189	15,813	15,988
Customer Services	20,163	20,961	22,408	18,300	19,214
Administrative and General	167,173	165,089	172,062	147,896	121,206
Total Electric Utility	$ 907,524	$ 866,914	$ 869,247	$ 858,316	$ 711,181
WATER UTILITY					
Treatment	$ 31,538	$ 29,597	$ 30,996	$ 29,078	$ 27,441
Pipeline Operations	20,932	19,909	19,080	17,365	16,812
Engineering Services	4,386	4,374	3,648	3,404	3,080
Water Resources Management	1,919	1,958	1,794	1,434	1,104
Environmental Affairs & Conservation	7,766	10,064	10,995	7,594	5,518
Support Services - Utility	8,138	7,817	6,835	4,553	4,322
One Stop Shop	167	157	434	561	572
Other Operating Expenses	16,265	14,993	22,026	19,903	14,706
Total Water Utility	$ 91,111	$ 88,869	$ 95,808	$ 83,892	$ 73,555
WASTEWATER UTILITY					
Treatment	$ 28,502	$ 28,004	$ 30,218	$ 27,209	$ 25,479
Pipeline Operations	13,102	14,158	13,807	15,268	13,811
Engineering Services	5,431	5,382	5,567	3,027	2,862
Water Resources Management	1,987	1,843	1,685	1,332	1,247
Environmental Affairs & Conservation	1,967	1,873	1,956	1,748	1,595
Support Services - Utility	8,810	8,684	6,020	5,687	5,586
One Stop Shop	329	285	514	508	571
Other Operating Expenses	12,293	10,303	16,863	15,545	10,118
Total Wastewater Utility	$ 72,421	$ 70,532	$ 76,630	$ 70,324	$ 61,269
TOTAL EXPENSE (1)	$1,071,056	$1,026,315	$1,041,685	$1,012,532	$ 846,005
NET REVENUE AVAILABLE FOR DEBT SERVICE	$ 636,134	$ 492,037	$ 531,774	$ 615,730	$ 547,339
Electric Customers	418,968	419,353	407,926	392,167	392,143
Water Customers	212,754	210,901	209,994	202,533	199,671
Wastewater Customers	199,818	198,116	196,842	188,958	186,675

(1) Interest expense, depreciation, amortization, other non-operating items, and OPEB accrual are not included in total expense.
Source: City Controller's Office.

DISCUSSION OF OPERATING STATEMENT

Austin Energy Revenues

Variations in total Austin Energy revenues for the fiscal years ("FY") ended September 30, 2007 through September 30, 2011 were attributable to changes in cost of fuel for power generation and weather variations. Total fuel costs are passed through to the consumer.

Water and Wastewater System Revenues

Variations in Water and Wastewater System revenues for the period FY07 through FY11, were largely attributable to weather and system rate changes.

Austin Energy Expenses

Changes in Austin Energy expenses for the period FY07 through FY11 were largely attributable to changes in the cost of fuel for power generation and general inflationary increases in other expense categories.

Water and Wastewater System Expenses

Changes in Water and Wastewater System expenses for the period FY07 through FY11 were primarily attributable to inflationary increases in the cost of power and chemicals, along with system growth.

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The Electric Utility System and Water and Wastewater System – TABLE FIVE (000's)

	Fiscal Year Ended September 30				
	2011	2010	2009	2008	2007
Plant Cost					
Utility Systems					
Electric	$4,585,408	$4,475,178	$4,302,379	$4,084,559	$3,843,739
Water	2,046,462	1,893,032	1,757,958	1,746,414	1,529,445
Wastewater	2,111,926	2,012,704	1,932,710	1,822,136	1,673,671
Total Cost	$8,743,796	$8,380,914	$7,993,047	$7,653,109	$7,046,855
Allowance for Depreciation:					
Electric	$1,995,831	$1,895,660	$1,797,981	$1,705,518	$1,614,321
Water	555,727	517,841	483,312	472,469	415,920
Wastewater	654,436	603,524	557,609	514,634	473,751
Total Depreciation	3,205,994	3,017,025	2,838,902	2,692,621	2,503,992
Cost after Depreciation	$5,537,802	$5,363,889	$5,154,145	$4,960,488	$4,542,863
Equity in Utility Systems					
Utility Systems	$8,743,796	$8,380,914	$7,993,047	$7,653,109	$7,046,855
Plus: Inventories, Materials and Supplies (1)	54,204	49,376	45,557	45,849	44,409
Net Construction Assets and Unamortized Bond Issue Cost	79,769	57,826	86,610	36,622	43,015
	$8,877,769	$8,488,116	$8,125,214	$7,735,580	$7,134,279
Less:					
Allowance for Depreciation	$3,205,994	$3,017,025	$2,838,902	$2,692,621	$2,503,992
Construction Contract Payable	0	0	0	0	0
Total	$3,205,994	$3,017,025	$2,838,902	$2,692,621	$2,503,992
Utility Systems, Net	$5,671,775	5,471,091	5,286,312	5,042,959	4,630,287
Revenue Bonds and Other Debt Outstanding (2)	$3,595,807	$3,366,859	$3,284,335	$3,107,434	$2,976,746
Less: Bond Retirement and Reserve Funds	0	0	0	0	0
Net Debt	$3,595,807	$3,366,859	$3,284,335	$3,107,434	$2,976,746
Equity in Utility Systems	$2,075,968	$2,104,232	$2,001,977	$1,935,525	$1,643,541
Percentage of Equity in Utility Systems	36.60%	38.46%	37.87%	38.38%	35.50%

(1) Does not include fuel oil or coal inventories of approximately $22.68 million at September 30, 2011. Consists primarily of spare parts inventory at Fayette Plant and South Texas Project.

(2) Includes Revenue Bonds and Tax and Revenue Bonds of $3.22 billion (net of discounts, unamortized gains and losses on refundings, and inclusive of premiums); Contract Revenue Bonds of $0 (net of discounts); Capital Lease Obligations of $1.3 million; Commercial Paper of $360 million (net of discounts); General Obligation Bonds of $7.00 million; and Contractual Obligations of $10.75 million.

Source: City Controller's Office.

LITIGATION

A number of claims against the City, as well as certain other matters of litigation, are pending with respect to various matters arising in the normal course of the City's operations. The City Attorney and the City management are of the opinion that resolution of the claims pending (including the matter described below) will not have a material effect on the City's financial condition or the financial condition of the Electric Utility System or of the Water and Wastewater System.

The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2012.

Electric Utility System Litigation

The City is in litigation with the owner of a block of land in downtown Austin, which is the site of a municipal parking garage and utility-owned chilled-water plant site. The chilled-water plant is one of two currently providing chilled-water services to some of Austin Energy's commercial customers in the downtown area. The City initiated a condemnation proceeding against the land on August 9, 2001 in Travis County Probate Court as Cause No. 2403, City of Austin v. Whittington, et al. The trial court granted the City summary judgment upholding the City's right to condemn the land, and a jury awarded the condemnee a price of $7.75 million. The condemnee appealed the condemnation proceeding. It also brought a related suit for declaratory judgment in the 250th Travis County District Court, Cause No. GN302752, Whittington, et al. v. City of Austin, alleging the City had failed to include an alleyway crossing the land in its condemnation proceeding, and thus had not taken title to the entire block. In the original condemnation proceeding, the Third Court of Appeals (Case No. 03-03-00496-CV) reversed the trial court's summary judgment, holding that the City had failed to meet its burden to show the City Council made proper determinations of public purpose and necessity in deciding to condemn the land. The Texas Supreme Court declined to review the appellate court's decision. In the separate alleyway case, the trial court entered judgment against the City, finding that the City had failed to include the alleyway in its condemnation proceeding and thus did not hold title to the alleyway portion of the land. The cases were consolidated and tried to a jury in April 2007. The jury found against the City, finding that its condemnation of the property was improper and invalid, and also valued the property at $10.5 million. The City appealed. The Third Court of Appeals upheld the trial court verdict. However, on August 31, 2012, the Texas Supreme Court reversed the Court of Appeals and held that the City's condemnation of the property was proper. The case has been ordered to be remanded to the trial court for judgment in favor of the City and awarding the condemnee $10.5 million for the property. A motion for rehearing was filed on October 16, 2012. The City cannot predict the potential financial impact to Austin Energy should rehearing be granted and the Texas Supreme Court subsequently reverse its own decision and rule against the City.

The Environmental Integrity Project ("EIP"), on behalf of Texas Campaign for the Environment, sued the LCRA in federal district court in Houston in March 2011. The EIP alleged violations of the federal Clean Air Act ("CAA") at FPP. The EIP also sought various relief, including assessment of civil penalties for alleged violations of the CAA. The City joined the lawsuit and retained outside counsel to represent the City and its ownership interest in the two units it partially owns. In March 2012, the federal judge assigned to the case dismissed three out of EIP's four claims. The remaining claim is set to be heard in early 2013. EIP filed a new Notice of Intent to sue LCRA in June 2012 alleging additional violations of the CAA. However, they have not added claims in the existing lawsuit, nor have they filed a new lawsuit on those alleged violations. The City cannot predict the potential financial impact to Austin Energy at this time.

THE CITY

Administration

Incorporated in 1839, the City operates under a Council-Manager form of government under its home rule charter. The City Council is comprised of a Mayor and six council members elected at-large for three-year staggered terms.

By charter, the City Council appoints a City Manager for an indefinite term who acts as the chief administrative and executive officer of the City. The duties include, among others, the supervision of all City departments, the preparation and administration of an annual budget and the preparation of a report on the finances and administrative activities of the City. Marc Ott was appointed City Manager in January 2008.

City Manager – Marc A. Ott

Mr. Marc A. Ott was selected as City Manager for the City by the Austin City Council in January 2008. Mr. Ott is the 17th person in City history to be appointed City Manager in a full-time capacity. Mr. Ott previously served as Assistant City Manager for infrastructure services for the City of Fort Worth. In that role, he was responsible for Fort Worth's infrastructure operations carried out by the departments of Water, Transportation and Public Works, Engineering and Aviation. Mr. Ott was also responsible for implementing one of the City Council's top strategic priorities: promoting orderly growth. Before his position in Fort Worth, Mr. Ott was City Administrator for the City of Rochester Hills, Michigan, where he had administrative and managerial oversight of all municipal operations. In addition, Mr. Ott was City Manager of Kalamazoo, Michigan, from 1993 to 1997. He also served as that city's Deputy City Manager for two years and as an Assistant City Manager for almost a year. Mr. Ott earned his bachelor's degree in management with a concentration in economics from Michigan's Oakland University and master's degree in public administration from the same university. He is also a graduate of the Program for Senior Executives in State and Local Government at the John F. Kennedy School of Government, Harvard University.

Chief Financial Officer – Elaine Hart, CPA

Ms. Elaine Hart received her B.B.A. in Accounting from The University of Texas at Arlington. Her career with the City spans more than 20 years, including over 10 years in public power. Ms. Hart served as Interim Chief Financial Officer for two months before being appointed to the position of Chief Financial Officer in April 2012. Before her appointment as Chief Financial Officer, she served as Senior Vice President Finance and Corporate Services for Austin Energy. During her tenure at the City (service not continuous), she has also served in other financial capacities, including the City's Chief Financial Officer in the late 1980s, Assistant Finance Director, City Controller and Deputy City Auditor. Ms. Hart also has private sector auditing, accounting and consulting experience.

Services Provided by the City

The City's major activities include police and fire protection, emergency medical services, parks and libraries, public health and social services, planning and zoning, general administrative services, solid waste disposal, and maintenance of bridges, streets and storm drains. The City owns and operates several major enterprises, including an electric utility system, water and wastewater utility system, an airport and two public event facilities.

Employees

Municipal employees are prohibited from engaging in strikes and collective bargaining under State law. An exception allows fire and police employees to engage in collective bargaining (but not the right to strike) after a favorable vote of the electorate. The voters have approved collective bargaining for fire fighters but not for police officers. Approximately 15% of the City's employees are members of the American Federation of State, County and Municipal Employees, 8% are members of the American Police Association and 7% are members of the International Association of Fire Fighters.

The City does not have automatic escalators in payroll or in its retirement systems. The retirement systems may grant cost-of-living increases up to 6% for the municipal employees and 6% for police officers and a percentage based on the amount of increase in the Consumer Price Index for the firemen only if recommended by the independent actuary and approved by the retirement boards. See "Pension Plans".

Annexation Program

The City annexes territory on a regular basis. Chapter 43 of the Texas Local Government Code regulates annexation of property by Texas municipalities. Before annexing territory, the City must develop a service plan describing the municipal services - police and fire protection, sanitation, provision and maintenance of public facilities such as water and wastewater facilities, roads, streets, and parks - to be provided to the annexed area. Generally, those services may not be at a lower level of service than provided in other areas of the City with similar characteristics. The City is not obligated to provide a uniform level of service to all areas of the City where differing characteristics of population, topography, and land use provide a sufficient basis for different service levels.

Under current State law, there are two processes for the annexation of territory into a city. The three-year Municipal Annexation Plan ("MAP") process applies generally to populated annexation areas, i.e., those that include 100 or more properties with a house on each lot. Unpopulated areas, areas that are annexed by consent, and areas that meet certain other criteria follow the "exempt area process". The processes involve staff review, development of a service plan (or regulatory plan for a limited purpose annexation), property owner notification, publication of a newspaper notice, two public hearings, and ordinance approval. The MAP process also includes an inventory of existing services and a period in which residents appointed by the county commissioners negotiate with City staff on the service plan.

If the annexation service plan for an annexation area includes a schedule for the provision of full municipal services, the City has two and one-half years from the date of the annexation to substantially complete the capital improvements necessary to provide services to the area. However, if necessary, the City may propose a longer schedule. A wide range of services – police and fire protection, sanitation, and maintenance of public facilities such as water and wastewater facilities, roads, streets, and parks – must be provided immediately following annexation. Failure to provide municipal services in accordance with the service plan may provide grounds for a petition and court action for compliance with the service plan or for disannexation of the area, and may also result in a refund of taxes and fees collected for services not provided. The City may not reannex for ten years any area that was disannexed for failure to provide services; however, the City has never been forced to disannex due to such failure.

Some of the areas which may be considered for annexation will include developed areas for which water, sewer, and drainage services are being provided by utility districts created for such purposes. Existing utility districts, as well as new districts that may be created from time to time, may issue bonds for their own improvements. Such bonds are generally payable from the receipts of ad valorem taxes imposed by the district and, in some cases, are further payable from any net revenues derived from the operation of its water and sanitary sewer systems. State law generally requires that if a city is annexing a district, the district must be annexed in its entirety. Upon annexation by a city, a district is dissolved and the city assumes the district's outstanding bonds and other obligations and levies and collects ad valorem taxes on taxable property within the corporate limits of the city ad valorem taxes sufficient to pay the principal of and interest on such assumed bonds.

The City also assumes liabilities when it annexes land in an Emergency Services District ("ESD") and that territory is disannexed from the ESD. This liability, however, is limited to assumption of a pro-rata share of debt and assumption of those facilities directly used to provide service to the area.

The City Charter and the State's annexation laws provide the City with the ability to undertake two types of annexation. "Full purpose" annexation, discussed above, annexes territory into the City for all purposes, including the assessment and collection of ad valorem taxes on taxable property. The second type of annexation is known as "limited purpose" annexation by which territory may be annexed for the limited purposes of "Planning and Zoning" and "Health and Safety." Territory so annexed is subject to ordinances achieving these purposes: chiefly, the City's zoning ordinance, building code, and related ordinances regulating land development. Taxes may not be imposed on property annexed for limited purposes; municipal services are not provided; and residents of the area are restricted to voting only in City elections for City Council and Charter amendments. The City believes that limited purpose annexation is a valuable growth management tool. Since 1999 the City has annexed over 11,000 acres of territory for limited purposes. Strategic Annexation Programs are developed annually. These programs prioritize areas to be considered for annexation, usually at the end of the calendar year, to minimize the fiscal impact to the City.

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The following table sets forth (in acres) the annual results of the City's annexations since 2000.

Calendar Year	Full Purpose Acres (1)	Limited Purpose Acres
2000	4,057	4,184
2001	3,908	15
2002	2,019	1,957
2003	3,253	0
2004	1,114	7,030
2005	1,914	1,234
2006	351	621
2007	2,466	1,266
2008	2,262	14
2009	295	984
2010	1,129	2,495
2011	726	0
2012 (2)	0	3,818

(1) Includes acres converted from limited purpose to full purpose status.
(2) Through September 30, 2012. See "Future Annexation".

Recent Annexation

In the first half of 2012, the City annexed 3,818 acres for limited purposes. These annexations were conducted with the consent of property owners and in accordance with SPAs with nine new MUDs. See "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Services Financed by Utility Districts" in this document. Full purpose annexation will be deferred to allow the MUDs to issue debt for major infrastructure improvements and public amenities to serve two large new mixed-use developments in eastern Travis County.

In 2011, the remaining portion of Ribelin Ranch consisting of undeveloped wildlife habitat preserve land was converted from limited to full purpose annexation status. In addition, the City annexed a commercial and industrial area as well as a partially developed single-family residential subdivision for full purposes. The total taxable assessed value (TAV) for these areas was approximately $20,510,145.

The 2010 annual program included full purpose annexation of several developed residential and commercial areas, planned residential areas, and public right-of-way. Together the City's full and limited purpose annexations included approximately 8,500 residents and 3,624 acres. In accordance with the terms of the amended SPA between the City and the Springwoods Municipal Utility District, this area was annexed for limited and later full purposes. In addition, the City annexed the adjacent Springwoods MAP area. City Council also approved the creation and limited purpose annexation of two new Public Improvement Districts ("PIDs"), Whisper Valley and Indian Hills. Future full purpose annexation of these areas will occur in accordance with the terms of the development agreement.

In accordance with the terms of a SPA between the City and the River Place Municipal Utility District (the "River Place MUD"), all of the territory in the River Place MUD not previously annexed by the City was annexed for limited purposes of planning and zoning in 2009. In addition, the 2009 annual program included full purpose annexation of three small developed residential areas, a commercial and industrial area, and city owned property. Austin surpassed 300 square miles in incorporated area in 2010 and the City's estimated population grew to 778,560 people. Austin remains the 15th most populous city in the United States.

In 2008, Austin annexed the largest population since 1997, approximately 13,400 people. The largest of the 2008 annexations was Anderson Mill Municipal Utility District, which is more than 1,000 acres in size. This annexation resulted from a 1998 SPA between the City and the district. Other populated areas annexed for full purposes in 2008 include North Acres and Anderson Mill Estates, most of which were already in the City's limited purpose jurisdiction due to 1984 annexations. The City also annexed commercial properties and several new subdivisions under development. The TAV annexed in 2008 was over $1.1 billion.

2007 saw the conversion of Watersedge, Ribelin Ranch, and approximately one-half of Goodnight Ranch from limited purposes to full purposes. The remaining portion of Ribelin Ranch, consisting of undeveloped wildlife habitat preserve land, was converted from limited to full purpose annexation status in 2011. In addition, the City annexed a commercial and industrial area as well as a partially developed single-family residential subdivision for full purposes. The total TAV for these areas was approximately $20,510,145. In addition, the final remaining portions of Avery Ranch, annexed for limited purposes in 2000, were converted to full purposes. Several planned residential subdivisions in the extraterritorial jurisdiction were annexed. In total, 2,466 full purpose acres and $22 million in TAV were annexed in 2007.

The Pearce Lane/Ross Road area, located in southeast Travis County, was converted to full purpose annexation status in December 2006. This annexation area was added to the City's MAP in 2003 and includes two Del Valle Independent School District sites. Approximately $83 million in TAV and over 2,500 residents were added to the City. Sunfield Municipal Utility District No. 2 includes 575 acres southeast of Austin and was annexed for limited purposes in 2006.

In 2005, full purpose annexation of the Springfield and Walnut Creek MAP areas added over $123 million in TAV and 375 acres to the City. Nearly all the remaining Avery Ranch subdivision areas in Williamson County were converted from limited to full purpose annexation status in 2005. A total of 1,914 full purpose acres and over $140 million in TAV were annexed in 2005. Limited purpose areas annexed included Goodnight Ranch, Watersedge and the Woods at Greenshores.

Approximately $50 million in TAV was annexed for full purposes in 2004. Over 6,000 acres northwest of the City, known as the Robinson Ranch area, and the 748 acre Ribelin Ranch area, were annexed for limited purposes in June 2004.

Future Annexation

In the remainder of 2012, staff anticipates the full purpose annexation of fourteen areas for a total of over 4,100 acres. Included in the 2012 annexation program are two fully developed areas with mixed commercial, industrial, and residential land uses; six vacant tracts with development plans approved or in process; the Circuit of the Americas racetrack site; and five other associated undeveloped or publicly-owned sites. The TAV for these areas exceeds $124,000,000 in total.

In the next several years, two MUDs are scheduled for annexation under approved SPAs with the City. The commercial portion of Lost Creek MUD was annexed in 2008 while annexation of the remaining residential property will take place in 2015. River Place MUD will be annexed for full purposes in its entirety in December 2017.

Pension Plans

There are three contributory defined benefit retirement plans for the Municipal, Fire, and Police employees. State law requires the City to make contributions to the funds in an amount at least equal to the contribution of the employee group.

Effective October 1, 2012, the municipal employees contribute 8.0% and the City contributes 18.0% of payroll. The Firefighters (who are not members of the Social Security System) contribute 16.7% of payroll, and the City contributes 21.05%. The Police Officers contribute 13.0% and the City contributes 21.63% of payroll.

The contributions to the pension funds are designed to fund current service costs and to amortize the unfunded actuarial accrued liability. As of December 31, 2011, the amortization period of the unfunded actuarial accrued liability for the City of Austin Employees Retirement System ("COAERS") was 27.1 years, for the Firefighters Fund was 20.9 years and for the Police Officer's Fund was 30.7 years.

As of December 31, 2011, the actuarial accrued liability for the COAERS was $2,723,844,815 and the funded ratio was 65.7%. The actuarial accrued liability for the Firefighters Fund was $746,143,179 and the funded ratio was 87.3%. The actuarial accrued liability for the Police Officers' Fund was $824,462,075 and the funded ratio was 67.2%.

Although the COAERS funding period had been infinite since December 31, 2002, investment losses in 2008 of 25.9% led to a significant decrease in the actuarial funded ratio and a significant increase to the unfunded actuarial accrued liability. In 2005, a Supplemental Funding Plan ("SFP") was approved that increased the City's annual contribution rate to a maximum of 12%, but even this additional funding was not sufficient to restore the long-term financial health of the COAERS. In FY 2011, City Council approved an amendment to the SFP that increased the City contribution rate to a maximum rate of 18% of pay to be contributed by 2013. The City contributed an additional 6% in FY 2011, an additional 8% in FY 2012 and will contribute an additional 10% in FY 2013 pursuant to the terms of the SFP, which will bring the City's contribution rate to the maximum of 18%. In addition, a new benefit tier for new employees hired on or after January 1, 2012, has been approved by the COAERS Board of Trustees, the City Council and the Texas Legislature. The new benefit tier increases the age and service criteria necessary to reach retirement eligibility. It also decreases the pension multiplier, which is used to determine the final pension amount paid to future retirees. These two actions are expected to substantially improve the long-term financial health of the COAERS over time.

See APPENDIX B – "Annual Financial Report – Note 7" for additional information on the City's Pension Plans.

Other Post-Employment Benefits

In addition to providing pension benefits, the City provides certain health care and insurance benefits to its retirees ("OPEB"). Any retiree who is eligible to receive retirement benefits under any of the City's three pension plans is eligible for these benefits. Post-retirement benefits include health, dental, vision, and $1,000 of life insurance. The City pays a portion of the retiree's medical insurance premiums 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 City pays the entire cost of the premium for life insurance for the retiree.

The City recognizes the cost of providing these benefits as payroll expenses/expenditures in an operating fund with corresponding revenue in the Employee Benefits Fund and are funded on a pay-as-you-go basis. The estimated cost of providing these benefits for 3,529 retirees was $22.7 million in 2011 and $21.7 million in 2010 for 3,318 retirees.

As of September 30, 2012, the City's unfunded actuarial accrued liability is approximately $1.4 billion; the net OPEB obligation is $493.1 million. The City has worked with a task force consisting of employees and retirees to determine which elements of the retiree health care plan they value most highly. Using their input and information from other sources, the City has run alternate scenarios to assess the effect these would have on reducing retiree benefits or developing other cost-sharing strategies. Cost reduction strategies have also been implemented.

Insurance

The Liability Reserve Fund is the insurance fund of the City for settled claims, expenses, and reserves relating to third party liability claims for injury and property damage, including professional liability. The Liability Reserve Fund is used to pay for actual claims incurred and related expenses for settling these claims, for budgeted administrative costs for the fund's operations, and to estimate incurred, but not reported claims. The Liability Reserve Fund had accrued liabilities of approximately $7.6 million for claims and damages at the end of fiscal year 2011. Employee injuries are covered by the Workers' Compensation Fund, and health claims are protected by the Employee Benefits Fund.

INVESTMENTS

The City invests its available funds in investments authorized by State law, particularly the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code (the "PFIA"), in accordance with investment policies approved by the City Council. Both State law and the City's investment policies are subject to change.

Legal Investments

Under Texas law, the City is authorized to invest in:

(1) obligations of the United States or its agencies and instrumentalities, including letters of credit;
(2) direct obligations of the State of Texas or its agencies and instrumentalities;
(3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;
(4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by explicit full faith and credit of the United States;
(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 an institution that has its main office or a branch office in the State of Texas and are guaranteed or insured by a combination of cash and 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 a combination of cash and obligations described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, 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 commercial 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 ninety (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 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.

A political subdivision such as the City may enter into securities lending programs if:

(i) the value of securities loaned under the program are 100% collateralized, including accrued income, 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 ("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.

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 the type of authorized investments for City funds, the maximum allowable stated maturity of any individual investment owned by the City, the maximum average dollar–weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. 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) understanding of the suitability of the investment to the financial requirements of the City;
(2) preservation and safety of principal;
(3) liquidity;
(4) marketability of each investment;
(5) diversification of the portfolio; and
(6) yield.

The City's investment policy authorizes the City to invest its funds and fund under its control in all of the eligible investments described above under "Legal Investments", except those investments described in clauses (3) and (6).

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 the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly, the investment officers of the 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 and the ending value of each pooled fund group;
(4) the book value and market value of each separately listed asset at the 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 of the City.

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 of the City, Treasurer and Investment Officers.

Current Investments

As of June 30, 2012, the City's investable funds were invested in the following categories.

Type of Investment	Percentage
U. S. Treasuries	3%
U. S. Agencies	56%
Money Market Funds	3%
Local Government Investment Pools	38%

The dollar weighted average maturity for the combined City investment portfolios is 395 days. The City prices the portfolios weekly utilizing a market pricing service.

TAX MATTERS – SERIES 2012A BONDS

Tax Exemption

The delivery of the Series 2012A Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Series 2012A Bonds for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the "Code"), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners of the Bonds who are individuals or, except as described in this document, corporations. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change. Forms of Bond Counsel's opinions are attached as APPENDIX E.

Interest on the Series 2012A Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit or a financial asset securitization investment trust (FASIT). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 will be computed.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the City made in a certificate dated the date of delivery of the Series 2012A Bonds pertaining to the use, expenditure, and investment of the proceeds of the Series 2012A Bonds and will assume continuing compliance by the City with the provisions of the Eleventh Supplement after the issuance of the Series 2012A Bonds. The Eleventh Supplement contains covenants by the City with respect to, among other matters, the use of the proceeds of the Series 2012A Bonds and the facilities financed or refinanced with the Series 2012A Bonds by persons other than state or local governmental units, the manner in which the proceeds of the Series 2012A Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of the proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Series 2012A Bonds to be includable in the gross income of the owners of the Series 2012A Bonds from the date of the issuance of the Series 2012A Bonds.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service ("IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Series 2012A Bonds is commenced, under current procedures the IRS is likely to treat the City as the "taxpayer," and the owners of the Series 2012A Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Series 2012A Bonds, the City may have different or conflicting interests from the owners of the Series 2012A Bonds. Public awareness of any future audit of the Series 2012A Bonds could adversely affect the value and liquidity of the Series 2012A Bonds during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Series 2012A Bonds. Prospective purchasers of the Series 2012A Bonds should be aware that the ownership of tax-exempt obligations such as the Series 2012A Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Series 2012A Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Series 2012A Bonds. Prospective purchasers of the Series 2012A Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

Tax Accounting Treatment of Discount and Premium Bonds on Certain Series 2012A Bonds

The initial public offering price of certain Series 2012A Bonds (the "Series 2012A Discount Bonds") may be less than the amount payable on such Series 2012A Bonds at maturity. An amount equal to the difference between the initial public offering price of a Series 2012A Discount Bond (assuming that a substantial amount of the Series 2012A Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Series 2012A Discount Bond. A portion of such original issue discount allocable to the holding period of such Series 2012A Discount Bond by the initial purchaser will, upon the disposition of such Series 2012A Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Series 2012A Bonds described above under "Tax Exemption." Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Series 2012A Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Series 2012A Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Series 2012A Discount Bond by the initial owner before maturity, the amount realized by such owner in excess of the basis of such Series 2012A Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Series 2012A Discount Bond was held) is includable in gross income.

Owners of Series 2012A Discount Bonds should consult with their own tax advisors with respect to the determination of accrued original issue discount on Series 2012A Discount Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Series 2012A Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Series 2012A Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of certain Series 2012A Bonds (the "Series 2012A Premium Bonds") may be greater than the amount payable on such Series 2012A Bonds at maturity. An amount equal to the difference between the initial public offering price of a Series 2012A Premium Bond (assuming that a substantial amount of the Series 2012A Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Series 2012A Premium Bonds. The basis for federal income tax purposes of a Series 2012A Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Series 2012A Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Series 2012A Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Series 2012A Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Series 2012A Premium Bonds.

TAX MATTERS - SERIES 2012B BONDS

The following is a general summary of the United States federal income tax consequences of the purchase and ownership of the Series 2012B Bonds. The discussion is based upon laws, Treasury Regulations, rulings and decisions now in effect, all of which are subject to change or possibly differing interpretations. No assurances can be given that future changes in the law will not alter the conclusions reached in this Official Statement. The discussion below does not purport to deal with United States federal income tax consequences applicable to all categories of investors. Further, this summary does not discuss all aspects of United States federal income taxation that may be relevant to a particular investor in the Series 2012B Bonds in light of the investor's particular personal investment circumstances or to certain types of investors subject to special treatment under United States federal income tax laws (including insurance companies, tax-exempt organizations, financial institutions, broker-dealers, and persons who have hedged the risk of owning the Series 2012B Bonds). The summary is therefore limited to certain issues relating to initial investors who will hold the Series 2012B Bonds as "capital assets" within the meaning of section 1221 of the Code, and acquire such Series 2012B Bonds for investment and not as a dealer or for resale. Prospective investors should note that no rulings have been or will be sought from the IRS with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions.

INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL, FOREIGN AND ANY OTHER TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE SERIES 2012B BONDS.

Internal Revenue Service Circular 230 Notice

You should be aware that:

(i) the discussion with respect to United States federal tax matters in this Official Statement was not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer;

(ii) such discussion was written to support the promotion or marketing (within the meaning of IRS Circular 230) of the transactions or matters addressed by such discussion; and

(iii) each taxpayer should seek advice based on his or her particular circumstances from an independent tax advisor.

This notice is given solely for purposes of ensuring compliance with IRS Circular 230.

Payments of Stated Interest on the Series 2012B Bonds

The stated interest paid on the Series 2012B Bonds will be included in the gross income, as defined in section 61 of the Code, of the beneficial owners thereof and be subject to U.S. federal income taxation when received or accrued, depending on the tax accounting method applicable to the beneficial owners thereof.

Original Issue Discount

If a substantial amount of the Series 2012B Bonds of any stated maturity is purchased at original issuance for a purchase price (the "Issue Price") that is less than their face amount by more than one quarter of one percent times the number of complete years to maturity, the Series 2012B Bonds of such maturity will be treated as being issued with "original issue discount." The amount of the original issue discount will equal the excess of the principal amount payable on such Series 2012B Bonds at maturity over its Issue Price, and the amount of the original issue discount on the Series 2012B Bonds will be amortized over the life of the Series 2012B Bonds using the "constant yield method" provided in the Treasury Regulations. As the original issue discount accrues under the constant yield method, the beneficial owners of the Series 2012B Bonds, regardless of their regular method of accounting, will be required to include such accrued amount in their gross income as interest. This can result in taxable income to the beneficial owners of the Series 2012B Bonds that exceeds actual cash distributions to the beneficial owners in a taxable year.

The amount of the original issue discount that accrues on the Series 2012B Bonds each taxable year will be reported annually to the IRS and to the beneficial owners. The portion of the original issue discount included in each beneficial owner's gross income while the beneficial owner holds the Series 2012B Bonds will increase the adjusted tax basis of the Series 2012B Bonds in the hands of such beneficial owner.

Disposition of Series 2012B Bonds and Market Discount

A beneficial owner of Series 2012B Bonds will generally recognize gain or loss on the redemption, sale or exchange of a Series 2012B Bond equal to the difference between the redemption or sales price (exclusive of the amount paid for accrued interest) and the beneficial owner's adjusted tax basis in the Series 2012B Bonds. Generally, the beneficial owner's adjusted tax basis in the Series 2012B Bonds will be the beneficial owner's initial cost, increased by the original issue discount previously included in the beneficial owner's income to the date of disposition. Any gain or loss generally will be capital gain or loss and will be long-term or short-term, depending on the beneficial owner's holding period for the Series 2012B Bonds.

Under current law, a purchaser of a Series 2012B Bonds who did not purchase the Series 2012B Bonds in the initial public offering (a "subsequent purchaser") generally will be required, on the disposition of the Series 2012B Bonds, to recognize as ordinary income a portion of the gain, if any, to the extent of the accrued "market discount." Market discount is the amount by which the price paid for the Series 2012B Bonds by a subsequent purchaser is less than the sum of Issue Price and the amount of original issue discount previously accrued on the Series 2012B Bonds. The Code also limits the deductibility of interest incurred by a subsequent purchaser on funds borrowed to acquire Series 2012B Bonds with market discount. As an alternative to the inclusion of market discount in income upon disposition, a subsequent purchaser may elect to include market discount in income currently as it accrues on all market discount instruments acquired by the subsequent purchaser in that taxable year or thereafter, in which case the interest deferral rule will not apply. The re-characterization of gain as ordinary income on a subsequent disposition of Series 2012B Bonds could have a material effect on the market value of the Series 2012B Bonds.

Backup Withholding

Under section 3406 of the Code, a beneficial owner of the Series 2012B Bonds who is a United States person, as defined in section 7701(a)(30) of the Code, may, under certain circumstances, be subject to "backup withholding" on payments of current or accrued interest on the Series 2012B Bonds. This withholding applies if such beneficial owner of Series 2012B Bonds: (i) fails to furnish to payor such beneficial owner's social security number or other taxpayer identification number ("TIN"); (ii) furnishes the payor an incorrect TIN; (iii) fails to report properly interest, dividends, or other "reportable payments" as defined in the Code; or (iv) under certain circumstances, fails to provide the payor with a certified statement, signed under penalty of perjury, that the TIN provided to the payor is correct and that such beneficial owner is not subject to backup withholding.

Backup withholding will not apply, however, with respect to payments made to certain beneficial owners of the Series 2012B Bonds. Beneficial owners of the Series 2012B Bonds should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedures for obtaining such exemption.

Withholding on Payments to Nonresident Alien Individuals and Foreign Corporations

Under sections 1441 and 1442 of the Code, nonresident alien individuals and foreign corporations are generally subject to withholding at the rate of 30% on periodic income items arising from sources within the United States, provided such income is not effectively connected with the conduct of a United States trade or business. Assuming the interest received by the beneficial owners of the Series 2012B Bonds is not treated as effectively connected income within the meaning of section 864 of the Code, such interest will be subject to 30% withholding, or any lower rate specified in an income tax treaty, unless such income is treated as portfolio interest. Interest will be treated as portfolio interest if: (i) the beneficial owner provides a statement to the payor certifying, under penalties of perjury, that such beneficial owner is not a United States person and providing the name and address of such beneficial owner; (ii) such interest is treated as not effectively connected with the beneficial owner's United States trade or business; (iii) interest payments are not made to a person within a foreign country which the IRS has included on a list of countries having provisions inadequate to prevent United States tax evasion; (iv) interest payable with respect to the Series 2012B Bonds is not deemed contingent interest within the meaning of the portfolio debt provision; (v) such beneficial owner is not a controlled foreign corporation, within the meaning of section 957 of the Code; and (vi) such beneficial owner is not a bank receiving interest on the Series 2012B Bonds pursuant to a loan agreement entered into in the ordinary course of the bank's trade or business.

Assuming payments on the Series 2012B Bonds are treated as portfolio interest within the meaning of sections 871 and 881 of the Code, then no backup withholding under section 1441 and 1442 of the Code and no backup withholding under section 3406 of the Code is required with respect to beneficial owners or intermediaries who have furnished Form W-8 BEN, Form W-8 EXP or Form W-8 IMY, as applicable, provided the payor does not have actual knowledge that such person is a United States person.

Reporting of Interest Payments

Subject to certain exceptions, interest payments made to beneficial owners with respect to the Series 2012B Bonds will be reported to the IRS. Such information will be filed each year with the IRS on Form 1099 which will reflect the name, address, and TIN of the beneficial owner. A copy of Form 1099 will be sent to each beneficial owner of a Series 2012B Bond for U.S. federal income tax purposes.

CONTINUING DISCLOSURE OF INFORMATION

In the Eleventh Supplement and in the Twelfth Supplement, the City has made the following agreement for the benefit of the Holders and beneficial owners of the Series 2012A Bonds and the Series 2012B Bonds, respectively. 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 events, to the Municipal Securities Rulemaking Board (the "MSRB").

Annual Reports

The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in the main text of the Official Statement within the various tables and in APPENDIX B. The City will update and provide this information within six (6) months after the end of each fiscal year, beginning with the fiscal year ending in 2012. The City will provide the updated information to the MSRB through its Electronic Municipal Market Access ("EMMA") information system.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the City will provide unaudited financial information by the required time and 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 of each year unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

Disclosure Event Notices

The City shall notify the MSRB, in a timely manner not in excess of ten (10) Business Days after the occurrence of the event, of any of the following events with respect to the Bonds:

(1) principal and interest payment delinquencies;
(2) non-payment related defaults, if material;
(3) unscheduled draws on debt service reserves reflecting financial difficulties;
(4) unscheduled draws on credit enhancements reflecting financial difficulties;
(5) substitution of credit or liquidity providers, or their failure to perform;
(6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
(7) modifications to rights of holders of the Bonds, if material;
(8) Bond calls, if material, and tender offers;
(9) defeasances;
(10) release, substitution, or sale of property securing repayment of the Bonds, if material;
(11) rating changes;
(12) bankruptcy, insolvency, receivership or similar event of the City;
(13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
(14) appointment of a successor Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material.

(Neither the Bonds nor the Ordinances make any provision for debt service reserves or credit or liquidity enhancement.) See "SECURITY FOR THE BONDS - No Reserve Fund for Parity Electric Utility Obligations" in this document. The City shall notify the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data by the time required by the Ordinances.

As used in clause 12 above, the phrase "bankruptcy, insolvency, receivership or similar event" means the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if jurisdiction has been assumed by leaving the City Council and officials or officers of the City in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City. The term "Business Day" means a day other than a Saturday, Sunday, a legal holiday, or a day on which banking institutions are authorized by law or executive order to close in the City or the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located.

Availability of Information

In connection with its continuing disclosure agreement entered into with respect to the Bonds, the City will file all required information and documentation with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB at www.emma.msrb.org.

Limitations and Amendments

The City has agreed to update information and to provide notices of certain 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 or sell Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

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

Compliance with Prior Undertakings

Except as described in this paragraph, during the last five (5) years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule. The City did not file its unaudited or audited financial statements for the fiscal years ending September 30 in each of the years 2006, 2007, 2008 and 2011 by the required deadline of March 31 of the next succeeding year. The audited financial statements of the City for the fiscal year ending September 30, 2006 were filed on October 24, 2007. In each of the other years cited above, audited financial statements of the City were filed no later than 31 days after March 31 of the next succeeding year. Annual financial information and operating data of the City was filed by the required time in accordance with the City's continuing disclosure agreements in the above-cited years in which the audited financial statements were filed after March 31 of the next succeeding year. The City has filed material event notices in connection with each late filing and has implemented procedures to ensure timely filing of all future financial statements.

OTHER RELEVANT INFORMATION

Ratings

The Bonds have received ratings of "A1" by Moody's, "AA-" by S&P and "AA-" by Fitch. An explanation of the significance of such ratings may be obtained from the organization 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 of the Bonds. Neither the City nor PFM (as defined in this document) will undertake any responsibility to notify bondholders of any such revisions or withdrawals of rating.

Registration and Qualification of Bonds

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

Legal Investments and Eligibility to Secure Public Funds in Texas

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds are (i) negotiable instruments, (ii) investment securities to which Chapter 8 of the Texas Business and Commerce Code applies, and (iii) 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 PFIA, the Bonds may have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital, and savings and loan associations.

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

Legal Opinions

The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding special obligations of the City in accordance with their terms payable solely from and, together with the outstanding Previously Issued Electric Utility Obligations and Prior Subordinate Lien Obligations (identified and defined in the Eleventh Supplement and the Twelfth Supplement) equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System in the manner provided in the Eleventh Supplement and the Twelfth Supplement and the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Series 2012A Bonds will be excludable from gross income for federal income tax purposes, subject to the matters described under "TAX MATTERS – SERIES 2012A BONDS" in this document, including the alternative minimum tax on corporations. The forms of Bond Counsel's opinions are attached as APPENDIX E. Certain matters will be passed on for the Underwriters by their co-counsel, Haynes and Boone, LLP, Houston, Texas and Bracewell & Giuliani LLP, Austin, Texas.

Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility for this Official Statement or undertaken independently to verify any of the information contained in it, except that, in their capacity as Bond Counsel, such firm has reviewed the information in the Official Statement under the captions, "PLAN OF FINANCING", "SECURITY FOR THE BONDS," "DESCRIPTION OF THE BONDS", "TAX MATTERS – SERIES 2012A BONDS", "TAX MATTERS – SERIES 2012B BONDS", "CONTINUING DISCLOSURE OF INFORMATION" (except for the information under the subheading "Compliance with Prior Undertakings"), "OTHER RELEVANT INFORMATION – Registration and Qualification of Bonds," "OTHER RELEVANT INFORMATION – Legal Investments and Eligibility to Secure Public Funds in Texas" and "OTHER RELEVANT INFORMATION – Legal Opinions," and in "APPENDIX C" and "APPENDIX D" to verify that the information relating to the Bonds, the Master Ordinance, the Eleventh Supplement and the Twelfth Supplement contained under such captions and in APPENDICES C and D in all respects accurately and fairly reflects the provisions thereof and, insofar as such information relates to matters of law, is true and accurate. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the delivery of the Bonds. The opinion of Bond Counsel will accompany the global certificate deposited with DTC in connection with the use of the Book-Entry-Only System.

The legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues expressly addressed in those opinions. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise from the transaction.

Financial Advisor

Public Financial Management, Inc. ("PFM"), Austin, Texas is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. PFM, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the bond documentation with respect to the federal income tax status of the Bonds.

Underwriting

The Underwriters have agreed, subject to certain customary conditions to delivery, to purchase the Series 2012A Bonds from the City at a price equal to the initial offering prices shown on the inside front cover of this Official Statement, less an underwriting discount of $1,233,017.81. The Underwriters will be obligated to purchase all of the Series 2012A Bonds if any Series 2012A Bonds are purchased. The Series 2012A Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

The Underwriters have agreed, subject to certain customary conditions to delivery, to purchase the Series 2012B Bonds from the City at a price equal to the initial offering prices shown on the inside front cover of this Official Statement, less an underwriting discount of $467,174.36. The Underwriters will be obligated to purchase all of the Series 2012B Bonds if any Series 2012B Bonds are purchased. The Series 2012B Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

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

Citigroup Global Markets Inc. and its parent company, Citigroup, Inc., have entered into a distribution agreement dated May 31, 2009, as amended, with Morgan Stanley Smith Barney LLC ("MSSB") and its parent company, Morgan Stanley Smith Barney Holdings LLC, whereby Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of MSSB. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Citigroup Global Markets Inc. will compensate MSSB for its selling efforts with respect to the Bonds.

One of the underwriters is BOSC, Inc., which is not a bank, and the Bonds are not deposits of any bank and are not insured by the Federal Deposit Insurance Corporation.

Forward - Looking Statements

The statements contained in this Official Statement and in any other information provided by the City that are not purely historical are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation 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 in this document are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners, and competitors, and legislative, judicial, and other governmental authorities and officials.

Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

Verification of Arithmetical and Mathematical Calculations

Upon the delivery of the Series 2012A Bonds, the Arbitrage Group, Inc. (the "Verification Agent"), a firm of independent certified public accountants, will deliver to the City its report indicating that they have examined (a) the mathematical accuracy of computations prepared by PFM relating to the sufficiency of the proceeds of the Series 2012A Bonds and the City contribution deposited to the credit of the 2012A Escrow Fund to effect the defeasance of the Series 2012A Refunded Bonds and (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Series 2012A Bonds will be excluded from gross income for federal income tax purposes.

Upon the delivery of the Series 2012B Bonds, the Verification Agent also will deliver to the City its report indicating that they have examined the mathematical accuracy of computations prepared by PFM relating to the sufficiency of the proceeds of the Series 2012B Bonds and the City contribution deposited to the credit of the 2012B Escrow Fund to effect the defeasance of the Series 2012B Refunded Bonds and the payment of the principal of and interest on the Escrowed Refunded Notes when due.

The report of the Verification Agent will include the statement that the scope of their engagement was limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them and that they have no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report.

Independent Auditors

The City's independent auditors have not reviewed, examined, or performed any procedures with respect to the unaudited financial information contained in this Official Statement, nor have they expressed any opinion or any other form of assurance on such information, and assume no responsibility for, and disclaim any association with such unaudited financial information. The unaudited information is preliminary and is subject to change as a result of the audit and may differ from the audited financial statements when they are released.

The City has commissioned an audit of its financial statements for the fiscal year ended September 30, 2012 to be performed by Deloitte & Touche LLP. As described in "CONTINUING DISCLOSURE OF INFORMATION - Annual Reports", the Eleventh Supplement and the Twelfth Supplement obligate the City to file such audited financial statements with the MSRB when and if such audited financial statements become available.

The financial statements of the City included in APPENDIX B to this Official Statement have been audited by Deloitte & Touche LLP, independent auditors, to the extent and for the period indicated in their report which contains an explanatory paragraph regarding the City's implementation of GASB Statement 54, which addresses fund balance reporting and governmental fund type definitions.

Miscellaneous Information

The financial data and other information contained in this document 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 in this document will be realized. All of the summaries of the statutes, documents and ordinances contained in this Official Statement are made subject to all of the provisions of such statutes, documents and ordinances. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

The Eleventh Supplement and the Twelfth Supplement will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the offering of the Bonds by the Underwriters.

/s/ Lee Leffingwell
Mayor
City of Austin, Texas

ATTEST:
/s/ Shirley A. Gentry
City Clerk
City of Austin, Texas

SCHEDULE I

SUMMARY OF REFUNDED BONDS

Refunded Bonds

Series 2012A Refunded Bonds	Maturity Type	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
Electric Utility System Revenue Refunding Bonds, Series 2003	Serial	11/15/13	5.250%	$ 6,100,000	05/15/13	(1)
	Serial	11/15/14	5.250%	6,400,000	05/15/13	(1)
	Serial	11/15/15	5.250%	6,700,000	05/15/13	(1)
	Serial	11/15/16	5.250%	7,100,000	05/15/13	(1)
	Serial	11/15/17	5.250%	7,500,000	05/15/13	(1)
	Serial	11/15/18	5.250%	7,900,000	05/15/13	(1)
	Serial	11/15/19	5.250%	8,300,000	05/15/13	(1)
	Serial	11/15/20	5.250%	8,800,000	05/15/13	(1)
	Serial	11/15/23	5.000%	10,100,000	05/15/13	(1)
	Serial	11/15/24	5.000%	10,700,000	05/15/13	(1)
	Serial	11/15/25	5.000%	11,200,000	05/15/13	(1)
	Term 2028	11/15/26	5.000%	11,800,000	05/15/13	(1)
	Term 2028	11/15/27	5.000%	12,300,000	05/15/13	(1)
	Term 2028	11/15/28	5.000%	12,900,000	05/15/13	(1)
				$ 127,800,000		
Total Series 2012A Refunded Bonds				$ 127,800,000		
Series 2012B Refunded Bonds						
Electric Utility System Revenue Refunding Bonds, Series 2002A	Serial	11/15/14	5.500%	$ 24,135,000		(2)
Electric Utility System Revenue Refunding Bonds, Series 2006	Serial	11/15/13	5.000%	$ 3,500,000		(2)
Electric Utility System Revenue Refunding Bonds, Series 2007	Serial	11/15/13	5.000%	$ 29,000,000		(2)
Electric Utility System Revenue Refunding Bonds, Series 2008	Serial	11/15/13	4.154%	$ 1,255,000		(2)
	Term 2017	11/15/14	5.218%	$ 1,315,000		(2)
				$ 2,570,000		
Total Series 2012B Refunded Bonds				$ 59,205,000		
Total of Refunded Bonds				**$ 187,005,000**		

(1) Bonds are subject to redemption at a price equal to the principal amount thereof, plus accrued interest to the redemption date.
(2) Bonds are escrowed to maturity.

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

The following information has been presented for informational purposes only.

General Information

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. The City Manager, appointed by the City Council, is responsible to them for the management of all City employees and the administration of all City affairs. Austin, the capital of Texas, is the fourth largest city in the state (behind Houston, Dallas, and San Antonio) with a September 2011 population of 805,662, according to the City's estimates. Over the past ten years (2002-2011), Austin's population has increased by approximately 134,600 residents or 20.1%. Geographically, Austin consists of approximately 308 square miles. The 2011 current estimated median household income for Austin residents is $46,689, according to Claritas, a Nielsen company. Austin's 2011 per capita income is estimated to be $38,484 based on analysis of the Bureau of Economic Analysis information.

Austin is nationally recognized as a great place to live due in part to its diverse and eclectic population, as well as its promotion of a year-round outdoor active lifestyle. Austin draws its special character from its physical setting along the Balcones Escarpment, a city wedged between coastal plain and dramatic cliffs, canyons and juniper carpeted rolling hills; it sits on the edge of the Chihuahuan desert existing as a physical and cultural oasis where talented, entrepreneurial, hard-working people are drawn from all over the world. Austin's quality of life has become its biggest economic development engine, and the City's diverse demographic structure serves to support and enrich its quality of life.

The City of Austin is fortunate to offer a host of broad-ranged educational opportunities for those individuals with a desire to learn. Austin is a highly educated city, with approximately 44 percent of adults twenty-five years or older holding a bachelor's or advanced degree, compared to 28 percent for the U.S. as a whole. Higher education is a significant aspect of life in the Austin area. The Austin metropolitan area is host to seven universities and six other institutions of higher learning. The University of Texas at Austin (UT), the fifth largest public university in the nation, is known as a world-class center of education and research and was ranked 45th nationally and 13th among public universities by *U.S. News and World Report* in 2011.

Local Economy

The City of Austin's vision of being the most livable city in the country means that Austin is a place where all residents participate in its opportunities, vibrancy and richness of culture and diversity. Austin residents share a sense of community pride and a determination that the City's vision is not just a slogan, but a reality for everyone who lives in the City. Local government plays a critical role in determining a city's quality of life. When Austin is compared to other cities, it receives high marks. For instance, the 2011 Community Survey shows that Austin residents rate Austin's city services high, especially when compared to other large cities. Among 13 cities with populations greater than 500,000, Austin had the highest overall satisfaction rating. In addition, Austin is rated at or above the national average for large cities with populations over 200,000 in 89% of the 46 service areas assessed. The City's success is attributable to the hard work, thoughtfulness, and passion of the City Council, City employees, and Austinites themselves. Austin's rankings reflect a City government that seeks to keep its vision in the forefront while planning for the future.

In December 2011, the Brookings Institution's Metropolitan Policy Program published the MetroMonitor: Tracking Economic Recession and Recovery in America's 100 Largest Metropolitan Areas, a study that ranked Austin among the strongest-performing metro areas recovering from the economic recession, noting income and employment growth, and a stable housing market. Austin's diversified economy, including employment in government, education, and a robust high tech-sector were contributing factors in their analysis. As reported in the same article, through September 2011, Austin had regained more than half of the jobs lost between the prerecession high and post-recession low. In the third quarter of 2011, only 19 large U.S. metropolitan areas, including Austin, had a quarterly output growth rate of at least 0.8% which is indicative of a sustained economic recovery. Austin's unemployment rate ended 2011 at 6.3% in December, down from 6.9% in December 2010; the State and National unemployment rates in December 2011 were 7.4% and 8.5%, respectively.

As reported to Council during the fiscal year 2012 budget process, housing sales have remained stable and median home sales prices have increased 5.1% over the past five years, a reflection of the area's positive job growth. Sales tax revenue has shown positive growth over the past two fiscal years. Fiscal year 2011 experienced a 4.4% increase over fiscal year 2010, which was a 3.5% increase over the previous fiscal year. During 2011, Austin-Bergstrom International Airport (ABIA) passenger activity experienced a record high of more than 9 million travelers, a 5% increase over 2010. For the sixth consecutive year, ABIA was highly ranked for customer service, ranking fourth among airports in North America, regardless of size, by Airport Council International's 2011 Airport Service Quality (ASQ) passenger survey. ABIA's consistently high ASQ ranking earned the airport a place in the first Airport Council International's Director General's Roll of Excellence. Only 14 airports in the world received this recognition.

Austin continues to be a destination for both business and recreational activities. The Austin metropolitan area is consistently recognized as among the most inventive, creative, wired, educated, fit, and loved cities in which to live and work. Austin is known around the world as the "Live Music Capital of the World". In March 2011, South by Southwest (SXSW) hosted its 25th annual music festival, conference, and trade show, providing a unique convergence of original music, independent films, and emerging technologies. According to economic impact analysis posted on the SXSW website and prepared by Greyhill Advisors, the festival was responsible for injecting more than $167 million into the Austin economy.

In January 2012, Austin was named to the Top Seven List of Intelligent Communities for 2012 by the Intelligent Community Forum, a think tank that studies the economic and social development of the 21st Century community. Austin's selection came as a result of its commitment to utilize information and communication technologies in innovative ways that serve the community to address workforce challenges.

The City of Austin Economic Growth and Redevelopment Services Office received three Excellence in Economic Development Awards for communities with populations over 500,000 from the International Economic Development Council (IEDC). The awards are for the Small Business Development Program (SBDP) in the category of Entrepreneurship, Independent Business Investment Zone (IBIZ) District in the category of Neighborhood Development Initiatives, and the 2nd Street District in the category of Public-Private Partnerships.

Austin has ranked at the top of lists such as Forbes, Kiplinger's, the Milken Institute, and others in regards to career choice, income, recreation opportunities, housing, and business start-up.

10 Best Cities to Find a Job
Ajilon Professional Staffing – March 2011

America's Best Cities for Young Adults
Forbes – December 2010

America's Best and Worst Job Markets
Forbes – January 2011

Tracking Economic Recession and Recovery in America's 100 Largest Metropolitan Areas
The Brookings Institution – December 2011

Only 13 of Top 100 U.S. Metros Have Bounced Back from Recession
The Business Journals On Numbers – February 2012

Best-Performing Cities 2011, Where America's Jobs are Created and Sustained
Milken Institute – December 2011

The 10 Most Popular Cities for College Grads
The Atlantic – January 2011

10 U.S. Cities With the Cheapest Cost of Living
Kiplinger's Personal Finance Magazine – June 2011

The Next Biggest Boom Towns in the U.S.
Forbes – July 2011

The 10 Hottest Spots to Start a Small Business (Austin ranked number 1)
The Fiscal Times – July 2011

In 2012, Zilker Metropolitan Park received an honored designation as a Lone Star Legacy Park by the Texas Recreation and Parks Society. A Lone Star Legacy Park is classified as a park that holds special prominence in the local community and the state of Texas. To qualify for consideration, the park must have endured the test of time and become iconic to those who have visited, played, and rested on its grounds. This 351-acre park is home to a variety of recreation opportunities and special events for individuals and families.

Long-Term Financial Planning

A key City financial policy requires annual preparation of a five-year financial forecast projecting revenues and expenditures for all operating funds. This forecast is used as a planning tool to develop the following year's operating budget. The City's budgeting approach emphasizes fiscal responsibility by limiting spending in a given year to projected revenue collections.

Due to successful conservation efforts, Austin Water Utility pumps 50 gallons less water per capita per day than it did in 1995. It is projected that the typical residential customer's average monthly water usage will decrease by 6.5% in the future. With 80% of the utility's costs fixed and less than 20% of fixed revenues, this can inhibit the utility's ability to cover costs during extreme weather or economic events. To help improve the financial position, the Water and Wastewater Utility is implementing a 5.1% combined water and wastewater rate increase in fiscal year 2012 and a new fixed Water Sustainability Fee that strengthens the future financial health and stability of the utility.

On November 2, 2010, Austin voters approved a $90 million bond program designed to enhance mobility in the region. Over the next two years, this bond program will invest in streets, sidewalks, bike paths, trails, and transit infrastructure in all parts of Austin. The City Council established the Bond Oversight Committee to ensure efficiency, equity, timeliness, and accountability in the implementation of the 2006 and 2010 bond programs, as well as all future bond programs.

In August 2011, all three major U.S. financial rating agencies reaffirmed Austin's "AAA" long-term general obligation debt rating, the highest attainable bond rating, with a stable outlook. The Standard and Poor's report noted that key factors supporting the "AAA" rating included Austin's strong and diverse economic base, strong financial management and moderate overall debt levels. Fitch Ratings noted that one of the key factors driving affirmation of the "AAA" rating was due to consistently sound financial performance, stable taxable values, a resilient regional economy and a moderate debt profile. Moody's Investors Services, Inc. described Austin's financial policies, expenditure controls, and conservative budget practices as "favorable factors considered in the rating".

In June 2012, following an 18-year period with no change in its base electric rates, City Council approved a system average 7% rate increase for Austin Energy which will be reflected on electric bills which began October 2012. The increase is anticipated to provide Austin Energy an additional $71 million in base revenue annually. The City Council plans to further assess rate adjustment needs in 2014. After the 2014 review, it is expected that rates will be reexamined every five years. The City Council also reaffirmed that future rate increases should not exceed 2% a year and that Austin Energy rates remain in the lower 50% among Texas electric utilities.

On November 6, 2012, voters approved six bond propositions, authorizing the City Council to issue up to $306.6 million of general obligation bonds to finance transportation and mobility projects, open space and watershed protection projects, parks and recreation projects, public safety projects, health and human services projects, and library and cultural arts facilities projects.

Budgetary Information

The fiscal year 2012 Approved Budget totals $2.8 billion and includes $691.8 million for the General Fund to provide public safety, health, library, parks, and other needed services to the Austin community. It is a structurally balanced budget, maintaining the high quality core services that Austin's residents expect and contribute to its top-ranked quality of life.

The 2012 Budget was developed in a manner true to the City's unwavering commitment to openness, transparency, and public engagement. The City's Budget is organized around activities and services. The budget development process integrates the City's finances with business planning, performance measurement, and resident input, thereby elevating budget discussions to meaningful conversations about outcomes that impact our residents. Input was gathered and evaluated to address the many issues, concerns, and priorities identified by Austin's citizens, employees, and Councilmembers. Those top priorities, identified through public engagement efforts, are addressed in the fiscal year 2012 Budget and include enhanced funding for public safety, health and human services, parks and recreation, energy reliability, and water quality.

The fiscal year 2012 Approved Budget was passed with an increase to the property tax rate of 2.4 cents, from 45.71 to 48.11 cents per $100 of taxable value. Included in the approved budget are moderate pay increases for employees; a 2%

wage adjustment for all civilian employees and a 3% wage adjustment for uniformed personnel based on the approved contract terms. Also included in the fiscal year 2012 Budget is the addition of 49 new police officers and the annualized cost of 42 new paramedic positions and 10 new firefighters added during the previous fiscal year. The fiscal year 2012 Budget authorizes the use of approximately $11 million of the budget stabilization reserves to address capital replacement and other critical needs. The Approved Budget projects budget stabilization reserves of $36.2 million at the end of fiscal year 2012.

Austin includes several enterprise activities, including a municipal owned electric utility, water/wastewater utility, airport, and other miscellaneous operations. The City's largest enterprise department, Austin Energy, is the ninth largest municipal-owned electric utility in the United States in terms of customers served. Austin Energy serves more than 400,000 customers with a service territory of approximately 437 square miles and an approved budget for fiscal year 2012 of $1.14 billion in annual revenues, including transfers. The utility has a diverse generation mix that includes nuclear, coal, natural gas, and renewable energy sources. Austin Energy's capital improvement spending plan of $220.4 million includes projects for the System Control Center, Holly Power Plant decommissioning, Customer Information Billing System replacement, new substations, and various generation unit improvements.

The City's enterprise activities also include the Austin Water Utility, which provides water and wastewater services to nearly 212,000 customers within Austin and surrounding areas. The fiscal year 2012 Budget projects revenues from the sale of water and wastewater service and other revenue to be $463.4 million. Other enterprise funds and their fiscal year 2012 revenue budgets include Aviation ($98.1 million) and the Convention Center (all funds combined of $54.7 million).

Major Initiatives

The City of Austin's vision is to be the most livable City in the country. In April 2007 and amended in 2009, the Austin City Council adopted the following policy priorities:

- Rich Social and Cultural Community
- Vibrant Urban Fabric
- Healthy, Family-Friendly, Safe City
- Sustainable Economic Development and Financial Health

PRIDE. In order to achieve Austin's vision to be the most livable City in the country, Austin's city government has made it its mission to be the best-managed city in the country. The City Manager is committed to creating an environment that fosters creative thinking and innovation by the workforce to tackle challenges today and in the future. City employees take enormous pride in their work. PRIDE reflects the City's core values of public service and how employees relate to customers and each other. Being "best managed" means everybody in the organization is providing the best service possible to the community. The elements of PRIDE are as follows:

- Public Service & Engagement – We will partner with one another and with our community to provide the best service possible.
- Responsibility & Accountability – We take responsibility for achieving results and hold ourselves accountable for our actions.
- Innovation & Sustainability – We actively seek out good ideas that have a lasting, positive impact on our work, our community and our environment.
- Diversity & Inclusion – We recognize and respect a variety of perspectives, experiences and approaches that will help us achieve our organizational goals.
- Ethics & Integrity – Our actions will maintain the trust and confidence of the public and the organization. The City's Finance and Administrative Services mission is to maintain the financial integrity of the City.

Energy Efficiency. The U.S. Environmental Protection Agency ("USEPA") has awarded Austin Energy a 2012 ENERGY STAR Sustained Excellence Award in recognition of its continued leadership and achievement in the delivery of energy efficiency services to its customers. It is the eighth year in a row that Austin Energy has been recognized by ENERGY STAR for continued excellence in helping residential customers reduce their energy use and lower their bills by making their homes more energy efficient. Over the last five years, some 13,000 Austin Energy residential customers used rebates or loans to make energy efficiency improvements such as replacing air conditioners, adding insulation or sealing ducts. Combined, those customers reduced their energy use by 26 million kilowatt-hours of electricity for annual savings of $2.6 million.

Innovative. In October 2010, the City unveiled Austin Finance Online, a one-stop web-based portal containing financial documents, Online Contract Catalog, Vendor Connection, eCheckbook, and other financial information of the City. The Online Contract Catalog is a service that provides details on each of the City's active purchasing contracts; Vendor Connection is a public clearinghouse to view detailed information about current business opportunities with the City. eCheckbook shares the City's payment register information in an interactive, user friendly format. Through eCheckbook, citizens can search the City's payment records, download reports and drilldown into transaction-level details. Recognizing the City's efforts in achieving the highest standards in financial transparency, the Texas State Comptroller awarded this site the Gold Level Leadership Circle Award.

ARRA. In 2009, the City established a Recovery Office to coordinate the City's efforts with other entities in applying for and reporting on funding received through the American Recovery and Reinvestment Act (ARRA). The City has successfully pursued various ARRA funding opportunities in areas ranging from transportation to energy to health care. At year end, the City had been awarded $86.6 million either directly or as pass-through funds with a total of 81% of those funds being obligated. In fiscal year 2011, the City received $1.2 million in new funding to add solar power to the George Washington Carver Museum, establish a public computing center for job seekers at the Carver Library, convert 60 City fleet vehicles from unleaded gasoline to propane and test 14 plug-in hybrid Ram 1500 Crew Cab vehicles for three years. The City also received extra funds for on-going programs. In addition, four grants were completed, including the three S.T.O.P. Violence Against Women grants awarded to the Police Department and the Public Works grant for the Loop 360 Bike and Pedestrian Improvements.

Financial Policies

The City has adopted a comprehensive set of Financial Policies to ensure that the City's financial resources are managed in a prudent manner. These policies dictate that current revenue will be sufficient to support current expenditures (defined as "structural balance"). Assigned and unassigned fund balances in excess of what is required shall normally be used to fund capital items in the operating and capital budgets. The City maintains the goal of a structurally balanced budget to achieve long-term financial stability for the Austin community. These policies are reviewed as part of the annual budget process and are published in the Approved Budget.

Internal Controls

City management is responsible for establishing, implementing, and maintaining a framework of internal controls designed to ensure that City assets are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with Generally Accepted Accounting Principles. The system of internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived, and the evaluation of costs and benefits requires estimates and judgments by management.

Budgetary Control

The annual operating budget is proposed by the City Manager and approved by the City Council after public discussion. Annual updates to the Capital Improvements Program budgets follow a similar process. Primary responsibility for fiscal analysis of budget to actual expense or revenue and overall program fiscal standing rests with the department operating the program. As demonstrated by the statements and schedules included in the City's 2011 Comprehensive Annual Financial Report ("CAFR"), the City continues to meet its responsibility for sound financial management.

Governance

On November 6, 2012, the City Charter of the City was amended to provide (1) for the election of a City Council comprised of ten single-member districts, and one at-large position to be held by the Mayor, (2) for council terms, including that of the Mayor, to be four years in length, and (3) for a permanent move of City elections from May to November in even-numbered years. It is anticipated that terms of the Mayor and Councilmembers will be staggered such that the terms of the entire City Council (including the Mayor) would not be coterminous. Additional actions will need to be taken for the City to implement the cited revisions to the City Charter, including preparing a map of the ten single-member districts and submitting the map to the United States Department of Justice for approval in accordance with the federal Voting Rights Act. It is anticipated that the first elections to be conducted to elect an eleven-member City Council (including the Mayor) will be conducted in November 2014.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awards a Certificate of Achievement for Excellence in Financial Reporting to a governmental unit that publishes a CAFR that meets the GFOA program standards. GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its 2010 CAFR. A Certificate of Achievement is valid for a period of one year only. City management believes that the 2011 CAFR conforms to the Certificate of Achievement Program requirements, and the City has submitted it to GFOA for review.

Employment by Industry in the Austin Metropolitan Area (a)

Employment Characteristics

	2007		2008		2009		2010		2011	
Industrial Classification		% of Total		% of Total		% of Total		% of Total		% of Total
Manufacturing	60,600	7.9%	55,000	7.0%	49,500	6.5%	47,300	6.2%	50,900	6.4%
Government	158,400	20.8%	163,700	21.0%	167,900	22.1%	170,500	22.2%	167,400	20.9%
Trade, transportation & utilities	159,800	21.0%	163,700	21.0%	152,500	20.1%	134,200	17.5%	142,600	17.8%
Services and miscellaneous	290,100	38.0%	300,500	38.5%	304,000	40.0%	333,200	43.5%	354,500	44.4%
Finance, insurance and real estate	45,200	5.9%	47,200	6.0%	43,900	5.8%	42,300	5.5%	45,300	5.7%
Natural resources, mining & construction	49,200	6.4%	50,800	6.5%	42,000	5.5%	39,000	5.1%	38,600	4.8%
Total	763,300	100.0%	780,900	100.0%	759,800	100.0%	766,500	100.00%	782,200	100.00%

(a) Austin-Round Rock MSA includes Travis, Bastrop, Caldwell, Hays and Williamson Counties. Information is updated periodically; data contained in this document is the latest provided. Based on calendar year.

Source: Texas Labor Market Review, February 2012, Texas Workforce Commission.

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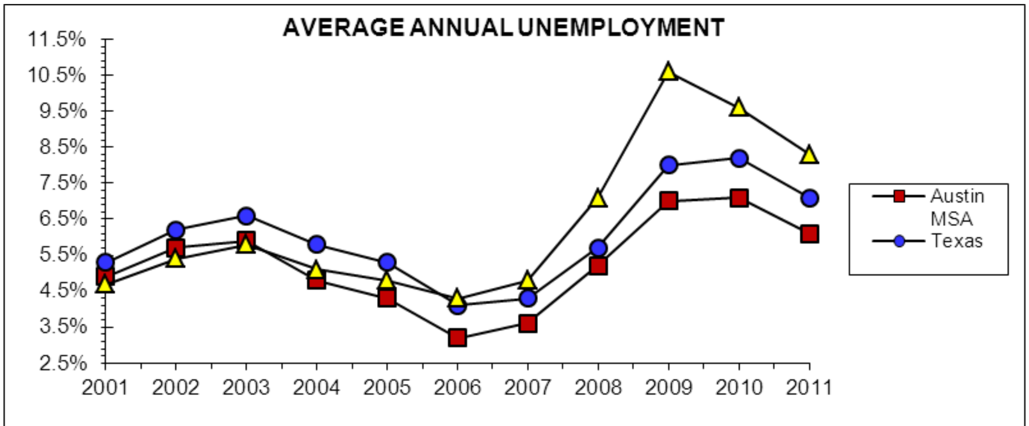
Average Annual Unemployment Rate



Source: Texas Workforce Commissionn, non-seasonally adjusted.

	Austin MSA	Texas	U.S.
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	5.2%	5.7%	7.1%
2009	7.0%	8.0%	10.6%
2010	7.1%	8.2%	9.6%
2011	6.1%	7.1%	8.3%

Note: Information is updated periodically; data contained in this document is latest provided.
Source: Texas Labor Market Review, February 2012, Texas Workforce Commission.

City Sales Tax Collections (In Millions)

Period	Amount	Period	Amount	Period	Amount	Period	Amount	Period	Amount
1-1-08	$11.639	1-1-09	$10.864	1-1-10	$10.215	1-1-11	$11.492	1-1-12	$12.189
2-1-08	16.569	2-1-09	14.289	2-1-10	15.921(1)	2-1-11	16.149	2-1-12	16.923
3-1-08	12.109	3-1-09	10.528	3-1-10	10.736	3-1-11	11.117	3-1-12	11.762
4-1-08	11.355	4-1-09	9.724	4-1-10	10.290	4-1-11	10.312	4-1-12	11.838
5-1-08	13.882	5-1-09	12.612	5-1-10	14.145	5-1-11	14.022	5-1-12	15.239
6-1-08	12.185	6-1-09	11.213	6-1-10	11.533	6-1-11	11.941	6-1-12	12.949
7-1-08	12.129	7-1-09	10.752	7-1-10	11.569	7-1-11	11.924	7-1-12	13.168
8-1-08	14.486	8-1-09	13.495	8-1-10	12.799	8-1-11	14.387	8-1-12	15.371
9-1-08	12.349	9-1-09	10.673	9-1-10	11.427	9-1-11	11.307	9-1-12	14.220
10-1-08	11.781	10-1-09	11.037	10-1-10	11.562	10-1-11	13.385 (2)	10-1-12	13.960
11-1-08	13.595	11-1-09	12.419	11-1-10	13.347	11-1-11	13.873		
12-1-08	12.190	12-1-09	11.165	12-1-10	11.216	12-1-11	12.004		

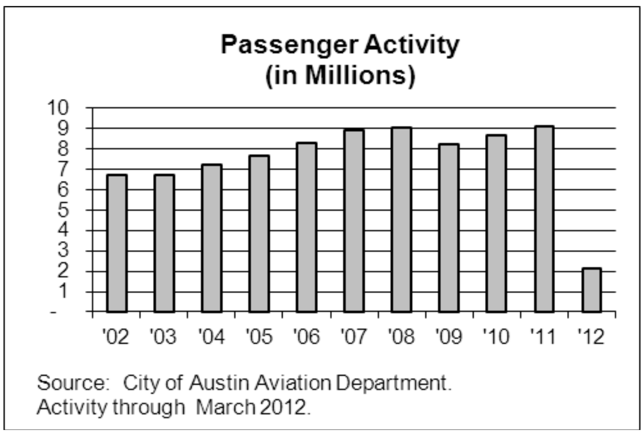
(1) Includes a $1.5 million one-time sales tax correction.
(2) Collections for 10-1-11 reflect an increase of $1,162,541 in future period and audit collection adjustments from the prior year. A similar adjustment is not expected to occur in 2012.
Source: City of Austin, Budget Office.

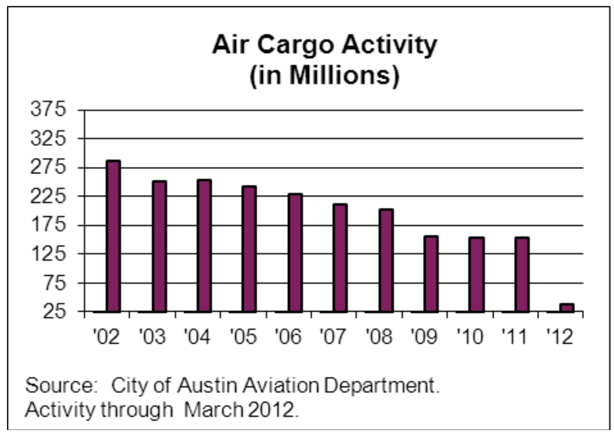
Ten Largest Employers (As of September 30, 2011)

Employer	Product or Service	Employees
State Government	State Government	37,818
The University of Texas at Austin	Education	22,956
Dell Computer Corporation	Computers	14,000
City of Austin	City Government	11,997
Austin Independent School District	Education	11,736
Seton Healthcare Network	Healthcare	11,601
Federal Government	Government	11,000
HEB Grocery	Grocery/Retail	10,263
St. David's Healthcare Partnership	Healthcare	7,100
IBM Corporation	Computers	6,239

Source: 2011 Comprehensive Annual Financial Report.

Transportation





Austin-Bergstrom International Airport

The City of Austin's Austin-Bergstrom International Airport, which opened for passenger service on May 23, 1999 and replaced the Robert Mueller Municipal Airport as the City's commercial passenger service airport, is served by eight signatory airlines: American Airlines, Delta, Frontier, JetBlue, Southwest, United and US Airways. Non-stop service is available to 34 U.S. destinations.

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

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

Demographic and Economic Statistics - Last Ten Years

Year	City of Austin Population (1)	Area of Incorporation (Square Miles) (1)	Population MSA (2)	Income (MSA) (thousands of dollars) (2)	Median Household Income MSA (3)	Capita Personal Income MSA (2)	Unemployment Rate (MSA) (4)
2002	671,044	273	1,355,241	$41,908,425	$47,089	$30,923	5.9%
2003	674,719	276	1,385,723	43,104,097	41,909	31,106	6.0%
2004	683,551	291	1,423,161	46,134,871	39,227	32,417	5.1%
2005	695,881	294	1,464,563	51,058,588	40,335	34,863	4.5%
2006	714,237	296	1,528,958	56,105,872	40,888	36,695	4.2%
2007	732,381	297	1,577,856	59,924,200	42,263	37,978	3.7%
2008	746,105	298	1,633,870	64,411,889	46,340	39,423	4.4%
2009	770,296	302	1,682,338	64,014,645	47,520	38,051	6.9%
2010	778,560	306	1,728,307	66,936,889	48,460	38,730	7.1%
2011	805,662	308	1,773,675 (6)	68,258,303 (5)	46,689	38,484 (5)	7.5%
2002-2011 Change	20.06%	12.78%	30.88%	62.87%	(0.85)%	24.45%	

Note: Prior year statistics are subject to change as more precise numbers become available.

(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 for all years except 2011 which will not be available until second quarter 2012.
(3) Source: Claritas, a Nielson Company.
(4) Source: Bureau of Labor Statistics; United State Department of Labor as of September 30.
(5) Data not available for 2011. Figures are estimated.
(6) Source: Claritas, a Nielson Company that historically reports less than the final numbers from the Bureau of Economic Analysis.

Connections and Permits

	Utility Connections			Building Permits		
Year	Electric	Water	Gas	Taxable	Federal, State and Municipal	Total
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
2007	388,626	199,671	188,101	2,529,648,915	14,272,851	2,543,921,766
2008	396,791	206,695	198,718	1,468,699,801	4,099,000	1,472,798,801
2009	407,926	209,994	208,232	834,498,480	6,988,999	841,487,479
2010	419,355	210,901	204,823	1,413,989,503	4,252,978	1,418,242,481
2011	418,968	212,754	213,365	745,909,589	2,812,350	748,721,939

Source: Various including the City of Austin, Texas Gas Services and Atmos Energy.

Housing Units

The average two-bedroom apartment in the Austin MSA was $899 per month, with an occupancy rate of 95% for the first quarter of 2012, per Austin Investor Interests, LLC.

Residential Sales Data

Year	Number of Sales	Total Volume	Average Price
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	28,047	6,910,684,916	246,397
2008	22,438	5,470,241,896	243,783
2009	20,747	4,924,240,373	237,347
2010	19,872	4,906,445,110	246,792
2011	21,192	5,332,738,945	251,600

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

City-Wide Austin Office Occupancy Rate

Year	Occupancy Rate
2002	77.1%
2003	76.7%
2004	80.8%
2005	84.2%
2006	87.5%
2007	85.6%
2008	80.6%
2009	77.7%
2010	80.0%
2011	82.7%

Source: Oxford Commercial.

Education

The Austin Independent School District had an enrollment of 86,724 for the 2011/2012 school year. The District includes 110 campus buildings.

School Year	Average Daily Membership	Average Daily Attendance
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	82,063	74,212
2007/08	82,739	74,622
2008/09	83,730	75,606
2009/10	84,996	76,658
2010/11	85,273	80,198
2011/12	86,724	79,087

Source: Austin Independent School District.

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

The University of Texas at Austin had a total enrollment of 51,112 for the fall semester of 2011 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. There are more than 257 hotels available within the Austin Metropolitan Area and year-to-date occupancy through March 2012 is 68.2%.

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, the Austin Music Hall, and The Long Center for the Performing Arts. 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, opened in March 2008. The Center contains two theaters: the 2,300-seat Michael and Susan Dell Hall and the flexible 240-seat Debra and Kevin Rollins Studio Theater. This venue belongs to the City, while a private nonprofit entity operates the building. The Austin City Limits Live at The Moody Theater is a state-of-the-art, 2,700+ person capacity live music venue that also serves as the home of the KLRU-TV produced PBS program Austin City Limits, the longest running music series in American television history. The venue hosts 60-100 concerts a year. Additionally, the University of Texas Darrel K. Royal-Texas Memorial Stadium was recently expanded to a seating capacity of 100,119.

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APPENDIX B

ANNUAL FINANCIAL REPORT

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Deloitte.

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www.deloitte.com

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 (the "City"), as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion 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. 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 controls over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2011 and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16, the City implemented Government Accounting Standards Board (GASB) Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions" and restated the beginning fund balance or net assets to reflect the retrospective impact of adopting GASB Statement No. 54.

Management's Discussion and Analysis, the General Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual-Budget Basis, the Retirement Plans – Trend Information, and the Other Post-Employment Benefits – Trend Information 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. This supplementary information is the responsibility of the City's management. 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.

Deloitte & Touche LLP

March 30, 2012

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, 2011.

The financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB). The City has implemented GASB Statements No. 1 through No. 59.

FINANCIAL HIGHLIGHTS

Government-wide financial statements
The assets of the City exceeded its liabilities at the end of the fiscal year 2011, resulting in $4.5 billion of net assets. Net assets associated with governmental activities are approximately $1.5 billion, or 33% of the total net assets of the City. Net assets associated with business-type activities are approximately $3 billion, or 67% 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 $3.6 billion, or 80% of total net assets.

Unrestricted net assets, which may be used to meet the City's future obligations, are $274.1 million, or 6.1% of the City's total net assets. Unrestricted net assets for governmental activities are a deficit of $164.1 million, while unrestricted net assets for business-type activities are approximately $438.2 million, or 14.4% of total business-type net assets. The deficit in governmental unrestricted net assets is largely due to the recognition of $234.0 million in other post employment benefit liabilities for governmental activities.

During fiscal year 2011, total net assets for the City of Austin increased $65.4 million or 1.5%. Of this amount, governmental activities decreased $65.9 million, or 4.2% from the previous year and business-type activities increased $131.3 million, or 4.5% from the previous year.

Total revenues for the City increased $225.3 million; revenues for governmental activities increased $7.0 million; revenues for business-type activities increased $218.3 million. Total expenses for the City increased $148.6 million; expenses for governmental activities increased $48.6 million; expenses for business-type activities increased $100.0 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.

- 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.

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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), the Mueller Local Government Corporation (MLGC), and the Waller Creek Local Government Corporation (WCLGC). The operations of AHFC, AIDC, MLGC, and WCLGC 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.

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 funds 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 three of the City's major funds, Austin Energy™, Austin Water Utility, and Austin-Bergstrom International Airport (Airport), as well as the nonmajor enterprise funds.

- 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 Communications Center (CTECC); Employee Benefits; Fleet Maintenance; Information Systems; Liability Reserve; Support Services; Wireless Communication; and Workers' Compensation. Because these services predominantly benefit governmental operations rather than business-type functions, they have been included in governmental activities in the government-wide financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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
Austin Energy	Business-type	Proprietary - Major
Austin Water Utility	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 Required Supplementary Information (RSI) section immediately follows the basic financial statements and related notes section of this report. The City adopts an annual appropriated budget for the General Fund plus four separately budgeted activities, all of which comprise the General Fund for GAAP reporting. RSI provides a comparison of revenues, expenditures and other financing sources and uses to budget and demonstrates budgetary compliance for each fund/activity. In addition, trend information related to the City's retirement and other post employment benefits 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 statement of net assets compared to prior year (in thousands):

Condensed Statement of Net Assets
as of September 30
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current assets	$ 573,550	606,064	1,105,313	1,094,991	1,678,863	1,701,055
Capital assets	2,423,967	2,372,210	6,748,854	6,576,192	9,172,821	8,948,402
Other noncurrent assets	15,022	10,566	941,962	848,606	956,984	859,172
Total assets	3,012,539	2,988,840	8,796,129	8,519,789	11,808,668	11,508,629
Deferred outflows of resources	--	--	186,369	212,884	186,369	212,884
Current liabilities	246,696	279,013	519,251	618,289	765,947	897,302
Noncurrent liabilities	1,275,299	1,151,279	5,418,451	5,202,364	6,693,750	6,353,643
Total liabilities	1,521,995	1,430,292	5,937,702	5,820,653	7,459,697	7,250,945
Deferred inflows of resources	--	--	7,076	7,710	7,076	7,710
Net assets:						
Invested in capital assets, net of related debt	1,562,046	1,544,834	2,048,964	1,998,753	3,611,010	3,543,587
Restricted	92,650	71,716	550,516	502,211	643,166	573,927
Unrestricted (deficit)	(164,152)	(58,002)	438,240	403,346	274,088	345,344
Total net assets	$ 1,490,544	1,558,548	3,037,720	2,904,310	4,528,264	4,462,858

In the current fiscal year, total assets increased $300.0 million and deferred outflows of the City decreased by $26.5 million. Total liabilities increased $208.8 million and deferred inflows decreased by $0.6 million. Governmental-type total assets increased by $23.7 million and business-type increased by $276.3 million, while governmental-type liabilities increased by $91.7 million and business-type increased by $117.0 million.

Significant factors in the increase of governmental total assets include a decrease in cash and investments of $22.0 million and an increase in capital assets of $51.8 million. Factors in the increase of governmental-type liabilities include increases in the pension obligation payable of $8.7 million, other post employment benefits of $64.6 million, and bonds payable of $38.6 million.

Significant factors in the increase of business-type total assets include an increase in capital assets of $172.7 million. Significant factors in the increase in total liabilities include increases in commercial paper notes payable of $104 million and other post employment benefits payable of $48.5 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 $4.5 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 $3.6 billion, or 80% 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, $643.2 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, $274.1 million of unrestricted net assets, may be used to meet the government's future obligations. Unrestricted net assets decreased $71.3 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 business-type activities. However, governmental activities report a deficit of $164.2 million for unrestricted net assets.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

b -- Changes in net assets

Total net assets of the City increased by $65.4 million in the current fiscal year. Governmental net assets decreased by $65.9 million after restatement (see Note 16). The decrease is attributable to expenses exceeding revenues by $163.0 million before transfers from other funds of $97.1 million. Business-type net assets increased by $131.3 million after restatement (see Note 16) due to revenues exceeding expenses by $228.4 million, before transfers to other funds of $97.1 million.

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Program revenues:						
Charges for services	$ 101,735	109,136	2,019,742	1,814,907	2,121,477	1,924,043
Operating grants and contributions	66,348	66,831	--	--	66,348	66,831
Capital grants and contributions	51,182	50,546	47,850	31,703	99,032	82,249
General revenues:						
Property tax	355,185	341,812	--	--	355,185	341,812
Sales tax	151,125	144,710	--	--	151,125	144,710
Franchise fees and gross receipts tax	95,029	87,996	--	--	95,029	87,996
Interest and other	19,364	31,960	11,274	13,935	30,638	45,895
Total revenues	839,968	832,991	2,078,866	1,860,545	2,918,834	2,693,536
Program expenses:						
General government	99,780	89,315	--	--	99,780	89,315
Public safety	485,611	455,760	--	--	485,611	455,760
Transportation, planning and sustainability	74,835	65,565	--	--	74,835	65,565
Public health	61,865	63,215	--	--	61,865	63,215
Public recreation and culture	106,488	91,732	--	--	106,488	91,732
Urban growth management	129,258	143,884	--	--	129,258	143,884
Interest on debt	45,154	44,889	--	--	45,154	44,889
Electric	--	--	1,136,850	1,086,470	1,136,850	1,086,470
Water	--	--	178,712	169,708	178,712	169,708
Wastewater	--	--	170,514	166,979	170,514	166,979
Airport	--	--	102,774	92,780	102,774	92,780
Convention	--	--	54,231	51,818	54,231	51,818
Environmental and health services	--	--	91,151	66,380	91,151	66,380
Public recreation	--	--	5,209	9,715	5,209	9,715
Urban growth management	--	--	110,996	106,618	110,996	106,618
Total expenses	1,002,991	954,360	1,850,437	1,750,468	2,853,428	2,704,828
Excess (deficiency) before transfers	(163,023)	(121,369)	228,429	110,077	65,406	(11,292)
Transfers	97,100	96,031	(97,100)	(96,031)	--	--
Increase (decrease) in net assets	(65,923)	(25,338)	131,329	14,046	65,406	(11,292)
Beginning net assets, as previously reported	1,558,548	1,583,886	2,904,310	2,886,129	4,462,858	4,470,015
Restatement adjustment	(2,081)	--	2,081	4,135	--	4,135
Beginning net assets, as restated	1,556,467	1,583,886	2,906,391	2,890,264	4,462,858	4,474,150
Ending net assets	$ 1,490,544	1,558,548	3,037,720	2,904,310	4,528,264	4,462,858

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

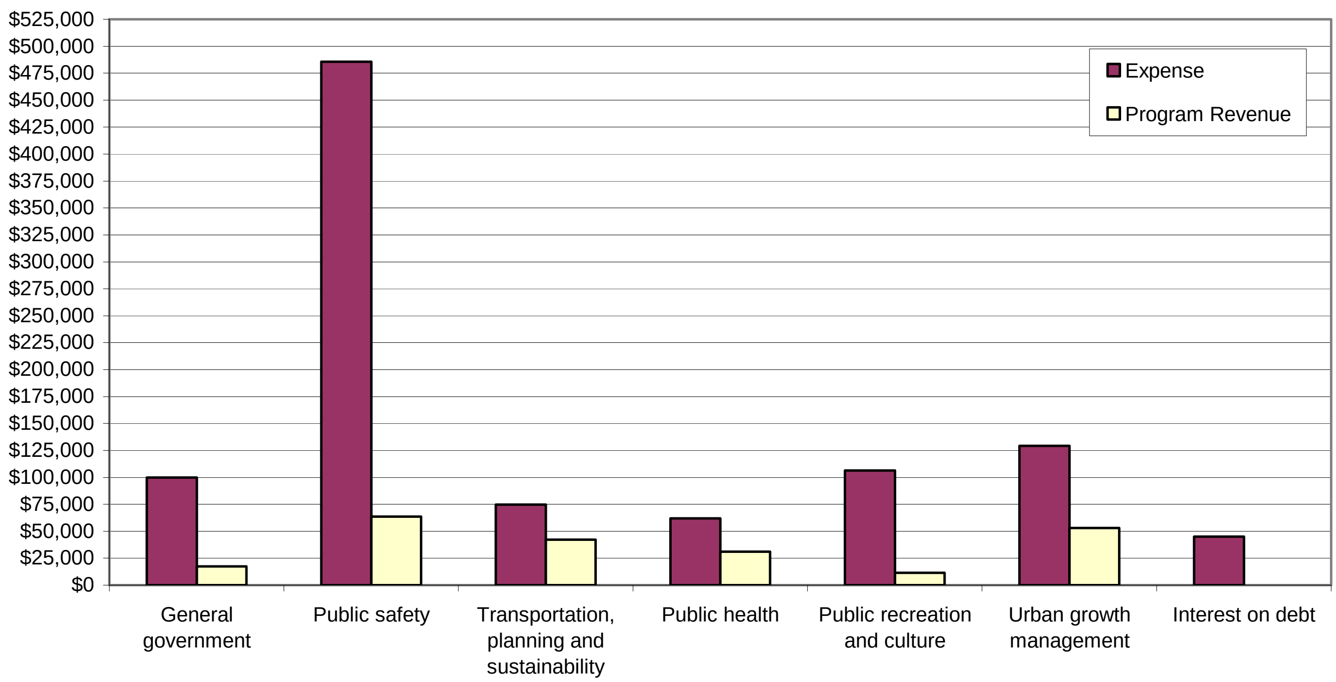
c -- Program revenues and expenses -- governmental activities

Governmental activities decreased the City's net assets by $65.9 million in fiscal year 2011, a 4.24% decrease of governmental net assets from the previous year. Key factors for the change from fiscal year 2010 to 2011 are as follows:

- The City's property tax revenue increased by $13.4 million from the previous year as a result of an increase in assessed property values and an increase in the City's tax rate from 42.09 cents to 45.71 per $100 valuation.
- Sales tax collections for fiscal year 2011 were $6.4 million more than fiscal year 2010. Franchise fees and gross receipts taxes increased $7.0 million due largely to an increased service area for cable franchise fees.
- General government expenses increased $10.5 million primarily due to increases in other post employment benefits expenses and increases to payments to internal service funds for services provided. Public safety expenses increased $29.9 million primarily due to increase in salaries, public recreation and culture expenses increased $14.8 million due to increases in salaries and capital outlay expenses, and urban growth management expenses decreased $14.6 million primarily as a result of the implementation of GASB Statement No. 54.

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; and interest on debt.

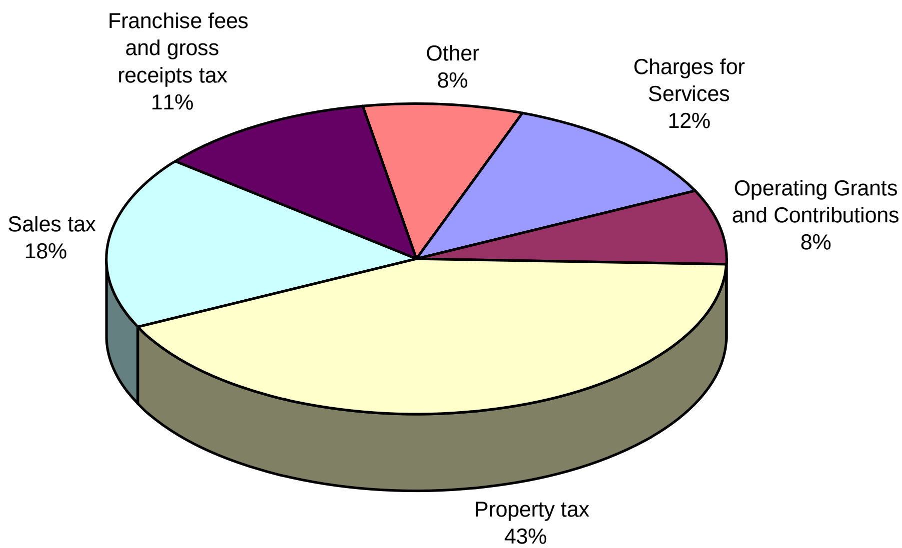
Government-wide Program Expenses and Revenues – Governmental Activities
(in thousands)



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 governmental revenues, followed by sales taxes and charges for goods and services.

Government-wide Revenues by Source -- Governmental Activities



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

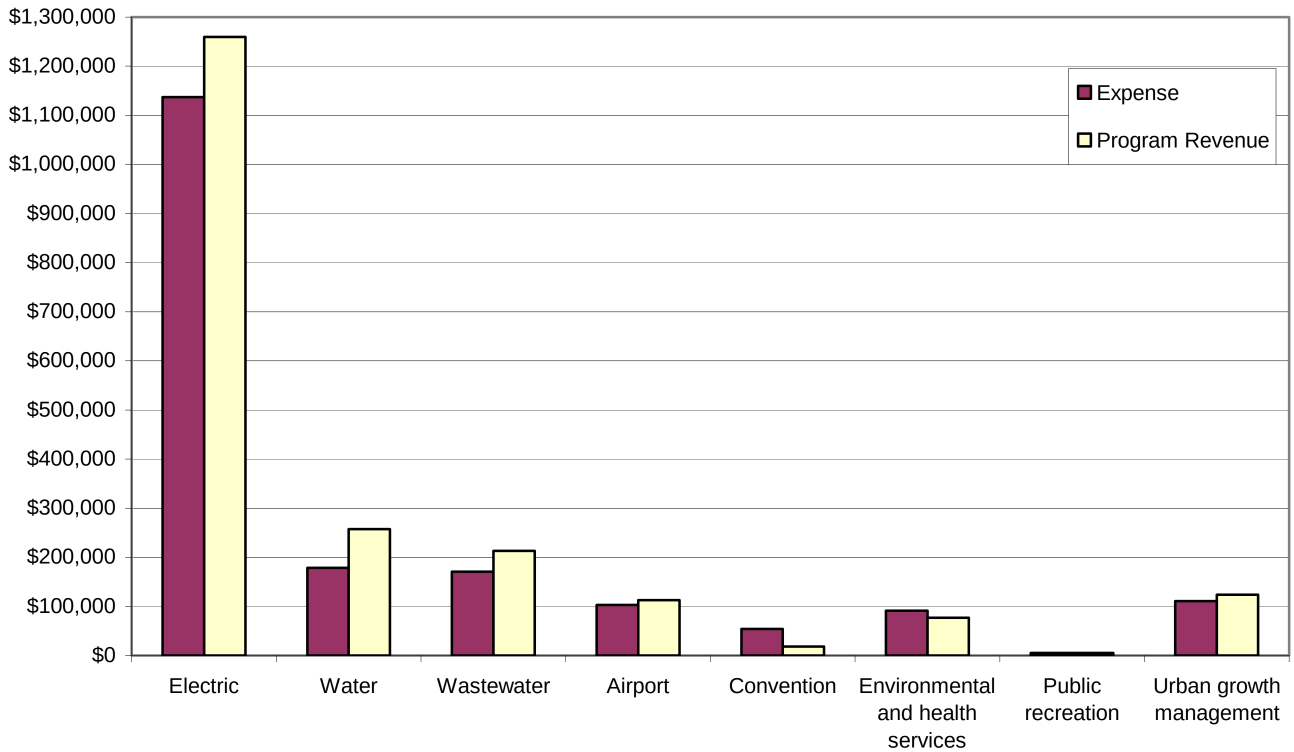
Business-type activities increase the City's net assets by approximately $131.3 million, accounting for a 2.9% increase in the City's total net assets. Key factors include:

- Austin Energy net assets increased approximately $28.5 million. Revenues increased 8.8% largely due to higher electric sales (base) due to above normal temperatures. Implementation of a Transmission Rider and higher fuel revenue was another major contribution. Expenses increased 5.1% primarily due to higher fuel costs, particularly in the summer months.
- Austin Water Utility net assets increased approximately $85.7 million. Revenues increased 24.2% due primarily to fee increases and the severe drought experienced during the year. Water revenue for 2011 increased by approximately 41.9% and Wastewater revenue increased 8.2% from prior year.
- Airport net assets increased approximately $10.4 million. Revenues increased 7.5% due to an increase in passenger traffic and expenses increased 4.9% due mainly to wage and benefit increases.
- Convention net assets increased approximately $2.4 million. Revenues and transfers from the Hotel Occupancy Tax Fund increased 20.1% due in part to the Texas State Legislature being in session during 2011. Expenses increased due to increases in operations and maintenance costs.
- Environmental activities are comprised of the Solid Waste Services nonmajor enterprise fund. Net assets decreased by approximately $13.8 million. This decrease is primarily attributed to a reduction in the accrual of environmental remediation costs during the year.
- Public recreation activities are comprised of nonmajor enterprise funds that include the Golf Fund and Parks and Recreation Fund. Net assets increased by $168 thousand. This net increase is a result of a combination of wage and benefit increases, debt service requirements, and the transfer of assets and liabilities of the Parks and Recreation Fund to governmental activities.
- Urban growth management activities are comprised of nonmajor enterprise funds that include the Drainage Fund and Transportation Fund. Net assets increased by approximately $21.9 million. Drainage revenues increased 2.3% primarily from customer growth due to development and annexations. Drainage expenses increased 4.3% due mainly to infrastructure and waterway maintenance. Transportation Fund revenues increased approximately 12.2% primarily due to increased license and permit fees and increased parking meter and pay station revenues.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

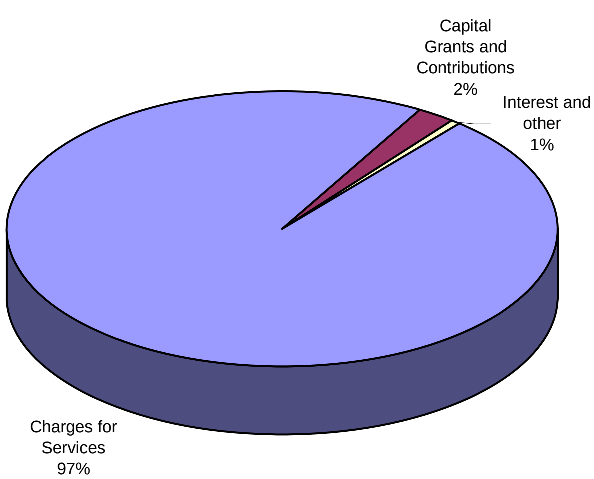
As shown in the following chart, the electric utility, with expenses of $1.14 billion is the City's largest business-type activity, followed by water ($179 million), wastewater ($171 million), urban growth management ($111 million), airport ($103 million), environmental ($91 million), convention ($54 million), and public recreation ($5 million). For the fiscal year, operating revenues exceeded operating expenses for all business-type activities except convention, environmental, and public recreation.

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 (97%), followed by capital grants and contributions (2%), and interest and other revenues (1%).

Government-wide Revenue by Source – Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND LEVEL STATEMENTS

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

a -- Governmental funds

The City reports the following types of governmental funds: the general fund, special revenue funds, debt service funds, capital 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, unassigned 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 $369.3 million, a decrease of $1.1 million from the previous year. Approximately $2.1 million is nonspendable, $175.5 million is restricted, $29.3 million is committed, $80.0 million is assigned, and $82.4 million is unassigned.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the General Fund reported nonspendable fund balance of $1.1 million, committed fund balance of $3.1 million, assigned fund balance of $11.0 million, and unassigned fund balance of $119.0 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 18.2% of total General Fund expenditures of $654.3 million, and total fund balance represents 20.5% of expenditures. The City's financial policies provide that surplus fund balance be indentified for budget stabilization. This amount is a component of unassigned fund balance. The fund balance indentified for budget stabilization was $60.5 million. The balance indentified 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 indentified amount, with the other two-thirds indentified for budget stabilization in future years.

The fund balance of the General Fund increased $25.5 million during the fiscal year. Significant differences from the previous year include:

- Beginning fund balance increased $19.3 million as result of the implementation of GASB Statement No. 54 (see Note 16).
- Property tax revenues increased $15.6 million due to an increase in assessed property values and the City's property tax rate increased from 42.09 cents to 45.71 cents per $100 valuation.
- Sales tax revenues increased $6.4 million, and licenses, permits and inspections increased $2.9 million.

General Fund expenditures increased $58.8 million, due primarily to an increase in public safety expenditures of $25.2 million, increase in public recreation and culture of $12.3 million, and increase in urban growth management of $17.1 million. The increase in public safety, public recreation and culture, and urban growth management expenditures is primarily due to increases in salaries and contractual expenditures.

b -- Proprietary funds

The City's proprietary funds provide the same type of information found in the business-type activities of the government-wide financial statements, but in more detail. Overall, net assets of the City's enterprise funds increased by $126.6 million before consolidation of the internal service funds activities.

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 revenue budget of the General Fund was amended during the fiscal year 2011 to increase emergency medical services and public health. The original expenditure budget of the General Fund was amended during fiscal year 2011 to increase public safety and public health costs.

During the year, revenues were $10.9 million more than budgeted. Sales tax collections were $2.9 million more than budgeted.

Actual budget-basis expenditures were $7.4 million less than budgeted. General city responsibilities exceeded budget by $1.5 million; while all other departments were under budget. The total budget-basis fund balance at year-end was $121.0 million.

b -- Capital assets

The City's capital assets for governmental and business-type activities as of September 30, 2011, total $9.2 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, equipment, vehicles, electric plant, non-electric plant, infrastructure, construction in progress, nuclear fuel, plant held for future use, and water rights. The total increase in the City's capital assets for the current fiscal year was $225 million (2.5%), with an increase of 2.2% for governmental activities and an increase of 2.6% for business-type activities. Additional information on capital assets can be found in Note 5. Capital asset balances are as follows:

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land and improvements	$ 344	332	487	464	831	796
Other assets not depreciated	21	20	2	1	23	21
Building and improvements	479	442	1,076	1,068	1,555	1,510
Plant and Equipment	80	64	2,096	2,050	2,176	2,114
Vehicles	39	35	59	62	98	97
Electric plant	--	--	2,158	1,998	2,158	1,998
Nonelectric plant	--	--	124	115	124	115
Infrastructure	1,273	1,237	--	--	1,273	1,237
Construction in progress	188	242	591	667	779	909
Nuclear fuel, net of amortization	--	--	42	34	42	34
Plant held for future use	--	--	26	28	26	28
Water rights, net of amortization	--	--	88	89	88	89
Total net capital assets	$ 2,424	2,372	6,749	6,576	9,173	8,948

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

- Governmental capital assets increased $52 million primarily due to additions of new facilities and improvements to existing facilities. The Animal Services Center, Public Safety Training Facility, Avery Ranch Fire Station, BMX and Skate Park, Austin Tennis Center Expansion and Mexican American Cultural Center improvement projects were completed. Significant additions and improvements were also made to drainage systems, wildland holdings, communication equipment, and bridge infrastructure.
- Business-type activities purchased or completed construction on capital assets of $173 million. The increase was largely due to plant additions and improvements and land acquisition for Austin Energy, Austin Water Utility and Drainage fund. Austin Energy completed installation of scrubbers at the Fayette Power Project and other electric plant assets. Austin Water completed projects related to Water Treatment Plant #4, water reclamation, and water and wastewater transmission line improvements. Additionally, portions of the Hornsby Bend composting and biosolids management projects were completed. The Drainage fund acquired flood plain property and made improvements to stormwater drainage systems.

OTHER INFORMATION, continued

c -- Debt administration

At the end of the current fiscal year, the City reported $5.2 billion in outstanding debt. The table below reflects the outstanding debt at September 30. Additional information can be found in Note 6.

Outstanding Debt
General Obligation and Revenue Debt
(in millions)

	Governmental Activities		Business-Type Activities		Total	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
General obligation bonds and other tax supported debt, net	$ 938	900	132	125	1,070	1,025
Commercial paper notes, net	--	--	360	300	360	300
Revenue notes	--	--	28	28	28	28
Revenue bonds, net	--	--	3,694	3,643	3,694	3,643
Capital lease obligations	--	1	1	2	1	3
Total	$ 938	901	4,215	4,098	5,153	4,999

During fiscal year 2011, the City's total outstanding debt increased by $154 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 $37 million. The resulting net increase is a combination of the issuance of $144 million in new debt to be used primarily for street improvements, streets and signals, park improvements, and affordable housing offset by the refinancing of existing debt and debt payments during the year.
- Outstanding debt for business-type functions increased $117 million. The City issued $177.8 million of Austin Water Utility separate lien revenue refunding bonds to refund commercial paper.

During the year, the Convention Center revenue bonds received favorable bond rating upgrades from Moody's Investors Services, Inc. The Airport system revenue bonds received a favorable rating upgrade from Standard & Poor's. All other bond ratings were unchanged. Ratings of the City's obligations for various debt instruments at September 30, 2011 and 2010 are as follows:

Debt	Moody's Investors Service, Inc		Standard & Poor's		Fitch, Inc.	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
General obligation bonds and other tax supported debt	Aaa	Aaa	AAA	AAA	AAA	AAA
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	A1	AA	AA	AA-	AA-
Utility revenue bonds - subordinate lien	A1	A1	AA	AA	AA-	AA-
Utility revenue bonds - separate lien:						
Electric	A1	A1	A+	A+	AA-	AA-
Water and Wastewater	Aa2	Aa2	AA	AA	AA-	AA-
Airport system revenue bonds	NUR(1)	NUR(1)	A	A-	NUR(1)	NUR(1)
Airport variable rate notes	NUR(1)	NUR(1)	NUR(1)	NUR(1)	NUR(1)	NUR(1)
Convention Center revenue bonds	A1	A2	A-	A-	NUR(1)	NUR(1)

(1) No underlying rating

OTHER INFORMATION, continued

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

As the national economy struggles to emerge from the recession, the local economy continues to gain strength. Sales tax revenue continued its upward trend from the 9.5 percent decline experienced in 2009. Austin saw a 3.5 percent sales tax revenue increase in 2010 and a 4.4 percent increase in 2011. Austin's diverse economic base and national reputation as a great place to work and live continues to attract talented individuals and new employment opportunities. Partnerships between the City and the business community have been the key to Austin's economic success. The City's economic development efforts have been successful in attracting new green energy, new technology firms, and jobs to Austin.

The City's 2012 budget was developed in a manner true to the City Manager's unwavering commitment to openness, transparency, and public engagement. Input from City Council, City employees, and citizens played a major role in the development of a variety of structural applications designed to positively affect our City's fiscal sustainability over the long term and present a balanced budget for City Council's review. 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 Council's priority of budget stability while at the same time maintaining affordability, investment in future economic development, infrastructure needs, and quality of life. These policies are also crucial in maintaining the City's favorable bond ratings. City management continues to monitor the economy and take corrective actions to help mitigate any unfavorable economic events. The assessed taxable property values within the City increased by 4.3% in 2011. The property tax rate for fiscal year 2012 is 48.11 cents per $100 valuation, up from 45.71 cents per $100 valuation in 2011. The tax rate consists of 35.51 cents for the General Fund and 12.6 cents for debt service.

Each 1 cent of the 2011 (Fiscal Year 2012) property tax rate is equivalent to $8,092,462 of tax levy, as compared to $7,761,935 in the previous year. Fiscal Year 2012 rate increases for Austin Water Utility are 5.4% for Water and 3.6% for Wastewater for a combined increase of 4.5%. Austin Energy's customer base rates remain unchanged for Fiscal Year 2012. However, the utility is preparing for an increase in base electric rates in the short-term future. The City has contracted with 2 third-party consulting firms to conduct a financial assessment of the electric utility, as well as a separate rate review.

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 2920, Austin, Texas 78768, or (512) 974-2600 or on the web at: https://www.ci.austin.tx.us/financeonline/finance/index.cfm

BASIC FINANCIAL STATEMENTS

(In thousands)

	Governmental Activities	Business-type Activities	Total (†)
ASSETS			
Current assets:			
Cash	$ 70	67	137
Pooled investments and cash	431,170	233,332	664,502
Pooled investments and cash - restricted	--	187,551	187,551
Total pooled investments and cash	431,170	420,883	852,053
Investments, at fair value	17,165	--	17,165
Investments, at fair value - restricted	--	249,325	249,325
Cash held by trustee - restricted	1,606	97	1,703
Working capital advances	--	7,942	7,942
Property taxes receivable	14,850	--	14,850
Less allowance for uncollectible taxes	(4,498)	--	(4,498)
Net property taxes receivable	10,352	--	10,352
Accounts and other receivables	195,978	238,238	434,216
Less allowance for doubtful accounts	(108,731)	(3,273)	(112,004)
Net accounts receivable	87,247	234,965	322,212
Receivables from other governments	14,274	--	14,274
Receivables from other governments - restricted	--	13	13
Notes receivable, net of allowance of $27,194	14,026	--	14,026
Internal balances	(15,744)	15,744	--
Inventories, at cost	2,496	79,296	81,792
Real property held for resale	9,396	--	9,396
Other receivables - restricted	--	3,323	3,323
Deferred costs and expenses, net of amortization	--	58,729	58,729
Prepaid items	329	4,122	4,451
Other assets	1,163	30,807	31,970
Total current assets	573,550	1,105,313	1,678,863
Noncurrent assets:			
Cash - restricted	--	4,319	4,319
Pooled investments and cash - restricted	--	177,617	177,617
Investments, at fair value - restricted	--	165,272	165,272
Investments held by trustee - restricted	--	176,325	176,325
Interest receivable - restricted	--	1,343	1,343
Depreciable capital assets, net of accumulated depreciation	1,870,492	5,642,773	7,513,265
Nondepreciable capital assets	553,475	1,106,081	1,659,556
Derivative instruments - energy risk management	--	7,076	7,076
Net pension asset	8,055	--	8,055
Other long-term assets	--	57	57
Deferred costs and expenses, net of amortization	6,967	409,953	416,920
Total noncurrent assets	2,438,989	7,690,816	10,129,805
Total assets	3,012,539	8,796,129	11,808,668
Deferred outflows of resources	$ --	186,369	186,369

(†) 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	Total (†)
LIABILITIES			
Current liabilities:			
Accounts payable	$ 41,144	79,411	120,555
Accounts and retainage payable from restricted assets	--	49,384	49,384
Accrued payroll	12,284	6,495	18,779
Accrued compensated absences	44,538	23,037	67,575
Claims payable	16,972	--	16,972
Accrued interest payable from restricted assets	--	94,840	94,840
Interest payable on capital appreciation bonds and other debt	3,687	734	4,421
Bonds payable	60,409	13,717	74,126
Bonds payable from restricted assets	--	171,522	171,522
Capital lease obligations payable	274	40	314
Customer and escrow deposits payable from restricted assets	--	41,735	41,735
Accrued landfill closure and postclosure costs	--	186	186
Deferred credits and other current liabilities	67,388	34,679	102,067
Other current liabilities payable from restricted assets	--	3,471	3,471
Total current liabilities	246,696	519,251	765,947
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	72,192	820	73,012
Claims payable	16,889	--	16,889
Capital appreciation bond interest payable	--	118,206	118,206
Commercial paper notes payable, net of discount	--	359,792	359,792
Revenue notes payable	--	28,000	28,000
Bonds payable, net of discount and inclusive of premium	877,719	3,641,467	4,519,186
Pension obligation payable	62,447	61,245	123,692
Other post employment benefits payable	234,018	149,174	383,192
Capital lease obligations payable	159	1,218	1,377
Accrued landfill closure and postclosure costs	--	7,323	7,323
Decommissioning liability payable from restricted assets	--	166,556	166,556
Derivative instruments - energy risk management	--	77,627	77,627
Derivative instruments - interest rate swaps	--	108,811	108,811
Deferred credits and other liabilities	11,875	691,813	703,688
Other liabilities payable from restricted assets	--	6,399	6,399
Total noncurrent liabilities	1,275,299	5,418,451	6,693,750
Total liabilities	1,521,995	5,937,702	7,459,697
Deferred inflows of resources	--	7,076	7,076
NET ASSETS			
Invested in capital assets, net of related debt	1,562,046	2,048,964	3,611,010
Restricted for:			
Debt service	13,522	107,919	121,441
Strategic reserve	--	140,529	140,529
Capital projects	27,285	175,979	203,264
Renewal and replacement	--	10,939	10,939
Bond reserve	--	71,366	71,366
Passenger facility charges	--	30,863	30,863
Operating reserve	--	12,921	12,921
Perpetual care:			
Expendable	764	--	764
Nonexpendable	1,040	--	1,040
Other purposes	50,039	--	50,039
Unrestricted (deficit)	(164,152)	438,240	274,088
Total net assets	$ 1,490,544	3,037,720	4,528,264

(†) 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, 2011
(In thousands)

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: Total
Governmental activities							
General government	$ 99,780	8,126	658	8,707	(82,289)	--	(82,289)
Public safety	485,611	52,998	10,098	521	(421,994)	--	(421,994)
Transportation, planning, and sustainability	74,835	3,823	1,090	37,369	(32,553)	--	(32,553)
Public health	61,865	7,592	23,593	--	(30,680)	--	(30,680)
Public recreation and culture	106,488	7,891	1,307	2,346	(94,944)	--	(94,944)
Urban growth management	129,258	21,305	29,602	2,239	(76,112)	--	(76,112)
Interest on debt	45,154	--	--	--	(45,154)	--	(45,154)
Total governmental activities	1,002,991	101,735	66,348	51,182	(783,726)	--	(783,726)
Business-type activities							
Electric	1,136,850	1,249,139	--	10,261	--	122,550	122,550
Water	178,712	243,382	--	13,964	--	78,634	78,634
Wastewater	170,514	204,666	--	8,673	--	42,825	42,825
Airport	102,774	106,978	--	5,479	--	9,683	9,683
Convention	54,231	18,486	--	13	--	(35,732)	(35,732)
Environmental and health services	91,151	75,981	--	1,027	--	(14,143)	(14,143)
Public recreation	5,209	5,260	--	150	--	201	201
Urban growth management	110,996	115,850	--	8,283	--	13,137	13,137
Total business-type activities	1,850,437	2,019,742	--	47,850	--	217,155	217,155
Total	$ 2,853,428	2,121,477	66,348	99,032	(783,726)	217,155	(566,571)
General revenues:							
Property tax					355,185	--	355,185
Sales tax					151,125	--	151,125
Franchise fees and gross receipts tax					95,029	--	95,029
Interest and other					19,364	11,274	30,638
Transfers-internal activities					97,100	(97,100)	--
Total general revenues and transfers					717,803	(85,826)	631,977
Change in net assets					(65,923)	131,329	65,406
Beginning net assets, as restated (see Note 16)					1,556,467	2,906,391	4,462,858
Ending net assets					$ 1,490,544	3,037,720	4,528,264

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

(In thousands)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash	$ 52	4	56
Pooled investments and cash	120,755	211,435	332,190
Investments, at fair value	--	17,165	17,165
Cash held by trustee-restricted	160	573	733
Property taxes receivable	9,522	5,328	14,850
Less allowance for uncollectible taxes	(2,941)	(1,557)	(4,498)
Net property taxes receivable	6,581	3,771	10,352
Accounts and other receivables	164,216	29,477	193,693
Less allowance for doubtful accounts	(108,472)	(259)	(108,731)
Net accounts receivable	55,744	29,218	84,962
Receivables from other governments	--	14,261	14,261
Notes receivable, net of allowance	--	14,026	14,026
Due from other funds	227	44,471	44,698
Advances to other funds	--	3,597	3,597
Inventories, at cost	862	--	862
Real property held for resale	--	9,396	9,396
Prepaid items	247	--	247
Other assets	173	990	1,163
Total assets	184,801	348,907	533,708
LIABILITIES AND FUND BALANCES			
Accounts payable	12,193	15,159	27,352
Accrued payroll	10,053	42	10,095
Accrued compensated absences	721	--	721
Due to other funds	197	44,690	44,887
Deferred revenue	22,190	6,360	28,550
Advances from other funds	1,809	474	2,283
Deposits and other liabilities	3,385	47,107	50,492
Total liabilities	50,548	113,832	164,380
Fund balances			
Nonspendable:			
Inventories and prepaid items	1,109	--	1,109
Permanent funds	--	1,040	1,040
Restricted	--	175,522	175,522
Committed	3,117	26,146	29,263
Assigned	10,992	68,949	79,941
Unassigned	119,035	(36,582)	82,453
Total fund balances	134,253	235,075	369,328
Total liabilities and fund balances	$ 184,801	348,907	533,708

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

Governmental Funds
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
September 30, 2011
(In thousands)

Total fund balances - Governmental funds		$ 369,328
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	3,522,594	
Less: accumulated depreciation	(1,140,504)	
		2,382,090
Other long-term assets and certain revenues are not available as current-period resources and are not reported in the funds.		
Accounts and other taxes receivable	11,661	
Deferred revenue - property taxes and interest	5,728	
Deferred costs and expenses	6,955	
Net pension asset	8,055	
		32,399
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	(933,553)	
Pension obligation payable	(62,447)	
Other post employment benefits payable	(234,018)	
Compensated absences	(108,452)	
Interest payable	(3,667)	
Deferred credits and other liabilities	(16,378)	
		(1,358,515)
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.		
Certain assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		65,242
Total net assets - Governmental activities		$ 1,490,544

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

Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended September 30, 2011
(In thousands)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes	$ 251,852	103,410	355,262
Sales taxes	151,125	--	151,125
Franchise fees and other taxes	39,271	55,649	94,920
Fines, forfeitures and penalties	18,131	5,946	24,077
Licenses, permits and inspections	18,653	--	18,653
Charges for services/goods	44,464	10,706	55,170
Intergovernmental	--	78,250	78,250
Property owners' participation and contributions	--	6,624	6,624
Interest and other	5,096	14,174	19,270
Total revenues	528,592	274,759	803,351
EXPENDITURES			
Current:			
General government	62,867	6,157	69,024
Public safety	442,974	6,381	449,355
Transportation, planning and sustainability	232	9,751	9,983
Public health	39,678	15,830	55,508
Public recreation and culture	73,602	12,993	86,595
Urban growth management	34,991	40,874	75,865
Debt service:			
Principal	--	78,568	78,568
Interest	--	44,892	44,892
Fees and commissions	--	13	13
Capital outlay-capital project funds	--	160,682	160,682
Total expenditures	654,344	376,141	1,030,485
Deficiency of revenues over expenditures	(125,752)	(101,382)	(227,134)
OTHER FINANCING SOURCES (USES)			
Issuance of tax supported debt	--	118,778	118,778
Issuance of refunding bonds	--	79,342	79,342
Bond premiums	--	14,929	14,929
Payment to refunding bond escrow agent	--	(94,271)	(94,271)
Transfers in	141,448	38,028	179,476
Transfers out	(9,487)	(60,659)	(70,146)
Total other financing sources (uses)	131,961	96,147	228,108
Net change in fund balances	6,209	(5,235)	974
Fund balances at beginning of year, as restated (See Note 16)	128,044	240,310	368,354
Fund balances at end of year	$ 134,253	235,075	369,328

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

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
For the year ended September 30, 2011
(In thousands)

Net change in fund balances - Governmental funds		$ 974
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.		
Capital outlay	124,834	
Depreciation expense	(96,502)	
Loss on disposal of capital assets	(735)	
		27,597
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		
Property taxes	(77)	
Charges for services	(1,470)	
Interest and other	(1,076)	
Capital assets contribution	23,348	
		20,725
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.		
Issuance of long-term debt	(118,778)	
Principal repayment on long-term debt	78,568	
Issuance of refunding bonds	(79,342)	
Refunding bond premiums	(14,929)	
Payment to refunding bond escrow agent	94,271	
		(40,210)
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	(3,997)	
Pension obligation	(5,329)	
Other post employment benefits	(64,586)	
Interest and other	1,394	
		(72,518)
A portion of the net revenue (expense) of the internal service funds is reported with the governmental activities.		(2,491)
Change in net assets - Governmental activities		$ (65,923)

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

Proprietary Funds
Statement of Net Assets
September 30, 2011
(In thousands)

	Austin Energy (1)	Austin Water Utility (2)	Airport
ASSETS			
Current assets:			
Cash	$ 21	8	7
Pooled investments and cash	70,748	5,395	1,521
Pooled investments and cash - restricted	74,710	42,828	32,514
Total pooled investments and cash	145,458	48,223	34,035
Investments, at fair value - restricted	97,605	126,259	15,575
Cash held by trustee - restricted	--	97	--
Working capital advances	7,942	--	--
Accounts receivable	149,006	69,086	4,137
Less allowance for doubtful accounts	(1,912)	(237)	(777)
Net accounts receivable	147,094	68,849	3,360
Receivables from other governments	--	--	--
Receivables from other governments-restricted	--	--	--
Due from other funds	2,012	--	--
Inventories, at cost	75,118	1,718	1,366
Prepaid expenses	3,908	6	7
Other assets	30,807	--	--
Other receivables - restricted	1,690	365	613
Deferred costs and expenses, net of amortization	34,421	24,308	--
Total current assets	546,076	269,833	54,963
Noncurrent assets:			
Cash - restricted	4,319	--	--
Pooled investments and cash - restricted	19,542	20,298	137,777
Advances to other funds	27,787	--	--
Advances to other funds - restricted	--	--	96
Investments, at fair value - restricted	156,774	--	--
Investments held by trustee - restricted	176,325	--	--
Interest receivable - restricted	1,343	--	--
Depreciable capital assets, net of accumulated depreciation	2,334,835	2,466,448	496,963
Nondepreciable capital assets	254,742	569,924	123,560
Derivative instruments - energy risk management	7,076	--	--
Other long-term assets	57	--	--
Deferred costs and expenses, net of amortization	198,722	204,294	2,700
Total noncurrent assets	3,181,522	3,260,964	761,096
Total assets	3,727,598	3,530,797	816,059
Deferred outflows of resources	$ 77,558	38,616	51,016

(1) Prior to 2011, reported as Electric

(2) Prior to 2011, reported as Water and Wastewater

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

	Nonmajor Enterprise Funds	Total	Governmental Activities- Internal Service Funds
ASSETS			
Current assets:			
Cash	31	67	14
Pooled investments and cash	155,668	233,332	98,980
Pooled investments and cash - restricted	37,499	187,551	--
Total pooled investments and cash	193,167	420,883	98,980
Investments, at fair value - restricted	9,886	249,325	--
Cash held by trustee - restricted	--	97	873
Working capital advances	--	7,942	--
Accounts receivable	16,009	238,238	2,285
Less allowance for doubtful accounts	(347)	(3,273)	--
Net accounts receivable	15,662	234,965	2,285
Receivables from other governments	--	--	13
Receivables from other governments-restricted	13	13	--
Due from other funds	350	2,362	11
Inventories, at cost	1,094	79,296	1,634
Prepaid expenses	201	4,122	82
Other assets	--	30,807	--
Other receivables - restricted	655	3,323	--
Deferred costs and expenses, net of amortization	--	58,729	--
Total current assets	221,059	1,091,931	103,892
Noncurrent assets:			
Cash - restricted	--	4,319	--
Pooled investments and cash - restricted	--	177,617	--
Advances to other funds	59	27,846	92
Advances to other funds - restricted	--	96	--
Investments, at fair value - restricted	8,498	165,272	--
Investments held by trustee - restricted	--	176,325	--
Interest receivable - restricted	--	1,343	--
Depreciable capital assets, net of accumulated depreciation	344,527	5,642,773	40,283
Nondepreciable capital assets	157,855	1,106,081	1,594
Derivative instruments - energy risk management	--	7,076	--
Other long-term assets	--	57	--
Deferred costs and expenses, net of amortization	4,237	409,953	12
Total noncurrent assets	515,176	7,718,758	41,981
Total assets	736,235	8,810,689	145,873
Deferred outflows of resources	19,179	186,369	--

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

Proprietary Funds
Statement of Net Assets
September 30, 2011
(In thousands)

	Business-Type Activities		
	Austin Energy (1)	**Austin Water Utility (2)**	**Airport**
LIABILITIES			
Current liabilities:			
Accounts payable	$ 70,210	2,677	1,777
Accounts and retainage payable from restricted assets	9,138	33,881	3,361
Accrued payroll	2,919	1,438	428
Accrued compensated absences	11,252	5,122	1,441
Claims payable	--	--	--
Due to other funds	--	--	138
Due to other funds payable from restricted assets	--	1,240	--
Accrued interest payable from restricted assets	46,306	44,720	1,807
Interest payable on capital appreciation bonds and other debt	33	42	1
Bonds payable	--	--	30
Bonds payable from restricted assets	75,850	72,057	14,165
Capital lease obligations payable	40	--	--
Customer and escrow deposits payable from restricted assets	28,409	9,409	432
Accrued landfill closure and postclosure costs	--	--	--
Deferred credits and other liabilities	11,225	22,853	601
Other liabilities payable from restricted assets	--	--	--
Total current liabilities	255,382	193,439	24,181
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	51	368	163
Claims payable	--	--	--
Advances from other funds	--	3,172	1,398
Advances from other funds payable from restricted assets	--	22,723	--
Capital appreciation bond interest payable	23,076	95,130	--
Commercial paper notes payable, net of discount	152,582	207,210	--
Revenue notes payable	--	--	28,000
Bonds payable, net of discount and inclusive of premium	1,181,276	1,905,573	268,640
Pension obligation payable	27,737	13,765	4,154
Other post employment benefits payable	62,236	37,386	10,763
Capital lease obligations payable	1,218	--	--
Accrued landfill closure and postclosure costs	--	--	--
Decommissioning liability payable from restricted assets	166,556	--	--
Derivative instruments - energy risk management	77,627	--	--
Derivative instruments - interest rate swaps	--	38,616	51,016
Deferred credits and other liabilities	223,182	464,409	--
Other liabilities payable from restricted assets	--	308	56
Total noncurrent liabilities	1,915,541	2,788,660	364,190
Total liabilities	2,170,923	2,982,099	388,371
Deferred inflows of resources	$ 7,076	--	--

(1) Prior to 2011, reported as Electric

(2) Prior to 2011, reported as Water and Wastewater

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

	Business-Type Activities Nonmajor Enterprise Funds	Business-Type Activities Total	Governmental Activities- Internal Service Funds
LIABILITIES			
Current liabilities:			
Accounts payable	4,747	79,411	13,792
Accounts and retainage payable from restricted assets	3,004	49,384	--
Accrued payroll	1,710	6,495	2,189
Accrued compensated absences	5,222	23,037	6,975
Claims payable	--	--	16,972
Due to other funds	665	803	141
Due to other funds payable from restricted assets	--	1,240	--
Accrued interest payable from restricted assets	2,007	94,840	--
Interest payable on capital appreciation bonds and other debt	658	734	20
Bonds payable	13,687	13,717	487
Bonds payable from restricted assets	9,450	171,522	--
Capital lease obligations payable	--	40	274
Customer and escrow deposits payable from restricted assets	3,485	41,735	--
Accrued landfill closure and postclosure costs	186	186	--
Deferred credits and other liabilities	--	34,679	1,232
Other liabilities payable from restricted assets	3,471	3,471	--
Total current liabilities	48,292	521,294	42,082
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	238	820	582
Claims payable	--	--	16,889
Advances from other funds	1,740	6,310	315
Advances from other funds payable from restricted assets	--	22,723	--
Capital appreciation bond interest payable	--	118,206	--
Commercial paper notes payable, net of discount	--	359,792	--
Revenue notes payable	--	28,000	--
Bonds payable, net of discount and inclusive of premium	285,978	3,641,467	4,088
Pension obligation payable	15,589	61,245	--
Other post employment benefits payable	38,789	149,174	--
Capital lease obligations payable	--	1,218	159
Accrued landfill closure and postclosure costs	7,323	7,323	--
Decommissioning liability payable from restricted assets	--	166,556	--
Derivative instruments - energy risk management	--	77,627	--
Derivative instruments - interest rate swaps	19,179	108,811	--
Deferred credits and other liabilities	4,222	691,813	--
Other liabilities payable from restricted assets	6,035	6,399	--
Total noncurrent liabilities	379,093	5,447,484	22,033
Total liabilities	427,385	5,968,778	64,115
Deferred inflows of resources	--	7,076	--

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

Proprietary Funds
Statement of Net Assets
September 30, 2011
(In thousands)

	Austin Energy (1)	Austin Water Utility (2)	Airport
NET ASSETS			
Invested in capital assets, net of related debt	$ 1,120,716	410,769	310,848
Restricted for:			
Debt service	51,299	33,243	15,498
Strategic reserve	140,529	--	--
Capital projects	38,787	12,805	111,458
Renewal and replacement	64	--	10,000
Bond reserve	16,246	48,296	--
Passenger facility charges	--	--	30,863
Operating reserve	--	--	9,786
Unrestricted	259,516	82,201	(9,749)
Total net assets	$ 1,627,157	587,314	478,704
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	7,566	3,608	1,515
Total net assets - Business-type activities	$ 1,634,723	590,922	480,219

(1) Prior to 2011, reported as Electric

(2) Prior to 2011, reported as Water and Wastewater

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

	Nonmajor Enterprise Funds	Total	
NET ASSETS			
Invested in capital assets, net of related debt	206,631	2,048,964	36,881
Restricted for:			
Debt service	7,879	107,919	--
Strategic reserve	--	140,529	--
Capital projects	12,929	175,979	--
Renewal and replacement	875	10,939	--
Bond reserve	6,824	71,366	--
Passenger facility charges	--	30,863	--
Operating reserve	3,135	12,921	--
Unrestricted	89,756	421,724	44,877
Total net assets	328,029	3,021,204	81,758
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	3,827	16,516	
Total net assets - Business-type activities	331,856	3,037,720	

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, 2011
(In thousands)

	Austin Energy (1)	Austin Water Utility (2)	Airport
OPERATING REVENUES			
Utility services	$ 1,249,139	448,048	--
User fees and rentals	--	--	89,548
Billings to departments	--	--	--
Employee contributions	--	-- --	
Operating revenues from other governments	--	--	--
Other operating revenues	--	--	--
Total operating revenues	1,249,139	448,048	89,548
OPERATING EXPENSES			
Operating expenses before depreciation	932,802	177,474	63,835
Depreciation and amortization	132,077	91,398	19,581
Total operating expenses	1,064,879	268,872	83,416
Operating income (loss)	184,260	179,176	6,132
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	9,732	271	711
Interest on revenue bonds and other debt	(81,823)	(99,843)	(14,087)
Interest capitalized during construction	--	--	372
Passenger facility charges	--	--	17,430
Amortization of bond issue cost	(735)	(785)	(229)
Cost (recovered) to be recovered in future years	12,667	22,178	--
Other nonoperating revenue (expense)	(4,337)	(3,032)	(5,923)
Total nonoperating revenues (expenses)	(64,496)	(81,211)	(1,726)
Income (loss) before contributions and transfers	119,764	97,965	4,406
Capital contributions	10,261	22,637	5,479
Transfers in	--	-- --	
Transfers out	(103,758)	(35,993)	--
Change in net assets	26,267	84,609	9,885
Total net assets - beginning, as restated (See Note 16)	1,600,890	502,705	468,819
Total net assets - ending	$ 1,627,157	587,314	478,704
Reconciliation to government-wide Statement of Activities			
Change in net assets	26,267	84,609	9,885
Adjustment to consolidate internal service activities	2,257	1,128	509
Change in net assets - Business-type activities	$ 28,524	85,737	10,394

(1) Prior to 2011, reported as Electric
(2) Prior to 2011, reported as Water and Wastewater

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

	Nonmajor Enterprise Funds	Total	Governmental Activities- Internal Service Funds
OPERATING REVENUES			
Utility services	--	1,697,187	--
User fees and rentals	215,577	305,125	--
Billings to departments	--	--	295,483
Employee contributions	--	--	28,320
Operating revenues from other governments	--	--	3,131
Other operating revenues	--	--	4,852
Total operating revenues	215,577	2,002,312	331,786
OPERATING EXPENSES			
Operating expenses before depreciation	214,264	1,388,375	305,818
Depreciation and amortization	23,635	266,691	8,815
Total operating expenses	237,899	1,655,066	314,633
Operating income (loss)	(22,322)	347,246	17,153
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	844	11,558	118
Interest on revenue bonds and other debt	(13,793)	(209,546)	(262)
Interest capitalized during construction	1,666	2,038	--
Passenger facility charges	--	17,430	--
Amortization of bond issue cost	(311)	(2,060)	19
Cost (recovered) to be recovered in future years	--	34,845	--
Other nonoperating revenue (expense)	(12,106)	(25,398)	(11,650)
Total nonoperating revenues (expenses)	(23,700)	(171,133)	(11,775)
Income (loss) before contributions and transfers	(46,022)	176,113	5,378
Capital contributions	10,581	48,958	7,719
Transfers in	47,120	47,120	--
Transfers out	(5,861)	(145,612)	(10,838)
Change in net assets	5,818	126,579	2,259
Total net assets - beginning, as restated (See Note 16)	322,211	2,894,625	79,499
Total net assets - ending	328,029	3,021,204	81,758
Reconciliation to government-wide Statement of Activities			
Change in net assets	5,818	126,579	
Adjustment to consolidate internal service activities	856	4,750	
Change in net assets - Business-type activities	6,674	131,329	

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

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2011
(In thousands)

	Austin Energy (1)	Austin Water Utility (2)	Airport
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	$ 1,211,031	432,729	88,593
Cash payments to suppliers for goods and services	(699,953)	(86,064)	(35,470)
Cash payments to employees for services	(170,351)	(80,565)	(24,302)
Cash payments to claimants/beneficiaries	--	--	--
Taxes collected and remitted to other governments	(33,836)	--	--
Net cash provided by operating activities	306,891	266,100	28,821
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	--	-- --	
Transfers out	(103,758)	(35,993)	--
Interest paid on revenue notes and other debt	(53)	--	--
Increase in deferred assets	(105)	--	--
Contributions (to) from other funds	--	(242)	--
Loans to other funds	(3,582)	--	--
Loan repayments to other funds	--	(973)	--
Loan repayments from other funds	1,100	27	1,525
Collections from other governments	11,873	--	703
Net cash provided (used) by noncapital financing activities	(94,525)	(37,181)	2,228
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	67,427	167,568	--
Proceeds from the sale of general obligation bonds and other tax supported debt	--	1,675	--
Proceeds from the sale of revenue bonds	--	12,750	--
Principal paid on long-term debt	(75,275)	(55,533)	(13,874)
Purchased interest received	--	1,169	--
Interest paid on revenue bonds and other debt	(99,092)	(107,938)	(13,296)
Passenger facility charges	--	--	17,430
Acquisition and construction of capital assets	(148,447)	(233,433)	(23,875)
Contributions from municipality	--	--	--
Contributions from state and federal governments	--	--	998
Contributions in aid of construction	10,260	5,619	5,479
Bond issuance costs	--	(1,729)	--
Bond premiums	--	2,132	--
Bonds issued for advanced refundings of debt	--	182,765	--
Cash paid for bond refunding escrow	--	(183,167)	--
Cash paid for nuclear fuel inventory	(22,150)	--	--
Net cash (used) by capital and related financing activities	$ (267,277)	(208,122)	(27,138)

(1) Prior to 2011, reported as Electric

(2) Prior to 2011, reported as Water and Wastewater

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

	Nonmajor Enterprise Funds	Total	Governmental Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	214,006	1,946,359	330,908
Cash payments to suppliers for goods and services	(109,602)	(931,089)	(82,006)
Cash payments to employees for services	(84,936)	(360,154)	(119,598)
Cash payments to claimants/beneficiaries	--	--	(105,353)
Taxes collected and remitted to other governments	--	(33,836)	--
Net cash provided by operating activities	19,468	621,280	23,951
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	47,120	47,120	--
Transfers out	(5,861)	(145,612)	(10,838)
Interest paid on revenue notes and other debt	(2)	(55)	--
Increase in deferred assets	--	(105)	--
Contributions (to) from other funds	242	--	--
Loans to other funds	(7)	(3,589)	--
Loan repayments to other funds	(1,291)	(2,264)	(165)
Loan repayments from other funds	367	3,019	--
Collections from other governments	358	12,934	--
Net cash provided (used) by noncapital financing activities	40,926	(88,552)	(11,003)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	--	234,995	--
Proceeds from the sale of general obligation bonds and other tax supported debt	22,875	24,550	--
Proceeds from the sale of revenue bonds	--	12,750	--
Principal paid on long-term debt	(21,176)	(165,858)	(774)
Purchased interest received	42	1,211	--
Interest paid on revenue bonds and other debt	(13,553)	(233,879)	(262)
Passenger facility charges	--	17,430	--
Acquisition and construction of capital assets	(29,356)	(435,111)	(14,011)
Contributions from municipality	230	230	--
Contributions from state and federal governments	--	998	--
Contributions in aid of construction	5,107	26,465	--
Bond issuance costs	(225)	(1,954)	--
Bond premiums	1,153	3,285	--
Bonds issued for advanced refundings of debt	5,513	188,278	--
Cash paid for bond refunding escrow	(6,471)	(189,638)	--
Cash paid for nuclear fuel inventory	--	(22,150)	--
Net cash (used) by capital and related financing activities	(35,861)	(538,398)	(15,047)

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

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2011
(In thousands)

	Business-Type Activities		
	Austin Energy (1)	**Austin Water Utility (2)**	**Airport**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	$ (436,885)	(168,111)	(30,665)
Proceeds from sale and maturities of investment securities	432,723	148,098	29,264
Interest on investments	9,620	271	711
Net cash provided (used) by investing activities	5,458	(19,742)	(690)
Net increase (decrease) in cash and cash equivalents	(49,453)	1,055	3,221
Cash and cash equivalents, October 1, as restated (See Note 16)	218,793	67,571	168,598
Cash and cash equivalents, September 30	169,340	68,626	171,819
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	184,260	179,176	6,132
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	132,077	90,410	19,581
Amortization	--	988	--
Change in assets and liabilities:			
Increase in working capital advances	(1,388)	--	--
Increase in accounts receivable	(14,018)	(16,045)	(499)
Increase (decrease) in allowance for doubtful accounts	(358)	(277)	129
Decrease in due from other funds	--	--	--
(Increase) decrease in inventory	(107)	(154)	30
(Increase) decrease in prepaid expenses and other assets	(4,370)	10	2
(Increase) decrease in deferred costs and other expenses	(4,125)	25	--
(Increase) decrease in other long-term assets	5	--	--
Increase (decrease) in accounts payable	16,729	(404)	801
Decrease in accrued payroll and compensated absences	(5,534)	(2,603)	(708)
Increase in claims payable	--	--	--
Decrease in due to other governments	--	--	--
Decrease in advances from other funds	--	--	--
Increase in pension obligations payable	4,120	1,942	584
Increase in other post employment benefits payable	21,158	12,000	3,286
Increase (decrease) in deferred credits and other liabilities	(23,812)	28	(532)
Increase in customer deposits	2,254	1,004	15
Total adjustments	122,631	86,924	22,689
Net cash provided by operating activities	$ 306,891	266,100	28,821

(1) Prior to 2011, reported as Electric

(2) Prior to 2011, reported as Water and Wastewater

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

	Business-Type Activities		Governmental
	Nonmajor Enterprise Funds	Total	Activities- Internal Service Funds
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	(22,657)	(658,318)	--
Proceeds from sale and maturities of investment securities	22,868	632,953	--
Interest on investments	844	11,446	118
Net cash provided (used) by investing activities	1,055	(13,919)	118
Net increase (decrease) in cash and cash equivalents	25,588	(19,589)	(1,981)
Cash and cash equivalents, October 1, as restated (See Note 16)	167,610	622,572	101,848
Cash and cash equivalents, September 30	193,198	602,983	99,867
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	(22,322)	347,246	17,153
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	23,635	265,703	8,815
Amortization	--	988	--
Change in assets and liabilities:			
Increase in working capital advances	--	(1,388)	--
Increase in accounts receivable	(1,819)	(32,381)	(283)
Increase (decrease) in allowance for doubtful accounts	(18)	(524)	--
Decrease in due from other funds	--	--	11
(Increase) decrease in inventory	94	(137)	(599)
(Increase) decrease in prepaid expenses and other assets	19	(4,339)	(4)
(Increase) decrease in deferred costs and other expenses	--	(4,100)	(294)
(Increase) decrease in other long-term assets	--	5	(8)
Increase (decrease) in accounts payable	441	17,567	5,777
Decrease in accrued payroll and compensated absences	(3,110)	(11,955)	(3,378)
Increase in claims payable	--	--	426
Decrease in due to other governments	--	--	(69)
Decrease in advances from other funds	(7)	(7)	(28)
Increase in pension obligations payable	1,959	8,605	--
Increase in other post employment benefits payable	12,014	48,458	--
Increase (decrease) in deferred credits and other liabilities	8,302	(16,014)	(3,568)
Increase in customer deposits	280	3,553	--
Total adjustments	41,790	274,034	6,798
Net cash provided by operating activities	19,468	621,280	23,951

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

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2011
(In thousands)

	Austin Energy (1)	Austin Water Utility (2)	Airport
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
(Increase) decrease in deferred assets/expenses	$ (13,406)	(21,504)	--
Capital appreciation bonds interest accreted	2,583	10,552	--
Capital assets contributed from other funds	--	--	--
Contributed facilities	--	16,858	--
Decrease in the fair value of investments	(1,840)	(149)	(212)
Amortization of bond issue costs	(735)	(785)	(229)
Amortization of bond (discounts) premiums	5,277	4,239	252
Amortization of deferred loss on refundings	(10,294)	(4,685)	(1,085)
Loss on disposal of assets	(1,292)	(6,391)	(7,082)
Deferred loss on bond refunding	--	(299)	--
Deferred costs to be recovered	5,429	22,178	--
Increase (decrease) in deferred credits and other liabilities	8,474	(1,178)	--

(1) Prior to 2011, reported as Electric

(2) Prior to 2011, reported as Water and Wastewater

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

	Nonmajor Enterprise Funds	Total	
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
(Increase) decrease in deferred assets/expenses	114	(34,796)	--
Capital appreciation bonds interest accreted	--	13,135	--
Capital assets contributed from other funds	879	879	7,719
Contributed facilities	--	16,858	--
Decrease in the fair value of investments	(205)	(2,406)	--
Amortization of bond issue costs	(311)	(2,060)	(19)
Amortization of bond (discounts) premiums	672	10,440	--
Amortization of deferred loss on refundings	(1,269)	(17,333)	--
Loss on disposal of assets	(11,423)	(26,188)	(11,650)
Deferred loss on bond refunding	--	(299)	--
Deferred costs to be recovered	--	27,607	--
Increase (decrease) in deferred credits and other liabilities	--	7,296	--

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

(In thousands)

	Private-purpose Trust	Agency
ASSETS		
Pooled investments and cash	$ 1,432	2,724
Other assets	121	--
Total assets	1,553	2,724
LIABILITIES		
Accounts payable	--	18
Due to other governments	--	2,097
Deposits and other liabilities	689	609
Total liabilities	689	2,724
NET ASSETS		
Held in trust	864	
Total net assets	$ 864	

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

	Private-purpose Trust
ADDITIONS	
Contributions	$ 491
Interest and other	7
Total additions	498
DEDUCTIONS	
Benefit payments	502
Total deductions	502
Net additions (deductions)	(4)
Total net assets - beginning	868
Total net assets - ending	$ 864

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 generally accepted accounting principles (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB). The City has implemented GASB Statements No. 1 through No. 59. In fiscal year 2011, the City implemented GASB Statement No. 54 entitled "*Fund Balance Reporting and Governmental Fund Type Definitions*" (see Note 16 for impact) and GASB Statement No. 59 entitled "*Financial Instruments Omnibus.*" 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 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.

The Waller Creek Local Government Corporation (WCLGC) is a non-profit local government corporation created by the City under Subchapter D of Chapter 431 of the Texas Transportation Code. WCLGC was created for the primary purpose of financing certain public improvements located within or around the District (Waller Creek Redevelopment Project). The Austin City Council appoints a 5 member board consisting of three representatives of the Waller Creek Conservancy and two representatives of the City. 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 Mental 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.

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

- Austin Housing Authority – The Mayor appoints the persons to serve as commissioners of this organization.
- Travis County Healthcare 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 Healthcare District as a component unit on their financial statements.

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 7) 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 No. 34; the City has elected to present the Airport Fund as a major fund even though it does 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 nonmajor governmental, nonmajor enterprise, or internal service fund groupings.

The City's fiduciary funds are presented in the fund financial statements by type (private-purpose and agency). By definition, fiduciary fund 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 statements is provided in the financial statements to explain the differences created by the integrated approach of GASB Statement No. 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 or 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, municipal court fines, development permits and inspections, building safety permits and inspections, public health charges, emergency medical service charges, 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 and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt Service Funds: Account for and report financial resources, and the accumulation of those financial resources, that are restricted, committed, or assigned to expenditure for principal and interest of general long-term debt and HUD Section 108 loans.

Capital Projects Funds: Account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those reported within proprietary funds). It is primarily funded 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 and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's programs.

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

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. In accordance with GASB Statement No. 20, the City applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The City reports the following major enterprise funds:

Austin Energy™: Accounts for the activities of the City-owned electric utility.

Austin Water Utility: Accounts for the activities of the City-owned water and wastewater utility.

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

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 solid waste services activities.
Public recreation: Accounts for golf and parks and recreation activities.
Urban growth management: Accounts for drainage and transportation activities.

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

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 center 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 projects, 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 payroll accruals, employee training, and other fund-level expenditures are budgeted as general city responsibilities.

Formal budgetary control is employed during the year at the fund and department level as a management control device for annual 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 2 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 carry 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, 2011. Investments in local government investment pools are carried at net asset value per share calculated using the amortized cost method 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, 2011 (in thousands):

	Charges for Services	Fines	Taxes	Other Govern-ments	Other	Total
Governmental activities						
General Fund	$ 102,206	26,976	35,034	--	--	164,216
Nonmajor governmental funds	706	--	13,167	14,885	719	29,477
Internal service funds	2,285	--	--	--	--	2,285
Allowance for doubtful accounts	(94,768)	(13,704)	--	(259)	--	(108,731)
Total	$ 10,429	13,272	48,201	14,626	719	87,247

Receivables reported in 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 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; postage first-in, first out
Austin Energy	
Fuel oil and coal	Last-in, first-out
Other inventories	Average cost
All others	Average cost

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. Since Austin Energy and Austin Water Utility report in accordance with accounting for regulated operations (formerly FASB Statement No. 71), enabling legislation also includes restrictions on asset use established by its governing board which is the City Council. Restricted assets used to repay maturing debt and other current liabilities are classified as current.

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

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

	Austin Energy	Austin Water Utility	Airport	Nonmajor Enterprise	Total Restricted Assets
Capital projects	$ 47,927	53,871	119,383	23,634	244,815
Customer and escrow deposits	28,409	9,409	432	3,485	41,735
Debt service	97,605	77,963	15,498	9,886	200,952
Federal grants	4,319	308	613	655	5,895
Operating reserve account	--	--	9,786	9,518	19,304
Passenger facility charge account	--	--	30,863	--	30,863
Plant decommissioning	197,209	--	--	--	197,209
Renewal and replacement account	64	--	10,000	875	10,939
Revenue bond reserve	16,246	48,296	--	8,498	73,040
Strategic reserve	140,529	--	--	--	140,529
	$ 532,308	189,847	186,575	56,551	965,281

Capital assets -- Capital assets, which primarily include land and improvements, buildings and improvements, plant and equipment, vehicles, water rights, and infrastructure assets, are reported in the proprietary funds and the applicable governmental or business-type activity columns of the government-wide statement of net assets; related depreciation or amortization 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, internally generated, 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 or increase their value are capitalized in the government-wide and proprietary statement of net assets and expended in governmental funds.

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 Austin Energy and Austin Water Utility, 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 Austin Energy and Austin Water Utility assets in accordance with accounting for regulated operations.

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

		Business-type Activities			
Assets	Governmental Activities (1)	Austin Energy	Austin Water Utility	Airport	Nonmajor Enterprise
Buildings	5-40	--	15-50	15-40	12-40
Plant and equipment	5-50	--	5-60	4-50	5-40
Vehicles	3-20	3-15	3-20	3-20	3-30
Electric plant	--	3-50	--	--	--
Non-electric plant	--	3-30	--	--	--
Communication equipment	7-15	--	7	7	7
Furniture and fixtures	12	--	12	12	12
Computers and EDP equipment	3-7	--	3-7	3-7	3-7
Water rights	--	--	101	--	--
Infrastructure					
Streets and roads	30	--	--	--	--
Bridges	50	--	--	--	--
Drainage systems	50	--	--	--	--
Pedestrian facilities	20	--	--	--	--
Traffic signals	25	--	--	--	--

(1) Includes internal service funds

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

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 and treasures is expected to be maintained over time and, thus, is not depreciated. The initial investment of library collections for each library is capitalized. All subsequent expenditures related to the maintenance of the collection (replacement of individual items) are expensed, with the overall value of the collection being maintained, and therefore, not depreciated.

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.

Water rights represent the amortized cost of a $100 million contract, net of accumulated amortization, of $11.9 million, between the City and the Lower Colorado River Authority (LCRA) for a fifty-one year assured water supply agreement, with an option to extend another fifty years. The City and the LCRA entered into the contract in 1999. The asset amortization period is 101.25 years.

Deferred Expenses or Credits -- In accordance with accounting for regulated operations, 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 debt issuance costs, pension, other post employment benefits, interest, decommission, fuel recovery, etc. Deferred expenses will be recovered in these future periods by setting rates sufficient to provide funds for the 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.

Deferred (Inflows) Outflows of Resources -- In accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, derivative instruments are reported in the statement of net assets at fair value, as either assets or liabilities. Changes in fair value of hedging derivative instruments are recognized through the application of hedge accounting as either deferred inflows or outflows in the statement of net assets, as an offset to the related hedging derivative instrument.

Compensated Absences -- The amounts owed to employees for unpaid vacation, exception 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 proprietary 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 vacation, exception vacation, and sick leave at termination within 60 days of fiscal year-end.

Accumulated leave payouts are limited to the lower of actual accumulated hours or the hours listed below:

	Work-week	Non-Civil Service Employees (1)	Civil Service Police (2)	Civil Service Fire (3)
Vacation	0-40	240	240	240
	42	270	N/A	N/A
	48	309	N/A	N/A
	53	N/A	N/A	360
Exception vacation (4)	0-40	160	160	176
	42	160	N/A	N/A
	48	160	N/A	N/A
	53	N/A	N/A	264
Sick leave	0-40	720	1,400	720
	42	756	N/A	N/A
	48	926	N/A	N/A
	53	N/A	N/A	1,080

(1) Non-civil service employees are eligible for accumulated sick leave payout if hired before October 1, 1986.
(2) Civil service police employees with 10 years of actual service are eligible for accumulated sick leave payout.
As of January 1, 2011, officers may be eligible to receive up to 1,700 hours of sick leave if certain criteria are met.
(3) Civil service fire employees are eligible for accumulated sick leave payout regardless of hire date.
(4) Exception vacation hours are hours accumulated by an employee when the employee works on a City holiday.

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

Other Post Employment Benefits (OPEB) -- The City provides certain health care benefits for its retired employees and their families as more fully described in Note 8. At September 30, 2011, the City's total actuarial accrued liability for these retiree benefits was approximately $1.4 billion. The City funds the costs of these benefits on a pay-as-you-go basis.

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 select revenues of these funds. Note 6 contains more information about pledged revenues by fund. The corresponding debt is recorded in the applicable fund.

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 other tax supported debt, whose principal and interest are payable primarily from the net revenues of Austin Water Utility.

For proprietary funds and for governmental activities in the government-wide financial statements, the City defers and amortizes gains and losses realized on refundings of debt and reports both the new debt liability and the related deferred amount on the statement of net assets. Austin Energy and Austin Water Utility recognize gains and losses on debt defeasance in accordance with accounting for regulated operations.

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 principal and 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 report revenues net of bad debt expense, as follows (in thousands):

	Bad Debt Expense
Austin Energy	$ 3,546
Austin Water Utility	854
Airport	135
Nonmajor Enterprise	1,446

Electric, water, and wastewater revenue is recorded when earned. Customers' electric and water meters are read and bills rendered on a cycle basis by billing district. Electric rate schedules include a fuel cost adjustment clause that permits recovery of fuel costs in the month incurred or in future months. The City reports fuel costs on the same basis as it recognizes revenue. Unbilled revenue is recorded in Austin Energy by estimating the daily power generation and allocating by each billing district meter read dates as of September 30, 2011. The amount of unbilled revenue recorded, as of September 30, 2011, was $45 million. Austin Water Utility records unbilled revenue as earned based upon the percentage of October's billing that represented water usage through September 30, 2011. The amount of unbilled revenue recorded as of September 30, 2011 was $19.3 million for water and $12.2 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. 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.

Intergovernmental Revenues, Receivables, and Liabilities -- Intergovernmental revenues and related receivables arise primarily through funding received from Federal and State grants. Revenues 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.

Fund Equity -- Fund balances for governmental funds are reported in classifications that demonstrate the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The governmental fund type classifications are as follows:

Nonspendable: The portion of fund balance that cannot be spent because it is either (a) not in spendable form, such as inventories and prepaid items, or (b) legally or contractually required to be maintained intact.

Restricted: The portion of fund balance that is restricted to specific purposes due to constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitution provisions or enabling legislation.

Committed: The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of a majority vote by City Council.

Assigned: The portion of fund balance that is constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Under the city charter, the City Manager and designees are authorized to assign individual amounts up to $53,000 in fiscal year 2011 to a specific purpose. This amount is updated annually based on the most recently published federal government, Bureau of Labor Statistics Indicator, Consumer Price Index (CPI-W U.S. City Average) U.S. City Average. The most recently published Consumer Price Index on May 4, 2002, shall be used as a base of 100 and the adjustment thereafter will be to the nearest one thousand dollars ($1,000.00).

Unassigned: The portion of fund balance that has not been assigned to another fund or is not restricted, committed, or assigned to specific purposes.

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

The constraints placed on the fund balances of the General Fund and the nonmajor governmental funds are presented below:

	General Fund	Nonmajor Governmental	Total
Nonspendable			
General government	$ 318	50	368
Public safety	630	--	630
Public Health	1	--	1
Public recreation and culture	--	990	990
Urban growth management	160	0	160
Total Nonspendable	1,109	1,040	2,149
Restricted			
General government	--	23,806	23,806
Public safety	--	5,661	5,661
Transportation, planning, and sustainability	--	64,908	64,908
Public Health	--	256	256
Public recreation and culture	--	29,430	29,430
Urban growth management	--	51,461	51,461
Total Restricted	--	175,522	175,522
Committed			
General government	446	4,679	5,125
Public safety	714	180	894
Transportation, planning, and sustainability	288	202	490
Public Health	1,435	179	1,614
Public recreation and culture	171	3,594	3,765
Urban growth management	63	17,312	17,375
Total Committed	3,117	26,146	29,263
Assigned			
General government	79	25,894	25,973
Public safety	226	2,873	3,099
Transportation, planning, and sustainability	954	16,997	17,951
Public Health	591	789	1,380
Public recreation and culture	71	16,776	16,847
Urban growth management	9,071	5,620	14,691
Total Assigned	10,992	68,949	79,941
Unassigned	119,035	(36,582)	82,453
Total Fund Balance	$ 134,253	235,075	369,328

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. In governmental funds, unrestricted resources would be utilized in order from committed to assigned and finally unassigned.

Budget stabilization -- By formal action of City Council, the General Fund maintains 3 reserve funds: a contingency reserve, an emergency reserve, and a budget stabilization reserve. As of September 30, 2011, the contingency reserve maintains a balance of 1 percent of departmental expenditures, or $6.1 million, the emergency reserve remains fixed with a balance of $40 million, and the budget stabilization reserve reports a balance of $63.3 million. The funds in the budget stabilization reserve may be appropriated to fund capital or other onetime costs, but such appropriation should not exceed one-third of the total amount in the reserve.

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

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 7).

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 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 13).

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 9.

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/expense during the reporting period. Actual results could differ from those estimates.

2 – POOLED INVESTMENTS AND CASH

The following summarizes the amounts of pooled investments and cash by fund at September 30, 2011 (in thousands):

	Pooled Investments and Cash	
	Unrestricted	**Restricted**
General Fund	$ 120,755	--
Nonmajor governmental funds	211,435	--
Austin Energy	70,748	94,252
Austin Water Utility	5,395	63,126
Airport	1,521	170,291
Nonmajor enterprise funds	155,668	37,499
Internal service funds	98,980	--
Fiduciary funds	4,156	--
Subtotal pooled investments and cash	668,658	365,168
Total pooled investments and cash	$ 1,033,826	

3 – INVESTMENTS AND DEPOSITS
a -- Investments

Chapter 2256 of the Texas Government Code (the Public Fund 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.

3 – 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. 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 three local government investment pools: TexPool, TexasDAILY, and TexStar. The State Comptroller oversees TexPool, with 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. PFM Asset Management LLC manages the daily operations of TexasDAILY under a contract with the advisory board. JPMorgan Investment Management, Inc. and First Southwest Asset Management, Inc. serve as co-administrators for TexStar under an agreement with the TexStar board of directors.

The City invests in local government investment pools, which are structured similar to money market mutual funds, to provide its liquidity needs. TexPool, TexasDAILY, and TexStar 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. These funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. These funds seek to maintain a constant net asset value of $1.00, although this cannot be fully guaranteed. TexPool, TexasDAILY, and TexStar are rated AAAm and must maintain a dollar weighted average maturity not to exceed a 60-day limit. At September 30, 2011, TexPool, TexasDAILY, and TexStar had a weighted average maturity of 44 days, 54 days, and 40 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.

The City did not participate in any reverse repurchase agreements or security lending arrangements during fiscal year 2011.

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.

3 – INVESTMENTS AND DEPOSITS, continued
a – Investments, continued

The following table includes the portfolio balances of all non-pooled and pooled investments of the City at September 30, 2011 (in thousands):

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Non-pooled investments:				
Local Government Investment Pools	$ 17,165	255,204	--	272,369
Money Market Funds	--	2,135	--	2,135
US Treasury Notes	--	84,091	--	84,091
US Agency Bonds	--	249,492	--	249,492
Total non-pooled investments	17,165	590,922	--	608,087
Pooled investments:				
Local Government Investment Pools	184,621	256,270	1,780	442,671
US Agency Bonds	245,222	340,457	2,295	587,974
Municipal Bonds	8,394	11,652	81	20,127
Total pooled investments	438,237	608,379	4,156	1,050,772
Total investments	$ 455,402	1,199,301	4,156	1,658,859

Concentration of Credit Risk

At September 30, 2011, 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 millions): Federal Home Loan Bank ($356.6 or 22%), Federal Home Loan Mortgage Corporation ($219.9 or 13%), and Federal National Mortgage Association ($203.9 or 12%).

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;
4. Special purpose funds.

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.

Operating Funds

As of September 30, 2011, the City operating funds had the following investments:

	Fair Value (in thousands)				
Investment Type	**Governmental Activities**	**Business-type Activities**	**Fiduciary Funds**	**Total**	**Weighted Average Maturity (days)**
Local Government Investment Pools	$ 184,621	256,270	1,780	442,671	1
US Agency Bonds	245,222	340,462	2,290	587,974	541
Municipal Bonds	8,394	11,652	81	20,127	152
Total	$ 438,237	608,384	4,151	1,050,772	305

3 – INVESTMENTS AND DEPOSITS, continued
b -- Investment Categories, continued

Credit Risk
None of the portfolio consists of direct obligations of the US government. As of September 30, 2011, Standard and Poor's issued the following ratings for other investments:

Local Government Investment Pools	42%	AAAm
US Agencies	56%	AA+
Municipal Bonds	2%	AA-

All three local government investment pools, TexPool, TexasDAILY, and TexStar, were rated AAAm by Standard and Poor's.

Concentration of Credit Risk
At September 30, 2011, the operating funds held investments with more than five percent of the total in securities of the following issuers (in millions): Federal Home Loan Bank ($266.4 or 25%), Federal Home Loan Mortgage Corporation ($175.5 or 17%), and Federal National Mortgage Association ($115.7 or 11%).

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, 2011, less than half of the Investment Pool was invested in AAAm rated LGIPs, with the remainder invested in municipal bonds and short-to medium term US Agency obligations. Term limits on individual maturities did not exceed three years from the purchase date. The dollar weighted average maturity of all securities was 305 days, which was less than the threshold of 365 days.

Debt Service Funds
As of September 30, 2011, the City's debt service funds had the following investments:

	Fair Value (in thousands)		
Investment Type	**Governmental Activities**	**Business-type Activities**	**Final Maturity**
General Obligation Debt Service			
Local Government Investment Pools	$ 17,165	--	N/A
Enterprise-Utility (1)			
Local Government Investment Pools	--	199,902	N/A
Enterprise-Airport			
Local Government Investment Pools	--	15,498	N/A
Nonmajor Enterprise-Convention Center			
Local Government Investment Pools	--	9,886	N/A
Total	$ 17,165	225,286	

(1) Includes combined pledge debt service

Credit Risk
As of September 30, 2011, Standard and Poor's rated TexPool 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.

3 – INVESTMENTS AND DEPOSITS, continued
b -- Investment Categories, continued

<u>Special Project Fund</u>
Airport Construction
As of September 30, 2011, the City's special project fund had the following investments:

Investment Type	Fair Value (in thousands) Business-type Activities		Final Maturity
Local Government Investment Pools	$	76	N/A

Credit Risk
As of September 30, 2011, 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.

<u>Special Purpose Funds</u>
Austin Energy Strategic Reserve Fund
As of September 30, 2011, the City's Special Purpose Fund (Austin Energy Strategic Reserve Fund) had the following investments:

Investment Type	Fair Value (in thousands)		Weighted Average Maturity (days)
Local Government Investment Pools	$	1,240	1
US Treasury Notes		31,952	665
US Agency Bonds		107,337	1,187
Total	$	140,529	1,062

Credit risk
At September 30, 2011, the Austin Energy 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 AA+. The remaining securities are direct obligations of the US government.

Concentration of Credit Risk
At September 30, 2011, the Austin Energy Strategic Reserve Fund held investments with more than five percent of the total in securities of the following issuers (in millions): Federal Farm Credit Bank ($10.2 or 7%), Federal Home Loan Bank ($23.9 or 17%), Federal Home Loan Mortgage Corporation ($15 or 11%), and Federal National Mortgage Association ($58.2 or 41%).

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, 2011, the portfolios held investments in TexPool, US Treasuries, and US Agencies with maturities that will meet anticipated cash flow requirements and an overall dollar weighted average maturity of 1,062 days (2.91 years).

Austin Energy Nuclear Decommissioning Trust Funds
At September 30, 2011, the City's Special Purpose Fund (Nuclear Decommissioning Trust Funds, NDTF) had the following investments:

Investment Type	Fair Value (in thousands)		Weighted Average Maturity (years)
US Treasury Notes	$	52,139	2.92
US Agency Bonds		122,051	3.64
Money Market Funds		2,135	1 day
Total	$	176,325	3.39

3 – INVESTMENTS AND DEPOSITS, continued
b -- Investment Categories, continued

Credit Risk
At September 30, 2011, Standard and Poor's rated the US Agency Bonds AA+ and the Money Market Fund AAAm. The remaining securities are direct obligations of the US government.

Concentration of Credit Risk
At September 30, 2011, the NDTF held investments with more than five percent of the total in securities of the following issuers (in millions): Federal Farm Credit Bank ($16.4 or 9%), Federal Home Loan Bank ($46.2 or 26%), Federal Home Loan Mortgage Corporation ($29.4 or 17%), Federal National Mortgage Association ($30 or 17%).

Interest Rate Risk
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment policy for the Nuclear Decommissioning Trust Funds portfolios requires that the dollar weighted average maturity, using final state 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, 2011, the dollar weighted average maturity was 3.39 years.

Combined Utility Reserve
At September 30, 2011, the City's special project fund had the following investments:

Investment Type	Fair Value (in thousands) Business-type Activities	Weighted Average Maturity (days)
Local Government Investment Pools	$ 20,104	1
US Agency Bonds	20,104	755
	$ 40,208	377

Credit Risk
At September 30, 2011, Standard and Poor's rated the US Agency Bonds AA+ and TexPool AAAm.

Concentration of Credit Risk
At September 30, 2011, the Combined Utility Reserve held investments with more than five percent of the total in securities of the following issuer (in millions): Federal Home Loan Bank ($20.1 or 50%).

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.

Convention Center Reserve
At September 30, 2011, the City's special project fund had the following investments:

Investment Type	Fair Value (in thousands) Business-type Activities	Weighted Average Maturity (days)
Local Government Investment Pools	$ 8,498	N/A

Credit Risk
As of September 30, 2011, 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.

3 – INVESTMENTS AND DEPOSITS, continued
c -- Investments and Deposits

Investments and deposits portfolio balances at September 30, 2011, are as follows (in thousands):

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Non-pooled investments and cash	$ 18,841	595,405	--	614,246
Pooled investments and cash	440,048	610,893	4,156	1,055,097
Total investments and cash	458,889	1,206,298	4,156	1,669,343
Unrestricted cash	70	67	--	137
Restricted cash	1,606	4,416	--	6,022
Pooled investments and cash	440,048	610,893	4,156	1,055,097
Investments	17,165	590,922	--	608,087
Total	$ 458,889	1,206,298	4,156	1,669,343

A difference of $22.6 million exists between portfolio balance and book balance, primarily due to deposits in transit offset by outstanding checks.

Deposits
The September 30, 2011 carrying amount of deposits at the bank and cash on hand are as follows (in thousands):

	Governmental Activities	Business-type Activities	Total
Cash			
Unrestricted	$ 70	67	137
Restricted	--	4,319	4,319
Cash held by trustee			
Restricted	1,606	97	1,703
Pooled cash	1,811	2,514	4,325
Total deposits	$ 3,487	6,997	10,484

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, 2011.

4 – 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, 2010, upon which the 2011 levy was based, was $77,619,349,384.

Taxes are due by January 31 following the October 1 levy date. During the year ended September 30, 2011, 99.13% of the current tax levy (October 1, 2010) 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.

The appraisal of property within the City is the responsibility of the Travis Central Appraisal District, the Williamson Central Appraisal District, and the Hays Central 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 and the Hays Central Appraisal District have chosen to review the value of property in their respective districts every two years, while the Williamson Central 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.

4 – PROPERTY TAXES, continued

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, Williamson, and Hays 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, 2011, was $.3262 per $100 assessed valuation. The City has a tax margin for general governmental purposes of $.6738 per $100 assessed valuation, and could levy approximately $522,999,176 in additional taxes from the assessed valuation of $77,619,349,384 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.

5 – CAPITAL ASSETS AND INFRASTRUCTURE

The City has recorded capitalized interest for fiscal year 2011 in the following funds related to the construction of various enterprise fund capital improvement projects (in thousands):

Enterprise Funds		
Major fund:		
Airport	$	372
Nonmajor enterprise funds:		
Convention Center		1,120
Drainage		474
Solid Waste Services		72

Interest is not capitalized on governmental capital assets. In accordance with accounting for regulated operations, interest is also not capitalized on electric and water and wastewater capital assets.

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Governmental Activities

Capital asset activity for the year ended September 30, 2011, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 332,457	16,054	(4,659)	343,852
Arts and treasures	5,914	1,036	--	6,950
Library collections	14,389	1	--	14,390
Total	352,760	17,091	(4,659)	365,192
Deprecable property, plant and equipment in service				
Building and improvements	644,645	64,785	(7,389)	702,041
Plant and equipment	156,581	43,064	(10,965)	188,680
Vehicles	93,262	14,474	(4,584)	103,152
Infrastructure	1,969,761	92,674	--	2,062,435
Total	2,864,249	214,997	(22,938)	3,056,308
Less accumulated depreciation for				
Building and improvements	(202,540)	(20,938)	708	(222,770)
Plant and equipment	(93,038)	(18,409)	2,313	(109,134)
Vehicles	(58,529)	(8,279)	2,937	(63,871)
Infrastructure	(732,350)	(57,691)	--	(790,041)
Total	(1,086,457)	(105,317) (2)	5,958	(1,185,816)
Net property, plant and equipment in service	1,777,792	109,680	(16,980)	1,870,492
Other capital assets				
Construction in progress	241,658	173,443	(226,818)	188,283
Total capital assets	$ 2,372,210	300,214	(248,457)	2,423,967

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

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

Governmental activities:	
General government	$ 6,000
Public safety	13,127
Transportation, planning and sustainability	48,808
Public health	1,426
Public recreation and culture	11,129
Urban growth management	16,012
Internal service funds	8,815
Total increases in accumulated depreciation	$ 105,317

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Austin Energy

Capital asset activity for the year ended September 30, 2011, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 65,200	3,928	--	69,128
Total	65,200	3,928	--	69,128
Depreciable property, plant and equipment in service				
Vehicles	28,631	1,512	(900)	29,243
Electric plant	3,850,557	287,819	(35,640)	4,102,736
Non-electric plant	140,456	17,090	(358)	157,188
Total	4,019,644	306,421	(36,898)	4,289,167
Less accumulated depreciation for				
Vehicles	(16,875)	(2,595)	1,412	(18,058)
Electric plant	(1,852,838)	(122,623)	30,455	(1,945,006)
Non-electric plant	(25,947)	(6,859)	39	(32,767)
Total	(1,895,660)	(132,077) (1)	31,906	(1,995,831)
Net property, plant and equipment in service	2,123,984	174,344	(4,992)	2,293,336
Other capital assets				
Construction in progress	328,196	146,441	(315,228)	159,409
Nuclear fuel, net of amortization	34,355	22,150	(15,006)	41,499
Plant held for future use	27,783	--	(1,578)	26,205
Total capital assets	$ 2,579,518	346,863	(336,804)	2,589,577

(1) Components of accumulated depreciation increases:

Current year depreciation	$ 132,077

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Austin Water Utility

Capital asset activity for the year ended September 30, 2011, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 212,841	5,405	--	218,246
Total	212,841	5,405	--	218,246
Depreciable property, plant and equipment in service				
Building and improvements	547,337	26,649	--	573,986
Plant and equipment	2,859,110	122,919	(899)	2,981,130
Vehicles	33,038	1,091	(782)	33,347
Total	3,439,485	150,659	(1,681)	3,588,463
Less accumulated depreciation for				
Building and improvements	(186,745)	(12,399)	--	(199,144)
Plant and equipment	(915,594)	(74,973)	836	(989,731)
Vehicles	(19,026)	(3,038)	776	(21,288)
Total	(1,121,365)	(90,410) (2)	1,612	(1,210,163)
Net property, plant and equipment in service	2,318,120	60,249	(69)	2,378,300
Other capital assets				
Construction in progress	253,410	245,303	(147,035)	351,678
Water rights, net of amortization	89,136	--	(988) (3)	88,148
Total capital assets	$ 2,873,507	310,957	(148,092)	3,036,372

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

(2) Components of accumulated depreciation increases:

Current year depreciation	
Water	$ 38,436
Wastewater	51,974
Total increases in accumulated depreciation	$ 90,410

(3) Components of water rights, net of amortization decreases:

Current year amortization - Water	$ 988

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Airport Fund

Capital asset activity for the year ended September 30, 2011, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 95,092	3,500	(471)	98,121
Arts and treasures	822	159	--	981
Total	95,914	3,659	(471)	99,102
Depreciable property, plant and equipment in service				
Building and improvements	662,123	17,311	--	679,434
Plant and equipment	22,630	776	(464)	22,942
Vehicles	5,541	22	(88)	5,475
Total	690,294	18,109	(552)	707,851
Less accumulated depreciation for				
Building and improvements	(177,895)	(17,498)	--	(195,393)
Plant and equipment	(10,861)	(1,686)	392	(12,155)
Vehicles	(3,029)	(397)	86	(3,340)
Total	(191,785)	(19,581) (1)	478	(210,888)
Net property, plant and equipment in service	498,509	(1,472)	(74)	496,963
Other capital assets				
Construction in progress	29,133	22,157	(26,832)	24,458
Total capital assets	$ 623,556	24,344	(27,377)	620,523

(1) Components of accumulated depreciation increases:

Current year depreciation	$ 19,581

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Nonmajor Enterprise Funds

Capital asset activity for the year ended September 30, 2011, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 91,042	10,776	--	101,818
Arts and treasures	612	--	--	612
Total	91,654	10,776	--	102,430
Depreciable property, plant and equipment in service				
Building and improvements	320,763	3,514	(766)	323,511
Plant and equipment	132,783	9,768	(6,234)	136,317
Vehicles	72,367	7,861	(1,611)	78,617
Total	525,913	21,143	(8,611)	538,445
Less accumulated depreciation for				
Building and improvements	(97,316)	(9,439)	133	(106,622)
Plant and equipment	(38,247)	(6,143)	1,880	(42,510)
Vehicles	(38,218)	(8,053)	1,485	(44,786)
Total	(173,781)	(23,635) (2)	3,498	(193,918)
Net property, plant and equipment in service	352,132	(2,492)	(5,113)	344,527
Other capital assets				
Construction in progress	55,825	30,140	(30,540)	55,425
Total capital assets	$ 499,611	38,424	(35,653)	502,382

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

(2) Components of accumulated depreciation increases:

Current year depreciation	
Convention Center	$ 8,388
Environmental and health services	6,695
Public recreation	774
Urban growth management	7,778
Total increases in accumulated depreciation	$ 23,635

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Total

Capital asset activity for the year ended September 30, 2011, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 464,175	23,609	(471)	487,313
Arts and treasures	1,434	159	--	1,593
Total	465,609	23,768	(471)	488,906
Depreciable property, plant and equipment in service				
Building and improvements	1,530,223	47,474	(766)	1,576,931
Plant and equipment	3,014,523	133,463	(7,597)	3,140,389
Vehicles	139,577	10,486	(3,381)	146,682
Electric plant	3,850,557	287,819	(35,640)	4,102,736
Non-electric plant	140,456	17,090	(358)	157,188
Total	8,675,336	496,332	(47,742)	9,123,926
Less accumulated depreciation for				
Building and improvements	(461,956)	(39,336)	133	(501,159)
Plant and equipment	(964,702)	(82,802)	3,108	(1,044,396)
Vehicles	(77,148)	(14,083)	3,759	(87,472)
Electric plant	(1,852,838)	(122,623)	30,455	(1,945,006)
Non-electric plant	(25,947)	(6,859)	39	(32,767)
Total	(3,382,591)	(265,703)(2)	37,494	(3,610,800)
Net property, plant and equipment in service	5,292,745	230,629	(10,248)	5,513,126
Other capital assets				
Construction in progress	666,564	444,041	(519,635)	590,970
Nuclear fuel, net of amortization	34,355	22,150	(15,006)	41,499
Plant held for future use	27,783	--	(1,578)	26,205
Water rights, net of amortization	89,136	--	(988) (3)	88,148
Total capital assets	$ 6,576,192	720,588	(547,926)	6,748,854

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

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

Business-type activities:	
Electric	$ 132,077
Water	38,436
Wastewater	51,974
Airport	19,581
Convention Center	8,388
Environmental and health services	6,695
Public recreation	774
Urban growth management	7,778
Total increases in accumulated depreciation	265,703

(3) Components of water rights, net of amortization decreases:

Current year amortization - Water	$ 988

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

Payments on bonds for governmental activities will be made from 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 these funds are included in governmental activities.

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, 2011 (in thousands):

Description	October 1, 2010	Increases	Decreases	September 30, 2011	Amounts Due Within One Year
Governmental activities (1)					
General obligation bonds, net	$ 789,619	202,895	(149,806)	842,708	48,426
Certificates of obligation, net	71,586	12,943	(22,103)	62,426	8,248
Contractual obligations, net	38,295	--	(5,301)	32,994	3,735
General obligation bonds and other tax supported debt total	899,500	215,838	(177,210)	938,128	60,409
Capital lease obligations	716		(283)	433	274
Debt service requirements total	900,216	215,838	(177,493)	938,561	60,683
Other long-term obligations					
Accrued compensated absences	112,498	7,071	(2,839)	116,730	44,538
Claims payable	33,435	1,399	(973)	33,861	16,972
Pension obligation payable	53,736	8,711	--	62,447	--
Other post employment benefits	169,432	64,586	--	234,018	--
Deferred credits and other liabilities	83,653	1,487	(5,877)	79,263	67,388
Governmental activities total	1,352,970	299,092	(187,182)	1,464,880	189,581
Total business-type activities					
General obligation bonds, net	16,233	12,175	(3,010)	25,398	2,670
Certificates of obligation, net	40,169	9,518	(8,784)	40,903	2,737
Contractual obligations, net	50,064	16,569	(11,779)	54,854	12,479
Other tax supported debt, net	18,178	--	(6,904)	11,274	671
General obligation bonds and other tax supported debt total	124,644	38,262	(30,477)	132,429	18,557
Commercial paper notes, net	299,797	235,022	(175,027)	359,792	--
Revenue notes	28,000	--	--	28,000	--
Revenue bonds, net	3,643,111	191,991	(140,825)	3,694,277	166,682
Capital lease obligations	1,628	--	(370)	1,258	40
Debt service requirements total	4,097,180	465,275	(346,699)	4,215,756	185,279
Other long-term obligations					
Accrued compensated absences	24,359	1,110	(1,612)	23,857	23,037
Accrued landfill closure and postclosure costs	7,940	3,078	(3,509)	7,509	186
Decommissioning expense payable	150,591	15,965	--	166,556	--
Pension obligation payable	52,640	8,877	(272)	61,245	--
Other post employment benefits	100,716	48,458	--	149,174	--
Deferred credits and other liabilities	798,481	37,286	(57,670)	778,097	79,885
Business-type activities total	5,231,907	580,049	(409,762)	5,402,194	288,387
Total liabilities (2)	$ 6,584,877	879,141	(596,944)	6,867,074	477,968

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

(2) This schedule excludes select short-term liabilities of $57,115 for governmental activities; and for business-type activities, select short-term liablities of $230,864, capital appreciation bond interest payable of $118,206, and derivative instruments of $186,438.

6 – DEBT AND NON-DEBT LIABILITIES, continued
a -- Long-Term Liabilities, continued

Description	October 1, 2010	Increases	Decreases	September 30, 2011	Amounts Due Within One Year
Business-type activities:					
Electric activities					
General obligation bonds, net	$ 1,113	--	(83)	1,030	78
Contractual obligations	79	--	(79)	--	--
General obligation bonds and other tax supported debt total	1,192	--	(162)	1,030	78
Commercial paper notes, net	85,155	67,454	(27)	152,582	--
Revenue bonds, net	1,326,283	--	(70,187)	1,256,096	75,772
Capital lease obligations	1,297	--	(39)	1,258	40
Debt service requirements total	1,413,927	67,454	(70,415)	1,410,966	75,890
Other long-term obligations					
Accrued compensated absences	11,576	571	(844)	11,303	11,252
Decommissioning expense payable	150,591	15,965	--	166,556	--
Pension obligation payable	23,617	4,120	--	27,737	--
Other post employment benefits	41,078	21,158	--	62,236	--
Deferred credits and other liabilities	290,398	26,472	(54,054)	262,816	39,634
Electric activities total	1,931,187	135,740	(125,313)	1,941,614	126,776
Water and Wastewater activities					
General obligation bonds, net	1,179	5,655	(860)	5,974	1,101
Contractual obligations, net	12,371	1,687	(3,308)	10,750	3,231
Other tax supported debt, net	13,829	--	(6,611)	7,218	430
General obligation bonds and other tax supported debt total	27,379	7,342	(10,779)	23,942	4,762
Commercial paper notes, net	214,642	167,568	(175,000)	207,210	--
Revenue bonds, net	1,811,897	191,991	(50,200)	1,953,688	67,295
Debt service requirements total	2,053,918	366,901	(235,979)	2,184,840	72,057
Other long-term obligations					
Accrued compensated absences	5,520	368	(398)	5,490	5,122
Pension obligation payable	11,823	1,942	--	13,765	--
Other post employment benefits	25,386	12,000	--	37,386	--
Deferred credits and other liabilities	498,551	1,006	(2,578)	496,979	32,262
Water and Wastewater activities total	2,595,198	382,217	(238,955)	2,738,460	109,441
Airport activities					
General obligation bonds, net	262	--	(30)	232	30
General obligation bonds and other tax supported debt total	262	--	(30)	232	30
Revenue notes	28,000	--	--	28,000	--
Revenue bonds, net	295,283	--	(12,680)	282,603	14,165
Capital lease obligations	331	--	(331)	--	--
Debt service requirements total	323,876	--	(13,041)	310,835	14,195
Other long-term obligations					
Accrued compensated absences	1,561	102	(59)	1,604	1,441
Pension obligation payable	3,570	584	--	4,154	--
Other post employment benefits	7,477	3,286	--	10,763	--
Deferred credits and other liabilities	1,550	15	(476)	1,089	1,033
Airport activities total	338,034	3,987	(13,576)	328,445	16,669
Nonmajor activities					
General obligation bonds, net	13,679	6,520	(2,037)	18,162	1,461
Certificates of obligation, net	40,169	9,518	(8,784)	40,903	2,737
Contractual obligations	37,614	14,882	(8,392)	44,104	9,248
Other tax supported debt, net	4,349	--	(293)	4,056	241
General obligation bonds and other tax supported debt total	95,811	30,920	(19,506)	107,225	13,687
Revenue bonds, net	209,648	--	(7,758)	201,890	9,450
Capital lease obligations	--	--	--	--	--
Debt service requirements total	305,459	30,920	(27,264)	309,115	23,137
Other long-term obligations					
Accrued compensated absences	5,702	69	(311)	5,460	5,222
Accrued landfill closure and postclosure costs	7,940	3,078	(3,509)	7,509	186
Pension obligation payable	13,630	2,231	(272)	15,589	--
Other post employment benefits	26,775	12,014	--	38,789	--
Deferred credits and other liabilities	7,982	9,793	(562)	17,213	6,956
Nonmajor activities total	$ 367,488	58,105	(31,918)	393,675	35,501

6 – 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, 2011, including those reported in certain proprietary funds (in thousands):

Series	Date Issued	Original Amount Issue	Principal Outstanding	Aggregate Interest Requirements Outstanding		Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt	
NW Austin MUD	December 2004	$ 2,630	1,844	381	(1)(3)	3.55 - 4.30%	9/01/2012-2020	
NW Austin MUD	June 2004	7,995	7,320	3,922	(1)(3)	3.90 - 4.25%	9/01/2012-2026	
NW Austin MUD	November 2009	2,760	2,110	269	(1)(3)	4.00 - 4.25%	3/01/2012-2018	
Series 2001 Refunding	June 2001	123,445	14,420	2,214	(1)	4.75 - 5.50%	9/1/2012-2022	
Series 2001	August 2001	79,650	4,375	219	(1)	5.00%	9/1/2012	
Series 2001	August 2001	65,335	5,045	252	(1)	5.00%	9/1/2012	
Series 2002 Refunding	June 2002	12,190	8,535	1,173	(1)	4.13 - 4.50%	3/1/2012-2017	
Series 2002	August 2002	99,615	15,600	1,247	(1)	3.75 - 4.00%	9/1/2012-2014	
Series 2002	August 2002	34,095	5,050	407	(1)	3.75 - 4.00%	9/1/2012-2014	
Series 2003 Refunding	May 2003	62,585	5,025	380	(1)	5.00%	9/1/2012-2013	
Series 2003 Refunding	September 2003	68,855	22,310	3,436	(1)	3.75 - 4.25%	9/1/2012-2017	
Series 2003A Refunding	September 2003	2,530	680	51	(1)	5.00%	9/1/2012-2013	
Series 2003	September 2003	4,450	3,145	1,012	(1)	4.00 - 4.80%	9/1/2012-2023	
Series 2004 Refunding	September 2004	67,835	54,080	18,554	(1)	4.00 - 5.00%	9/1/2012-2024	
Series 2004A Refunding	September 2004	2,430	1,056	111	(1)	4.60 - 4.75%	9/1/2012-2014	
Series 2004	September 2004	25,000	17,375	6,661	(1)	4.63 - 5.00%	9/1/2012-2024	
Series 2004	September 2004	21,830	1,985	33	(2)	3.35%	11/1/2011	
Series 2005 Refunding	February 2005	145,345	128,800	30,938	(1)	5.00%	9/1/2012-2020	
Series 2005 Refunding	August 2005	19,535	14,140	6,274	(1)	4.00 - 4.50%	9/1/2012-2025	
Series 2005	August 2005	7,185	5,735	1,966	(1)	3.50 - 4.30%	9/1/2012-2025	
Series 2005	August 2005	14,940	3,405	127	(2)	3.50 - 3.75%	11/1/2011-2012	
Series 2006	August 2006	31,585	31,285	15,288	(1)	4.00 - 5.38%	9/1/2012-2026	
Series 2006	August 2006	24,150	20,116	7,728	(1)	4.00 - 5.00%	9/1/2012-2026	
Series 2006	August 2006	14,120	5,565	352	(2)	4.00 - 4.25%	11/1/2011-2013	
Series 2006	August 2006	12,000	10,590	4,192	(1)(4)	4.00 - 6.00%	9/1/2012-2026	
Series 2007	August 2007	97,525	93,325	54,466	(1)	4.64%	9/1/2012-2027	
Series 2007	August 2007	3,820	3,325	1,548	(1)	4.88%	9/1/2012-2027	
Series 2007	August 2007	9,755	5,916	607	(2)	3.66%	11/1/2011-2017	
Series 2008 Refunding	January 2008	172,505	122,165	30,283	(1)	5.00%	9/1/2012-2021	
Series 2008	August 2008	76,045	61,620	37,143	(1)	3.50 - 5.00%	9/1/2012-2028	
Series 2008	August 2008	10,700	9,730	4,488	(1)	3.25 - 5.00%	9/1/2012-2028	
Series 2008	August 2008	26,715	18,190	1,597	(2)	3.00 - 3.50%	11/1/2011-2015	
Series 2009A	September 2009	20,905	9,545	1,486	(1)	3.00 - 5.00%	9/1/2012-2016	
Series 2009B	September 2009	78,460	78,460	48,697	(1)	4.15 - 5.31%	9/1/2017-2029	
Series 2009	September 2009	12,500	11,330	6,343	(1)	3.00 - 4.75%	9/1/2012-2039	
Series 2009	September 2009	13,800	11,590	1,272	(2)	2.00 - 3.25%	11/1/2011-2019	
Series 2009	October 2009	15,000	14,395	6,117	(1)(4)	2.50 - 4.25%	9/1/2012-2029	
Series 2010A	October 2010	79,528	69,240	34,565	(1)	2.00 - 4.00%	9/1/2012-2030	
Series 2010B	October 2010	26,400	25,760	15,136	(1)	3.50 - 4.65%	9/1/2012-2030	
Series 2010	October 2010	22,300	21,625	7,613	(1)	2.00 - 3.50%	9/1/2012-2030	
Series 2010	October 2010	16,450	15,475	763	(2)	1.00 - 1.75%	5/1/2012-2017	(5)
Series Refunding 2010	November 2010	91,560	91,560	36,786	(1)	4.00 - 5.00%	9/1/2012-2023	
			$ 1,052,842					

(1) Interest is paid semiannually on March 1 and September 1.
(2) Interest is paid semiannually on May 1 and November 1.
(3) Includes Austin Water Utility principal of $7,218 and interest of $2,927 and Drainage Fund principal of $4,056 and interest of $1,645.
(4) Included with contractual obligations are Mueller Local Government Corporation contract revenue bonds.
(5) Series matures on Nov 1st of the final year.

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

In October 2010, the City issued $79,528,000 of Public Improvement Bonds, Series 2010A. The proceeds from the issue will be used as follows: street improvements ($16,998,000), streets and signals ($15,800,000), drainage improvements ($24,000,000), park improvements ($20,130,000) cultural arts ($100,000), central library ($1,000,000), and public safety facility ($1,500,000). These bonds will be amortized serially on September 1 of each year from 2011 to 2030. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2011. Total interest requirements for these bonds, at rates ranging from 2.00% to 4.00%, are $37,170,378.

In October 2010, the City issued $26,400,000 of Public Improvement Bonds, Taxable Series 2010B. The proceeds from the issue will be used as follows: affordable housing ($26,400,000). These bonds will be amortized serially on September 1 of each year from 2011 to 2030. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2011. Total interest requirements for these bonds, at rates ranging from 3.00% to 4.65%, are $16,225,123.

In October 2010, the City issued $22,300,000 of Certificates of Obligation, Series 2010. The proceeds from this issue will be used as follows: public safety facilities ($3,850,000), solid waste services landfill closure ($8,100,000), public works transportation projects ($9,000,000), and improvements ($1,350,000). These certificates of obligation will be amortized serially on September 1 of each year from 2011 to 2030. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2011. Total interest requirements for these certificates of obligation, at rates ranging from 2.00% to 3.50%, are $8,237,625.

In October 2010, the City issued $16,450,000 of Public Property Finance Contractual Obligations, Series 2010. The proceeds from this issue will be used as follows: solid waste services capital equipment ($8,600,000), parking meter pay stations ($2,600,000), golf capital equipment ($1,070,000), public works transportation capital equipment ($2,505,000) wastewater utility capital equipment ($1,016,000), and water utility capital equipment ($659,000). These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2011 to 2017. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2011. Total interest requirements for these obligations, at rates ranging from 1.00% to 1.75%, are $897,315.

Public Improvement Refunding Bond Issue - In November 2010, the City issued $91,560,000 of Public Improvement Refunding Bonds, Series 2010. The net proceeds of $108,587,889 (after issue costs, discounts, and premiums) from the refunding were used to refund $41,500,000 of Public Improvement Bonds, Series 2002; $31,785,000 of Public Improvement Refunding Bonds, Series 2003; $20,010,000 of Certificates of Obligations, Series 2001 and 2002; $2,090,000 of Circle C MUD #3 and Circle C MUD #4 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1996;$4,040,000 of Davenport Ranch MUD #1 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1997 and Series 1997B; and $70,000 of Northwest Austin MUD #1 unlimited Tax Bonds, Series 2001. The refunding resulted in future interest requirements to service the debt of $40,480,158 with interest rates ranging from 3.5% to 5%. An economic gain of $9,426,174 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of $11,427,089. An accounting loss of $9,634,358 was recognized on the refunding.

General obligation bonds authorized and unissued amounted to $263,252,000 at September 30, 2011. Bond ratings at September 30, 2011, were Aaa (Moody's Investor Services, Inc.), AAA (Standard & Poor's), and AAA (Fitch).

Utility Debt - The City has previously issued combined debt for Austin Energy and Austin Water Utility. 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 - Austin Energy and Austin Water Utility 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 Austin Energy and Austin Water Utility.

The total combined utility systems revenue bond obligations at September 30, 2011, exclusive of discounts, premiums, and loss on refundings consists of $119,597,846 prior lien bonds and $230,919,512 subordinate lien bonds. Aggregate interest requirements for all prior lien and subordinate lien bonds are $329,025,093 at September 30, 2011. Revenue bonds authorized and unissued amount to $1,492,642,660 at that date. Bond ratings at September 30, 2011, for the prior lien and subordinate lien bonds were, respectively, A1 and A1 (Moody's Investor Services, Inc.), AA and AA (Standard & Poor's), and AA- and AA- (Fitch).

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

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 Austin Energy and Austin Water Utility. 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.

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, 2011 (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)(3)	7.35%	11/15/2014-2017
1992 Refunding	March 1992	265,806	14,002	40,043	(1)(3)	6.85%	11/15/2011-2012
1992A Refunding	May 1992	351,706	10,834	28,791	(1)(3)	6.80%	11/15/2011
1993 Refunding	January 1993	203,166	26,285	2,271	(1)(3)	6.30%	11/15/2011-2013
1994 Refunding	September 1994	142,559	26,894	96,961	(1)(3)	6.60%	05/15/2017-2019
1998 Refunding	July 1996	180,000	37,915	2,602	(1)(2)	6.75%	11/15/2011-2012
1998 Refunding	October 1998	139,965	134,745	68,036	(1)	5.25%	5/15/2012-2025
1998A Refunding	October 1998	105,350	91,404	69,178	(1)(3)	5.00%	5/15/2012-2028
1998B	August 1998	10,000	4,770	641	(1)	3.45 - 3.75%	11/15/2011-2017
			$ 350,517				

(1) Interest is paid semiannually on May 15 and November 15.
(2) Series 1998 Refunding had a delayed delivery.
(3) Interest requirements include accreted interest

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, 2011, 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 Austin Energy and Austin Water Utility.

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

At September 30, 2011, Austin Energy had outstanding commercial paper notes of $111,590,000 and Austin Water Utility had $207,210,000 of commercial paper notes outstanding. Interest rates on the notes range from 0.14% to 0.32%, 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. The associated letter of credit agreements have the following terms (in thousands):

Note Series	Liquidity Provider	Commitment Fee Rate	Credit Fee Rate	Remarketing	Remarketing Fee Rate	Outstanding	Expiration
various	JPMorgan Chase Bank, NA	0.85%	0.90%	Goldman Sachs	0.075%	$ 130,488	10/1/2014
various	Bank of America	0.85%	0.90%	Goldman Sachs	0.075%	81,875	10/1/2014
various	State Street	0.85%	0.90%	Goldman Sachs	0.075%	106,437	10/1/2014
						$ 318,800	

These notes are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the notes, the notes will be purchased by the respective liquidity providers and become bank notes with principal to be paid in 12 equal, quarterly installments. Bank notes bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate.

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, 2011, 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 Austin Energy and Austin Water Utility.

At September 30, 2011, Austin Energy had outstanding taxable notes of $41,019,000 (net of discount of $27,311), and Austin Water Utility had no taxable notes outstanding. Interest rates on the taxable notes range from 0.23% to 0.28%. The City intends to refinance maturing commercial paper notes by issuing long-term debt. The associated letter of credit agreement has the following terms (in thousands):

Note Series	Liquidity Provider	Commitment Fee Rate	Remarketing	Remarketing Fee Rate	Outstanding	Expiration
various	JPMorgan Chase Bank, NA	0.85%	Goldman Sachs	0.075%	$ 41,019	10/1/2014

These notes are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the notes, the notes will be purchased by JPMorgan Chase Bank, NA and become bank notes with principal due immediately. Bank notes bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess note interest or the maximum rate.

The Notes are secured by a direct-pay Letter of Credit issued by JPMorgan Chase Bank, NA which permits draws for the payment of the Notes. Draws made under the Letter of Credit are immediately due and payable by the City from the resources more fully described in the Ordinance. No term loan feature is provided by the Agreement.

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 Austin Energy. Bond ratings at September 30, 2011, were A1 (Moody’s Investor Services, Inc.), A+ (Standard & Poor’s), and AA- (Fitch).

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

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, 2011 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2002 Refunding	February 2002	$ 74,750	48,070	5,333 (1)	4.00 - 5.50%	11/15/2011-2014
2002A Refunding	July 2002	172,880	90,950	16,386 (1)	4.00 - 5.50%	11/15/2011-2016
2003 Refunding	February 2003	182,100	139,100	72,202 (1)	5.00 - 5.25%	11/15/2011-2028
2006 Refunding	May 2006	150,000	140,900	103,542 (1)	5.00%	11/15/2011-2035
2006A Refunding	October 2006	137,800	107,425	29,741 (1)	5.00%	11/15/2011-2022
2007 Refunding	August 2007	146,635	134,320	25,908 (1)	5.00%	11/15/2011-2020
2008 Refunding	March 2008	50,000	47,795	39,141 (1)	3.43 - 6.26%	11/15/2011-2032
2008A Refunding	July 2008	175,000	174,800	168,524 (1)	4.00 - 6.00%	11/15/2011-2038
2010A Refunding	June 2010	119,255	119,255	83,614 (1)	2.00 - 5.00%	11/15/2012-2040
2010B Refunding	June 2010	100,990	100,990	115,197 (1)	4.54 - 5.72%	11/15/2019-2040
			$ 1,103,605			

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

Electric Utility System Revenue Debt – Pledged Revenues - The net revenue of Austin Energy was pledged to service the outstanding principal and interest payments for revenue debt outstanding. The table below represents the pledged amounts at September 30, 2011 (in thousands):

Gross Revenue (1)	Operating Expense (2)(3)	Net Revenue	Debt Service Requirement	Revenue Bond Coverage
$ 1,258,871	907,524	351,347	172,631	203.5%

(1) Gross revenue includes revenues from operations and interest income.
(2) Excludes depreciation.
(3) Excludes other post employment benefits and pension obligation accruals.

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 Austin Water Utility.

Water and Wastewater System Revenue Debt -- Revenue Bond Refunding Issues - In November 2010, the City issued $76,855,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2010A. Proceeds from the bond refunding were used to refund $75,000,000 of the City's outstanding tax-exempt commercial paper issued for the water and wastewater utility system. The debt service requirements on the refunding bonds are $153,171,897, with interest rates ranging from 4% to 5.13%. Interest payments are due May 15 and November 15 of each year from 2011 to 2040. Principal payments are due November 15 of each year from 2015 to 2040. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

In November 2010, the City issued $100,970,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2010B. These bonds are Build America Bonds (BABs) and are part of the Federal American Recovery and Reinvestment Act of 2009. Proceeds from the bond refunding were used to refund $100,000,000 of the City's outstanding tax-exempt commercial paper issued for the water and wastewater utility system. The debt service requirements on the refunding bonds are $213,428,131, with interest rates ranging from 2.49% to 6.02%. Interest payments are due May 15 and November 15 of each year from 2011 to 2040. Principal payments are due November 15 of each year from 2015 to 2040. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

In 2011, the City converted an additional $12,750,000 of initial bonds to definitive Water and Wastewater System Revenue Bonds, Series 2010. With these issuances, the outstanding commitment with the Texas Water Development Board (TWDB) is now $23,590,000 (see Note 13).

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

Bond ratings at September 30, 2011, were Aa2 (Moody's Investor Services, Inc.), AA (Standard & Poor's), and AA- (Fitch).

Water and Wastewater System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all water and wastewater system original and refunding revenue bonds outstanding at September 30, 2011 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding		Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2001A Refunding	April 2001	$ 152,180	9,260	7,007	(1)	4.63 - 5.75%	11/15/2011-2031 (3)
2001B Refunding	April 2001	73,200	7,895	6,228	(1)	5.13 - 5.75%	5/15/2012-2031
2001C Refunding	November 2001	95,380	13,405	1,578	(1)	4.30 - 5.38%	11/15/2011-2015 (3)
2002A Refunding	July 2002	139,695	71,560	14,461	(1)	4.00 - 5.50%	11/15/2011-2016
2003 Refunding	February 2003	121,500	75,800	44,895	(1)	4.00 - 5.25%	11/15/2011-2028
2004 Refunding	August 2004	132,475	114,545	24,565	(2)	0.13 - 0.45%	11/15/2011-2024
2004A Refunding	September 2004	165,145	147,965	80,960	(1)	5.00%	11/15/2011-2029
2005 Refunding	May 2005	198,485	198,485	86,970	(1)	4.00 - 5.00%	5/15/2012-2030
2005A Refunding	October 2005	142,335	124,325	86,701	(1)	4.30 - 5.00%	5/15/2012-2035
2006 Refunding	August 2006	63,100	49,605	20,341	(1)	5.00%	11/15/2011-2025
2006A Refunding	November 2006	135,000	128,305	88,382	(1)	3.50 - 5.00%	11/15/2011-2036
2007 Refunding	November 2007	135,000	130,435	105,571	(1)	4.00 - 5.25%	11/15/2011-2037
2008 Refunding	May 2008	170,605	160,740	62,642	(2)	0.05 - 0.80%	11/15/2011-2031 (3)
2009 Refunding	January 2009	175,000	175,000	93,972	(1)	3.00 - 5.13%	11/15/2011-2029
2009A Refunding	November 2009	166,575	166,575	138,980	(1)	4.00 - 5.00%	11/15/2011-2039
2010	January 2010	23,590	23,590	--		0.00%	11/15/2012-2034
2010A Refunding	November 2010	76,855	76,855	74,253	(1)	4.00 - 5.13%	11/15/2013-2040
2010B Refunding	November 2010	100,970	100,970	109,524	(1)	2.49 - 6.02%	11/15/2015-2040
			$ 1,775,315				

(1) Interest is paid semiannually on May 15 and November 15.
(2) Interest is paid monthly and is based on a variable rate. Aggregate interest requirement is calculated utilizing the rate in effect at the end of the fiscal year.
(3) Series matures on May 15th of the final year

The Series 2004 and 2008 refunding bonds are variable rate demand bonds. The associated letter of credit agreements have the following terms (in thousands):

Bond Sub-Series	Liquidity Provider	Commitment Fee Rate	Remarketing Agent	Remarketing Fee Rate	Outstanding	Expiration
2004	Landesbank Baden-Wurttemberg	0.75%	JP Morgan Chase Bank, NA	0.075%	$ 114,545	12/29/2015
2008	Sumitoma Mitsui Banking Corp./The Bank of Tokyo-Mitsubishi UFJ, Ltd	0.85%	Goldman Sachs	0.050%	160,740	5/8/2015
					$ 275,285	

These bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the bonds, the bonds will be purchased by the respective liquidity providers and become bank bonds with principal to be paid in equal semi-annual installments over a 5-year amortization period. Bank bonds bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate.

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

Water and Wastewater System Revenue Debt -- Pledged Revenues - The net revenue of Austin Energy was pledged to service the outstanding principal and interest payments for revenue debt outstanding. The table below represents the pledged amounts at September 30, 2011 (in thousands):

Gross Revenue (1)	Operating Expense (2)(3)	Net Revenue	Debt Service Requirement	Revenue Bond Coverage
$ 448,467	163,531	284,936	155,881	182.8%

(1) Gross revenue includes revenues from operations and interest income.
(2) Excludes depreciation.
(3) Excludes other post employment benefits and pension obligation accruals.

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, 2011, the total airport system obligation for prior lien bonds is $295,015,000 exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior lien bonds are $97,646,000 at September 30, 2011. Revenue bonds authorized and unissued amount to $735,795,000.

The bond rating at September 30, 2011, for the prior lien bonds is A (Standard & Poor's).

The following table summarizes all airport system original and refunding revenue bonds outstanding at September 30, 2011 (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	46,665	12,061 (1)	4.00 - 5.25%	11/15/2011-2018
2008 Remarketing	April 2008	281,300	248,350	85,585 (2)	0.05% - 2.00%	11/15/2011-2025
			$ 295,015			

(1) Interest is paid semiannually on May 15 and November 15.
(2) Interest is paid monthly and is based on a variable rate. Aggregate interest requirement is calculated utilizing the rate in effect at the end of the fiscal year.

The Series 2008 remarketing bonds are variable rate demand bonds. These bonds are separated into 4 subseries with a total principal amount of $248,350,000. The associated letter of credit agreements have the following terms (in thousands):

Bond Sub-Series	Liquidity Provider	Commitment Fee Rate	Remarketing Agent	Remarketing Fee Rate	Outstanding	Expiration
2005-1	JPMorgan Chase Bank, NA	1.35%	Morgan Stanley	0.10%	$ 62,075	6/21/2014
2005-2	JPMorgan Chase Bank, NA	1.35%	Morgan Stanley	0.10%	62,050	6/21/2014
2005-3	KBC Bank, N.V.	1.35%	Morgan Stanley	0.10%	62,100	6/21/2014
2005-4	Royal Bank of Canada	1.35%	Morgan Stanley	0.10%	62,125	6/21/2014
					$ 248,350	

These bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the bonds, the bonds will be purchased by the respective liquidity provider and become bank bonds with principal to be paid in annual installments over the remaining life of the bond series. Bank bonds bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate.

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

Airport Debt -- Variable Rate Revenue Notes - The City is authorized by ordinance to issue airport system variable rate revenue notes. At September 30, 2011, 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 $12,686,362 including accrued interest, at September 30, 2011, and was restricted within the airport system. During fiscal year 2011, interest rates on the notes ranged from 0.05% to 0.33%, 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 Series 1998 revenue notes are variable rate demand notes. The associated letter of credit agreement has the following terms (in thousands):

Bond Sub-Series	Liquidity Provider	Commitment Fee Rate	Remarketing Agent	Remarketing Fee Rate	Outstanding	Expiration
1998	State Street	1.75%	Citi	0.125%	$ 28,000	8/18/2012

These notes are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the notes, the notes will be purchased by State Street and become bank notes with principal to be paid in 12 equal, quarterly installments. Bank notes bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess note interest or the maximum rate.

The bond rating at September 30, 2011, for the airport variable rate notes was NUR (no underlying rating).

Airport Revenue Debt -- Pledged Revenues - The net revenue of the Airport Fund was pledged to service the outstanding principal and interest payments for revenue debt outstanding (including revenue bonds and revenue notes). The table below represents the pledged amounts at September 30, 2011 (in thousands):

Gross Revenue (1)	Other available funds (2)	Operating Expense (3)(4)	Net Revenue and Other Available Funds	Debt Service Requirement (5)	Revenue Bond Coverage
$ 90,259	8,342	59,965	38,636	14,954	258.4%

(1) Gross revenue includes revenues from operations and interest income.
(2) Pursuant to bond ordinance, in addition to gross revenue, the Airport is authorized to use "other available funds" in the calculation of revenue bond coverage.
(3) Excludes depreciation.
(4) Excludes other post employment benefits and pension obligation accruals.
(5) Excludes debt service amounts paid with passenger facility charge revenues.

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, 2011, the total convention center obligation for prior and subordinate lien bonds is $215,470,000, exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior and subordinate lien bonds are $81,086,840 at September 30, 2011. Revenue bonds authorized and unissued amount to $760,000 at September 30, 2011.

Bond ratings at September 30, 2011, for the revenue bonds were A1 (Moody's Investor Services, Inc.), and A- (Standard & Poor's).

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

The following table summarizes Convention Center original and refunding revenue bonds outstanding at September 30, 2011 (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	20,830	12,565 (1)	5.10 - 5.50%	11/15/2011-2029
2004 Refunding	February 2004	52,715	40,390	9,758 (1)	5.00%	11/15/2011-2019
2005 Refunding	May 2005	36,720	36,720	20,037 (1)	3.30 - 5.00%	11/15/2011-2029
2008AB Refunding	August 2008	125,280	117,530	38,726 (2)	0.07 - 3.25%	11/15/2011-2029
			$ 215,470			

(1) Interest is paid semiannually on May 15 and November 15.
(2) Interest is paid monthly and is based on a variable rate. Aggregate interest requirement calculated utilizing the rate in effect at the end of the fiscal year.

The Series 2008 A and B refunding bonds are variable rate demand bonds. The associated letter of credit agreements have the following terms (in thousands):

Bond Sub-Series	Liquidity Provider	Commitment Fee Rate	Remarketing Agent	Remarketing Fee Rate	Outstanding	Expiration
2008-A	JPMorgan Chase Bank, NA	1.10%	Morgan Keegan	0.060%	$ 58,765	7/25/2014
2008-B	Bank of America, NA	1.10%	Merrill Lynch, Pierce, Fenner& Smith Inc.	0.050%	58,765	7/25/2014
					$ 117,530	

These bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the bonds, the bonds will be purchased by the respective liquidity provider and become bank bonds with principal to be paid in equal semi-annual installments over a 5-year amortization period. Bank bonds bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate.

6 – 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
2012	$ 48,426	37,976	8,248	2,501	3,735	1,277
2013	53,952	35,705	3,979	2,145	2,165	1,169
2014	50,103	33,224	4,200	2,001	2,161	1,097
2015	51,422	30,883	2,617	1,849	2,688	1,009
2016	46,676	28,500	2,752	1,739	2,256	899
2017-2021	271,123	105,430	15,766	6,950	7,835	3,486
2022-2026	182,792	49,825	19,070	3,477	8,775	1,836
2027-2031	121,581	10,335	5,601	454	3,145	271
	826,075	331,878	62,233	21,116	32,760	11,044
Less: Unamortized bond discounts	(678)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(19,068)	--	--	--	--	--
Add: Unamortized bond premiums	36,379	--	193	--	234	--
Net debt service requirements	842,708	331,878	62,426	21,116	32,994	11,044

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
2012	274	8	60,683	41,762	102,445
2013	159	3	60,255	39,022	99,277
2014	--	--	56,464	36,322	92,786
2015	--	--	56,727	33,741	90,468
2016	--	--	51,684	31,138	82,822
2017-2021	--	--	294,724	115,866	410,590
2022-2026	--	--	210,637	55,138	265,775
2027-2031	--	--	130,327	11,060	141,387
	433	11	921,501	364,049	1,285,550
Less: Unamortized bond discounts	--	--	(678)	--	(678)
Unamortized gain(loss) on bond refundings	--	--	(19,068)	--	(19,068)
Add: Unamortized bond premiums	--	--	36,806	--	36,806
Net debt service requirements	$ 433	11	938,561	364,049	1,302,610

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

Austin Energy Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Commercial Paper Notes (1) Principal	Commercial Paper Notes (1) Interest
2012	$ 78	49	40	76	152,609	28
2013	125	45	42	74	--	--
2014	131	39	44	72	--	--
2015	139	33	47	69	--	--
2016	112	26	49	67	--	--
2017-2021	402	45	286	293	--	--
2022-2026	--	--	367	214	--	--
2027-2031	--	--	383	100	--	--
	987	237	1,258	965	152,609	28
Less: Unamortized bond discount	(2)	--	--	--	(27)	--
Unamortized gain(loss) on bond refundings	--	--	--	--	--	--
Add: Unamortized bond premium	45	--	--	--	--	--
Net debt service requirements	1,030	237	1,258	965	152,582	28

Fiscal Year Ended September 30	Revenue Bonds Principal	Revenue Bonds Interest	Total Austin Energy Debt Service Requirements Principal	Total Austin Energy Debt Service Requirements Interest	Total Austin Energy Debt Service Requirements Total
2012	75,772	92,959	228,499	93,112	321,611
2013	105,092	69,013	105,259	69,132	174,391
2014	123,006	53,912	123,181	54,023	177,204
2015	79,754	50,964	79,940	51,066	131,006
2016	52,996	47,779	53,157	47,872	101,029
2017-2021	218,125	194,397	218,813	194,735	413,548
2022-2026	221,294	132,384	221,661	132,598	354,259
2027-2031	190,175	77,444	190,558	77,544	268,102
2032-2036	128,930	36,492	128,930	36,492	165,422
2037-2041	73,640	8,220	73,640	8,220	81,860
	1,268,784	763,564	1,423,638	764,794	2,188,432
Less: Unamortized bond discounts	(2,063)	--	(2,092)	--	(2,092)
Unamortized gain(loss) on bond refundings	(44,107)	--	(44,107)	--	(44,107)
Add: Unamortized bond premiums	33,482	--	33,527	--	33,527
Net debt service requirements	$ 1,256,096	763,564	1,410,966	764,794	2,175,760

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

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

Austin Water Utility Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Contractual Obligations Principal	Contractual Obligations Interest	Other Tax Supported Debt Principal	Other Tax Supported Debt Interest
2012	$ 1,101	338	3,231	301	430	290
2013	1,206	281	2,857	199	441	274
2014	976	218	2,144	105	461	256
2015	1,013	178	1,050	51	476	238
2016	1,025	136	733	27	508	218
2017-2021	1,673	147	642	10	2,008	1,277
2022-2026	14	1	--	--	2,894	374
	7,008	1,299	10,657	693	7,218	2,927
Less: Unamortized bond discounts	(11)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(1,678)	--	--	--	--	--
Add: Unamortized bond premiums	655	--	93	--	--	--
Net debt service requirements	5,974	1,299	10,750	693	7,218	2,927

Fiscal Year Ended September 30	Commercial Paper Notes (1) Principal	Commercial Paper Notes (1) Interest	Revenue Bonds (2) Principal	Revenue Bonds (2) Interest	Total Austin Water Utility Debt Service Requirements Principal	Total Interest	Total
2012	207,210	17	67,295	107,033	279,267	107,979	387,246
2013	--	--	81,482	97,596	85,986	98,350	184,336
2014	--	--	105,119	82,858	108,700	83,437	192,137
2015	--	--	96,612	87,272	99,151	87,739	186,890
2016	--	--	105,573	77,281	107,839	77,662	185,501
2017-2021	--	--	395,986	422,474	400,309	423,908	824,217
2022-2026	--	--	435,560	214,769	438,468	215,144	653,612
2027-2031	--	--	384,700	114,771	384,700	114,771	499,471
2032-2036	--	--	163,880	54,644	163,880	54,644	218,524
2037-2041	--	--	124,445	13,379	124,445	13,379	137,824
	207,210	17	1,960,652	1,272,077	2,192,745	1,277,013	3,469,758
Less: Unamortized bond discounts	--	--	(7,152)	--	(7,163)	--	(7,163)
Unamortized gain(loss) on bond refundings	--	--	(41,983)	--	(43,661)	--	(43,661)
Add: Unamortized bond premiums	--	--	42,171	--	42,919	--	42,919
Net debt service requirements	$ 207,210	17	1,953,688	1,272,077	2,184,840	1,277,013	3,461,853

(1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.
(2) Portions of these bonds are variable rate bonds with rates of 0.05% to 0.80%.

6 – 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	Revenue Notes (1) Principal	Revenue Notes (1) Interest	Revenue Bonds (2) Principal	Revenue Bonds (2) Interest
2012	$ 30	11	--	980	14,165	12,033
2013	39	10	--	980	14,795	11,466
2014	26	8	--	980	15,610	10,699
2015	28	6	--	980	16,345	10,042
2016	22	5	--	980	17,105	9,357
2017-2021	78	9	28,000	1,470	103,070	33,480
2022-2026	1	--	--	--	113,925	10,569
	224	49	28,000	6,370	295,015	97,646
Less: Unamortized bond discounts	(1)	--	--	--	(741)	--
Unamortized gain(loss) on bond refundings	1	--	--	--	(13,334)	--
Add: Unamortized bond premiums	8	--	--	--	1,663	--
Net debt service requirements	232	49	28,000	6,370	282,603	97,646

Fiscal Year Ended September 30	Total Airport Debt Service Requirements Principal	Interest	Total
2012	14,195	13,024	27,219
2013	14,834	12,456	27,290
2014	15,636	11,687	27,323
2015	16,373	11,028	27,401
2016	17,127	10,342	27,469
2017-2021	131,148	34,959	166,107
2022-2026	113,926	10,569	124,495
	323,239	104,065	427,304
Less: Unamortized bond discounts	(742)	--	(742)
Unamortized gain(loss) on bond refundings	(13,333)	--	(13,333)
Add: Unamortized bond premiums	1,671	--	1,671
Net debt service requirements	310,835	104,065	414,900

(1) These are variable rate notes with rates ranging from 0.05% to 0.33%.

(2) Portions of these bonds are variable rate bonds with rates ranging from 0.05% to 2.0%.

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

Nonmajor Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	$ 1,461	877	2,737	1,678	9,248	1,093
2013	1,598	802	2,251	1,562	8,718	829
2014	1,934	721	2,360	1,469	7,605	594
2015	1,808	630	2,013	1,372	6,967	401
2016	1,810	544	2,113	1,289	5,406	216
2017-2021	8,360	1,374	10,864	5,298	5,749	190
2022-2026	718	36	10,610	2,569	--	--
2027-2031	--	--	4,724	1,083	--	--
2032-2036	--	--	1,480	477	--	--
2037-2041	--	--	1,090	105	--	--
	17,689	4,984	40,242	16,902	43,693	3,323
Less: Unamortized bond discounts	(38)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(1,229)	--	--	--	--	--
Add: Unamortized bond premiums	1,740	--	661	--	411	--
Net debt service requirements	18,162	4,984	40,903	16,902	44,104	3,323

Fiscal Year Ended September 30	Other Tax Supported Debt		Revenue Bonds (1)		Total Nonmajor Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2012	241	163	9,450	8,483	23,137	12,294	35,431
2013	248	154	10,555	8,077	23,370	11,424	34,794
2014	259	144	11,000	7,635	23,158	10,563	33,721
2015	268	133	11,455	7,164	22,511	9,700	32,211
2016	286	123	11,965	6,663	21,580	8,835	30,415
2017-2021	1,128	718	62,090	25,253	88,191	32,833	121,024
2022-2026	1,626	210	50,625	14,247	63,579	17,062	80,641
2027-2031	--	--	48,330	3,564	53,054	4,647	57,701
2032-2036	--	--	--	--	1,480	477	1,957
2037-2041	--	--	--	--	1,090	105	1,195
	4,056	1,645	215,470	81,086	321,150	107,940	429,090
Less: Unamortized bond discounts	--	--	(610)	--	(648)	--	(648)
Unamortized gain(loss) on bond refundings	--	--	(15,801)	--	(17,030)	--	(17,030)
Add: Unamortized bond premiums	--	--	2,831	--	5,643	--	5,643
Net debt service requirements	$ 4,056	1,645	201,890	81,086	309,115	107,940	417,055

(1) A portion of these bonds are variable rate bonds with rates ranging from 0.07% to 3.15%.

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

Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	$ 2,670	1,275	2,737	1,678	12,479	1,394
2013	2,968	1,138	2,251	1,562	11,575	1,028
2014	3,067	986	2,360	1,469	9,749	699
2015	2,988	847	2,013	1,372	8,017	452
2016	2,969	711	2,113	1,289	6,139	243
2017-2021	10,513	1,575	10,864	5,298	6,391	200
2022-2026	733	37	10,610	2,569	--	--
2027-2031	--	--	4,724	1,083	--	--
2032-2036	--	--	1,480	477	--	--
2037-2041	--	--	1,090	105	--	--
	25,908	6,569	40,242	16,902	54,350	4,016
Less: Unamortized bond discounts	(52)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(2,906)	--	--	--	--	--
Add: Unamortized bond premiums	2,448	--	661	--	504	--
Net debt service requirements	25,398	6,569	40,903	16,902	54,854	4,016

Fiscal Year Ended September 30	Other Tax Supported Debt		Commercial Paper Notes (1)		Revenue Notes (2)	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	671	453	359,819	45	--	980
2013	689	428	--	--	--	980
2014	720	400	--	--	--	980
2015	744	371	--	--	--	980
2016	794	341	--	--	--	980
2017-2021	3,136	1,995	--	--	28,000	1,470
2022-2026	4,520	584	--	--	--	--
	11,274	4,572	359,819	45	28,000	6,370
Less: Unamortized bond discounts	--	--	(27)	--	--	--
Unamortized gain(loss) on bond refundings	--	--	--	--	--	--
Add: Unamortized bond premiums	--	--	--	--	--	--
Net debt service requirements	$ 11,274	4,572	359,792	45	28,000	6,370

(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 rates ranging from 0.05% to 0.33%.

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

Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	Revenue Bonds (3) Principal	Revenue Bonds (3) Interest	Capital Lease Obligations Principal	Capital Lease Obligations Interest
2012	$ 166,682	220,508	40	76
2013	211,924	186,152	42	74
2014	254,735	155,104	44	72
2015	204,166	155,442	47	69
2016	187,639	141,080	49	67
2017-2021	779,271	675,604	286	293
2022-2026	821,404	371,969	367	214
2027-2031	623,205	195,779	383	100
2032-2036	292,810	91,136	--	--
2037-2041	198,085	21,599	--	--
	3,739,921	2,214,373	1,258	965
Less: Unamortized bond discounts	(10,566)	--	--	--
Unamortized gain(loss) on bond refundings	(115,225)	--	--	--
Add: Unamortized bond premiums	80,147	--	--	--
Net debt service requirements	3,694,277	2,214,373	1,258	965

Fiscal Year Ended September 30	Total Business-Type Activities Debt Service Requirements Principal	Interest	Total
2012	545,098	226,409	771,507
2013	229,449	191,362	420,811
2014	270,675	159,710	430,385
2015	217,975	159,533	377,508
2016	199,703	144,711	344,414
2017-2021	838,461	686,435	1,524,896
2022-2026	837,634	375,373	1,213,007
2027-2031	628,312	196,962	825,274
2032-2036	294,290	91,613	385,903
2037-2041	199,175	21,704	220,879
	4,260,772	2,253,812	6,514,584
Less: Unamortized bond discounts	(10,645)	--	(10,645)
Unamortized gain(loss) on bond refundings	(118,131)	--	(118,131)
Add: Unamortized bond premiums	83,760	--	83,760
Net debt service requirements	$ 4,215,756	2,253,812	6,469,568

(3) A portion of these bonds are variable rate bonds with rates ranging from 0.05% to 3.15%.

6 – DEBT AND NON-DEBT LIABILITIES, continued
e -- Debt Service Requirements

Over time, the City has issued refunding bonds to advance refund certain public improvement bonds, certificates of obligation, and enterprise revenue bonds. The proceeds of the sale of the refunding bonds were deposited with an escrow agent in an amount necessary to accomplish the discharge and final payment of the refunded obligations. These funds are held by the escrow agent in an escrow fund and used to purchase direct obligations of the United States of America to be held in the escrow fund. The escrow fund is irrevocably pledged to the payment of the principal and interest on the refunded obligations.

On September 30, 2011, defeased bonds remaining unredeemed or unmatured are provided below (in thousands):

Refunded Bonds	Escrow Maturity	Balance (1)
General Obligation		
Certificates of Obligations, Series 2002	9/1/2012	$ 17,675
Public Improvement Bonds, Series 2002	9/1/2012	54,600
Public Improvement Bonds, Series 2003	9/1/2013	31,785
Certificates of Obligations, Series 2004	9/1/2014	1,355
Austin Energy		
Series 2003	5/15/2013	18,800
Austin Water Utility		
Series 2003	5/15/2013	29,100
		$ 153,315

(1) The balances shown have been escrowed to their respective call dates.

7 – RETIREMENT PLANS
a -- Description

The City participates in funding three contributory, defined benefit retirement plans: the City of Austin Employees' Retirement and Pension Fund, the City of Austin Police Officers' Retirement and Pension Fund, and the 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, 2010, except for the Fire Fighters' Relief and Retirement Fund which has a fiscal year ended December 31, 2009. Membership in the plans at December 31 is 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	5,276	564	569	6,409
Current employees	8,270	1,624	982	10,876
Total	13,546	2,188	1,551	17,285

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.

7 – RETIREMENT PLANS, continued
a – Description, continued

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

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)	8.00%	13.00%	15.70%
City's contribution (percent of earnings)	14.0% (1)	19.63% (2)	19.05% (3)

(1) The City contributes two-thirds of the cost of prior service benefit payments. A rate of 14% was effective October 1, 2010. The City contribution includes an 8% employee match plus a subsidy contribution of 6%. This rate increased to 16% effective October 1, 2011. The City contribution includes an 8% employee match plus a subsidy contribution of 8%.
(2) A rate of 19.63% was effective October 1, 2010. This rate increased to 20.63% effective October 1, 2011.
(3) A rate of 19.05% was effective October 1, 2010. This rate increased to 20.05% effective October 1, 2011.

While the contribution requirements are not actuarially determined, state law requires that a qualified actuary approve each plan of benefits adopted. Contributions for fiscal year ended September 30, 2011, are as follows (in thousands):

	City Employees	Police Officers	Fire Fighters	Total
City	$ 64,297	26,111	14,918	105,326
Employees	36,588	17,292	12,295	66,175
Total contributions	$ 100,885	43,403	27,213	171,501

7 – RETIREMENT PLANS, continued
b -- Funding Policy, continued

The City's annual pension cost of $119,533,000 for the fiscal year ended September 30, 2011, was $14,207,000 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)				
2009	$ 59,067	19,909	10,102	89,078
2010	78,559	20,609	10,058	109,226
2011	81,615	22,269	15,649	119,533
Percentage of APC contributed				
2009	69%	97%	135%	N/A
2010	69%	112%	133%	N/A
2011	79%	117%	95%	N/A
Net Pension Obligation (Asset)				
2009	82,146	646	218	83,010
2010	106,376	(1,799)	(3,144)	101,433
2011	123,692	(5,641)	(2,414)	115,637

The Net Pension Obligation (Asset) associated with the City Employees' Retirement and Pension Fund, the Police Officers' Retirement and Pension Fund, and the Fire Fighters' Relief and Retirement Fund is as follows (in thousands):

	City Employees	Police Officers	Fire Fighters	Total
Annual required contribution	$ 79,729	22,315	15,709	117,753
Interest on net pension obligation (asset)	8,244	(144)	(244)	7,856
Adjustment to annual required contribution	(6,360)	98	183	(6,079)
Annual pension cost	81,613	22,269	15,648	119,530
Employer contributions	(64,297)	(26,111)	(14,918)	(105,326)
Change in net pension obligation (asset)	17,316	(3,842)	730	14,204
Beginning net pension obligation (asset)	106,376	(1,799)	(3,144)	101,433
Net pension obligation (asset)	$ 123,692	(5,641)	(2,414)	115,637

7 – RETIREMENT PLANS, continued
c -- Annual Pension Cost and Net Pension Obligation (Asset)

The latest actuarial valuations for the City Employees' Retirement and Pension Fund and the Police Officers' Retirement and Pension Fund were completed as of December 31, 2010, while the Austin Fire Fighters' Relief and Retirement Fund was completed as of December 31, 2009. 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	Entry Age	Entry Age
Asset Valuation Basis	5-year smoothed market	5-year smoothed market	5-year smoothed market
Inflation Rate	3.25%	4%	3.5%
Projected Annual Salary Increases	5% to 6%	6.8% average	8%
Post Retirement Benefit Increase	None	None	1% per year
Assumed Rate of Return on Investments	7.75%	8%	7.75%
Amortization Method	Level percentage of projected payroll, open	Level percentage of projected payroll, open	Level percentage of projected payroll, open
Remaining Amortization Period	30 years	23.2 years	30 years

d -- Schedule of funding progress

Information pertaining to the schedule of funding progress for each plan is as follows (in thousands):

Valuation Date, December 31		Actuarial Value of Assets	Actuarial Accrued Liability	UAAL (1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
City Employees 2010	$	1,711,600	2,460,700	749,100	69.6%	438,900	170.7%
Police Officers 2010		546,957	776,231	229,274	70.5%	127,732	179.5%
Fire Fighters (2) 2009		589,261	664,185	74,924	88.7%	78,980	94.9%

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

The schedule of funding progress, presented as Required Supplementary Information, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

8 – OTHER POST-EMPLOYMENT BENEFITS

a -- Description

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, dental, and vision 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, dental, and vision plan(s) in which they participate. The City's other post-employment benefits plan is a single employer plan.

The City is under no obligation to pay any portion of the cost of other post-employment benefits for retirees or their dependents. Allocation of City funds to pay other post-employment benefits is determined on an annual basis by the City Council as part of the budget approval process on a pay-as-you-go basis.

The City recognizes the cost of providing these benefits to active employees as an expense and corresponding revenue in the Employee Benefits Fund; no separate plan report is available. The City pays actual claims for medical and 100% of the retiree's life insurance premium. Group dental and vision coverage is available to retirees and their eligible dependents. The retiree pays the full cost of the dental and vision premium.

Medical, dental, vision, and life insurance expenses are reported in the Employee Benefits Fund. The estimated pay-as-you-go cost of providing medical and life benefits was $22.7 million for 3,529 retirees in 2011 and $21.7 million for 3,318 retirees in 2010.

b -- Annual Other Post Employment Benefits (OPEB) Cost and Net OPEB (Obligation) Asset

The annual OPEB cost associated with the City's retiree benefits for the fiscal year ended September 30, 2011 is as follows (in thousands):

	OPEB
Annual required contribution	$ 139,759
Interest on net OPEB obligation	11,373
Adjustment to annual required contribution	(15,376)
Annual OPEB cost	135,756
Contributions made	(22,712)
Change in net OPEB obligation	113,044
Beginning net OPEB obligation	270,148
Net OPEB obligation	$ 383,192

c -- Schedule of Funding Progress at September 30, 2011 (in thousands):

Actuarial Value of Assets	Actuarial Accrued Liability	UAAL (1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
$ --	1,404,692	1,404,692	0%	668,679	210.1%

(1) UAAL - Unfunded Actuarial Accrued Liability

The schedule of funding progress, presented as RSI, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the two preceding years are as follows (in thousands):

Year Ended September 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	$ 107,207	18%	175,150
2010	116,704	18%	270,148
2011	135,756	17%	383,192

8 – OTHER POST-EMPLOYMENT BENEFITS, continued
d -- Funding Policy

The actuarial cost method and significant assumptions underlying the actuarial calculation are as follows:

	OPEB
Actuarial Valuation Date	October 1, 2010
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percentage Open
Remaining Amortization Period	30 years
Asset Valuation Method	N/A
Investment Rate of Return	4.21%
Inflation Rate	N/A
Salary Increase	None
Payroll Increase	None
Health Care Cost Trend Rate	9.0% in 2011, decreasing 1.0% per year for five years to an ultimate trend of 5.0% in 2015

9 – DERIVATIVE INSTRUMENTS

The City has derivatives in two hedging programs: Energy Risk Management Program and Variable Rate Debt Management Program.

The City reports the fair value of all derivative instruments on the statement of net assets. All derivative instruments are categorized into two basic types – (1) hedging derivative instruments and (2) investment derivative instruments. Hedging derivative instruments significantly reduce an identified financial risk by substantially offsetting changes in cash flows or fair values of an associated hedgeable item. Investment derivative instruments are entered into primarily for income or profit purposes or they are derivative instruments that do not meet the criteria of an effective hedging derivative instrument. Changes in fair value of hedging derivative instruments are deferred on the statement of net assets; and changes in fair value of investment derivative instruments are recognized as gains or losses on the statement of activities.

a -- Energy Risk Management Program

In an effort to mitigate the financial and market risk associated with the purchase of natural gas, energy, and congestion 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, swaps, and congestion rights for the purpose of reducing exposure to natural gas, energy, and congestion 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.

Hedging Derivative Instruments

Natural Gas Derivatives
Austin Energy purchases financial contracts on the New York Mercantile Exchange (NYMEX) to provide a hedge against the physical delivery price of natural gas from its various hubs. Austin Energy enters into basis swaps to protect delivery price differences between Henry Hub and its natural gas delivery points, Western Area Hub Association (WAHA), Katy, and the Houston Ship Channel (HSC).

The fair value of futures, swaps, and basis swap contracts is determined using the NYMEX closing settlement prices as of the last day of the reporting period. The fair value is calculated by deriving the difference between the closing futures price on the last day of the reporting period and purchase price at the time the positions were established. The fair value of the options are calculated using the Black/Scholes valuation method utilizing implied volatility based on the NYMEX closing settlement prices of the options as of the last day of the reporting period, risk free interest rate, time to maturity, and the NYMEX forward price of the underlier as of the last day of the reporting period.

Premiums paid for options are deferred until the contract is settled. As of September 30, 2011, $11.2 million in premiums was deferred. As of September 30, 2011, the fair value of Austin Energy's futures, options, swaps and congestion rights, was an unrealized loss of $70.5 million, of which $77.6 million is reported as derivative instruments in liabilities and $7.1 million is reported as derivative instruments in assets. The fair values of these derivative instruments are deferred until future periods on the balance sheet using deferred outflows and deferred inflows.

9 – DERIVATIVE INSTRUMENTS, continued
a -- Energy Risk Management Program, continued

Congestion Revenue Rights Derivatives
Preassigned Congestion Revenue Rights (PCRRs) and Transmission Congestion Revenue Rights (CRRs) function as financial hedges against the cost of resolving congestion in the Electric Reliability Council of Texas (ERCOT) market. These instruments allow Austin Energy to hedge expected future congestion that may arise during a certain period. CRRs are purchased at auction, annually and monthly at market value. Municipally owned utilities are granted the right to purchase PCRRs annually at 10-20% of the cost of CRRs. The instruments exhibit all three characteristics - settlement, leverage, and net settlement - to classify them as derivative instruments.

As of September 30, 2011, PCRRs had a fair value of $75 thousand and CRRs had a fair value of $1.5 million and are reported as derivative instruments. The market value for CRRs and PCRRs is calculated using the implied market value (the difference between future proxy sink price and source price) multiplied by the number of open positions. The difference in the prices represents what the expected cost of congestion will be for that given point in time.

On September 30, 2011, Austin Energy had the following outstanding hedging derivative instruments (in thousands):

Type of Transaction		Reference Index	Fair Value at September 30, 2011 Maturity Dates	Notional Volumes		Fair Value	Change in Fair Value	Premiums Deferred
Long	OTC Call Options	Henry Hub	Oct 2011 - Dec 2015	17,105,533	(1)	$ 2,356	900	16,246
Long	OTC Put Options	Henry Hub	Oct 2011 - Dec 2011	1,840,000	(1)	459	460	-
Long	Options	Henry Hub	Apr 2013 - Oct 2013	2,140,000	(1)	474	101	-
Long	Basis Swaps	WAHA	Oct 2011 - Dec 2013	7,930,000	(1)	2,257	726	-
n/a	Congestion Rights	ICE (2)	Oct 2011 - Dec 2011	3,040,661	(3)	1,530	(851)	-
			Derivative instruments (assets)			7,076	1,336	16,246
Short	OTC Call Options	Henry Hub	Oct 2011 - Dec 2011	(920,000)	(1)	(48)	121	-
Short	OTC Put Options	Henry Hub	Oct 2011 - Oct 2014	(14,365,000)	(1)	(30,865)	(5,197)	(5,039)
Long	Futures	Henry Hub	Oct 2011 - Jul 2013	917,500	(1)	(3,889)	(683)	-
Short	Options	Henry Hub	Apr 2013 - Oct 2013	(2,140,000)	(1)	(5,331)	(504)	-
Long	OTC Swaps	Henry Hub	Oct 2011 - Sep 2016	34,282,500	(1)	(37,425)	(13,993)	-
			Derivative instruments (liabilities)			(77,558)	(20,256)	(5,039)
			Total			$ (70,482)	(18,920)	11,207

(1) Volume in MMBTUs
(2) IntercontinentalExchange
(3) Volume in MWHs

Austin Energy routinely purchases derivative instruments. The outstanding hedging derivative instruments were purchased at various dates.

The realized gains and losses related to the hedging activity derivative instruments are netted to fuel expense in the period realized.

Risks

Credit Risk. Credit risk is the risk of loss due to a counterparty defaulting on its obligations. Austin Energy's fuel derivative contracts expose Austin Energy to custodial credit risk on Exchange Traded derivative positions. In the event of default or nonperformance by brokers or the exchange, Austin Energy's operations will not be materially affected. However, Austin Energy does not expect the brokerages to fail to meet their obligations given their high credit ratings and the strict and deep credit requirements upheld by NYMEX, which these brokerage houses are members. At September 30, 2011, the brokerages had credit ratings of A and BBB-.

The over-the-counter agreements expose Austin Energy to credit risk. In the event of default Austin Energy's operations will not be materially affected. However, Austin Energy does not expect the counterparties to fail to meet their obligations given their high credit rating. At September 30, 2011, the two counterparties had credit ratings of AA- and A. The contractual provisions under the ISDA (International Swaps and Derivatives Association) agreement applied to these contracts include collateral provisions. At September 30, 2011 no collateral was required under these provisions.

The congestion rights expose Austin Energy to custodial credit risk in the event of default or nonperformance by ERCOT. In the event of default of nonperformance Austin Energy's operations will not be materially affected. However, Austin Energy does not expect ERCOT to fail in meeting their obligations as they are a regulatory entity of the State of Texas.

9 – DERIVATIVE INSTRUMENTS, continued
a -- Energy Risk Management Program, continued

Termination Risk. Termination risk is the risk that a derivative will terminate prior to its scheduled maturity due to a contractual event. Contractual events include illegality, tax and credit events upon merger and other events. 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. Austin Energy's exposure to termination risk for over-the counter agreements 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. Termination risk is associated with all of Austin Energy's derivatives up to the fair value of the instrument.

Netting Arrangements. Austin Energy enters into netting arrangements whenever it has entered into more than one derivative instrument transaction with a counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on it's obligations, close-out netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by or owed to the non-defaulting party.

Basis Risk. Austin Energy is exposed to basis risk on its fuel hedges because the expected commodity purchases being hedged will price based on a delivery point (WAHA/Katy/HSC) different than that at which the financial hedging contracts are expected to settle NYMEX (Henry Hub). As of September 30, 2011, the NYMEX price was $3.76 per MMBTU, the WAHA Hub price was $3.67 per MMBTU, Katy was $3.685 per MMBTU, and the HSC Hub price was $3.705 per MMBTU.

Investment Derivative Instruments

On September 30, 2011, Austin Energy had the following closed out investment derivative instruments (in thousands):

			Fair Value at September 30, 2011			
Type of Transaction		**Reference Index**	**Maturity Dates**	**Volumes in MMBTU**	**Fair Value**	**Change in Fair Value**
Long	OTC Call Options	Henry Hub	Oct 2011 - Oct 2013	12,055,000	$ 1,238	1,238
Short	OTC Call Options	Henry Hub	Oct 2011 - Oct 2013	(12,055,000)	(1,238)	(1,238)
Long	Futures	Henry Hub	Aug 2013 - Oct 2013	230,000	(938)	(92)
Short	Futures	Henry Hub	Aug 2013 - Oct 2013	(230,000)	869	92
					$ (69)	--

At September 30, 2011, Austin Energy recorded an unrealized loss of $11 thousand on outstanding emission investment instruments.

In fiscal year 2011, Austin Energy sold Preassigned Congestion Revenue Rights (PCRRs) and recorded a gain of $811 thousand; however, this gain was deferred under the accounting requirements for regulated operations. At September 30, 2011, $183 thousand remained deferred.

Risks

As of September 30, 2011, Austin Energy was not exposed to credit, interest, or foreign currency risk on its investment derivative instruments.

b -- Variable Rate Debt Management Program

Hedging Derivative Instruments

The intention of the City's swap portfolio is to change variable interest rate bonds to synthetically fixed rate bonds. As a means to lower its borrowing costs when compared against fixed rate bonds at the time of issuance, the City executed pay-fixed, receive-variable swaps in connection with its issuance of variable rate bonds.

As of September 30, 2011, the City has 4 outstanding swap transactions with initial and outstanding notional amounts totaling $734.6 million and $641.2 million, respectively. The mark-to-market or fair value for each swap is estimated using the zero-coupon 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 swaps.

9 – DERIVATIVE INSTRUMENTS, continued
b -- Variable Rate Debt Management Program, continued

On September 30, 2011, the City had the following outstanding interest rate swap hedging derivative instruments (in thousands):

Item	Related Variable Rate Bonds	Terms	Effective Date	Maturity Date	Notional Amount	Fair Value
Business-Type Activities - Hedging derivatives:						
WW1	Water & Wastewater Revenue Refunding Bonds, Series 2004	Pay 3.657%, receive 68% of LIBOR	8/27/2004	5/15/2024	$ 114,545	(16,280)
WW2	Water & Wastewater Revenue Refunding Bonds, Series 2008	Pay 3.600%, receive SIFMA swap index	5/15/2008	5/15/2031	160,740	(22,336)
AIR1	Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005	Pay 4.051%, receive 71% of LIBOR	8/17/2005	11/15/2025	248,350	(51,016)
HOT1	Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008	Pay 3.251%, receive 67% of LIBOR	8/14/2008	11/15/2029	117,530	(19,179)
					$ 641,165	(108,811)

All swaps are pay-fixed interest rate swaps. All were entered into with the objective of hedging changes in the cash flows on the related variable rate debt.

The fair value of the City's interest rate swap hedging derivative instruments is reported as derivative instruments in liabilities with an offsetting adjustment to deferred outflow of resources. The table below provides for the fair value and changes in fair value of the City's interest rate swap agreements as of September 30, 2011 (in thousands):

		Fair Value and Classification as of September 30, 2011		Change in fair value for the year ended September 30, 2011	
Item	**Outstanding Notional Amount**	**Amount**	**Classification**	**Deferred Outflows**	**Deferred Inflows**
Business-Type Activities:					
Hedging derivative instruments (cash flow hedges):					
WW1	$ 114,545	(16,280)	Non-current liability	195	--
WW2	160,740	(22,336)	Non-current liability	(4,205)	--
AIR1	248,350	(51,016)	Non-current liability	(2,790)	--
HOT1	117,530	(19,179)	Non-current liability	(2,539)	--
	$ 641,165	(108,811)		(9,339)	--

Due to the continued low interest rate levels during fiscal year 2011, the City's interest rate swap hedging derivative instruments had negative fair values as of September 30, 2011. 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.

<u>Risks</u>

Credit risk. As of September 30, 2011, the City was not exposed to credit risk on any of its outstanding swap agreements because each swap had a negative fair value. However, should interest rates changes and the fair value of a swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value. The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

9 – DERIVATIVE INSTRUMENTS, continued
b -- Variable Rate Debt Management Program, continued

The counterparty credit ratings for the City's interest rate swap hedging derivative instruments at September 30, 2011 are included in the table below:

			Counterparty Ratings		
Item	**Related Variable Rate Bonds**	**Counterparty**	**Moody's Investors Service Inc.**	**Standard & Poor's**	**Fitch, Inc**
Business-Type Activities:					
WW1	Water & Wastewater Revenue Refunding Bonds, Series 2004	JPMorgan Chase Bank, NA	Aa1	AA-	AA-
WW2	Water & Wastewater Revenue Refunding Bonds, Series 2008	Goldman Sachs Bank USA	Aa3	A	A+
AIR1	Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005	Morgan Stanley Capital Services, Inc.	A2	A	A
HOT1	Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008	Morgan Keegan Financial Products	Aa3	A+	AA-

Swap agreements for all four swaps contain collateral agreements with the counterparties. These swap agreements require collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds in the agreements. For Swap WW1, the City purchased swap insurance to mitigate the need to post collateral as long as the insurer, Financial Security Assurance, maintains a credit rating above A2/A by Moody's/Standard & Poor's (S&P). For Swap AIR1, the City purchased swap insurance to mitigate the need to post collateral as long as the insurer, Financial Security Assurance, maintains a credit rating above A2/A by Moody's/S&P. For Swap HOT1, the credit support provider of MKFP is Deutsche Bank AG, New York Branch (DBAG). This swap requires collateralization of the fair value of the swap should DBAG's credit rating fall below the applicable thresholds in the agreement.

Swap payments and associated debt. The net cash flows for the City's interest rate swap hedging derivative instruments for the year ended September 30, 2011 are included in the table below (in thousands):

		Counterparty Swap Interest				
Item	**Related Variable Rate Bonds**	**Pay**	**Receive**	**Net**	**Interest to Bondholders**	**Net Interest Payments**
Business-Type Activities:						
WW1	Water & Wastewater Revenue Refunding Bonds, Series 2004	$ (4,209)	185	(4,024)	(366)	(4,390)
WW2	Water & Wastewater Revenue Refunding Bonds, Series 2008	(5,823)	367	(5,456)	(436)	(5,892)
AIR1	Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005	(10,156)	425	(9,731)	(1,010)	(10,741)
HOT1	Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008	(3,844)	185	(3,659)	(725)	(4,384)
		$ (24,032)	1,162	(22,870)	(2,537)	(25,407)

9 – DERIVATIVE INSTRUMENTS, continued
b -- Variable Rate Debt Management Program, continued

Basis and interest rate 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 does not bear basis risk on Swap WW2. At September 30, 2011, the City bears basis risk on the three remaining swaps. These swaps have basis risk since the City receives a percentage of LIBOR to offset the actual variable rate the City pays on the related bonds. The City is exposed to basis risk should the floating rate that it receives on a swap drop below the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

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 Swap WW1, 71% of LIBOR on AIR1, and 67% of LIBOR on Swap HOT1 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 counterparties may terminate any of the swaps if the other party falls to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value. The additional termination events in the agreement are limited to credit related events only and the ratings triggers are substantially below the current credit rating of the City. Additionally, the City purchased swap insurance on the Swap WW1 and Swap AIR1 to further reduce the possibility of termination risk.

Rollover risk. The City is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, the City will be re-exposed to the risks being hedged by the hedging derivative instrument. The City is currently not exposed to rollover risk on its hedging derivative instruments.

Investment Derivative Instruments

At September 30, 2011, the City did not have any investment derivative instruments related to interest rate swaps.

c -- Swap Payments and Associated Debt

As of September 30, 2011, debt service requirement of the City's variable rate debt and net swap payments, assuming current interest rates remain the same, for their term are as follows (as rates vary, variable rate bond interest payments and net swap payments will vary):

Fiscal Year Ended September 30	Variable-Rate Bonds (in thousands)		Interest Rate Swaps, Net	Total Interest
	Principal	Interest		
2012	$ 29,905	251	22,764	23,015
2013	23,750	237	21,844	22,081
2014	54,920	224	20,331	20,555
2015	43,465	201	18,499	18,700
2016	56,550	159	16,849	17,008
2017-2021	136,155	497	68,353	68,850
2022-2026	212,150	101	33,369	33,470
2027-2031	84,270	(31)	7,900	7,869
Total	$ 641,165	1,639	209,909	211,548

10 – DEFICITS IN FUND BALANCES AND NET ASSETS

At September 30, 2011, the following funds reported deficits in fund balances/net assets (in thousands). Management intends to recover these deficits through future operating revenues, transfers, or debt issues.

Nonmajor Governmental		Deficit
Special Revenue Funds:		
Municipal Court Traffic Safety	$	35
Senior Nutrition		10
One Texas Center		395
Rutherford Lane Facility		966
Capital Projects Funds:		
Street & traffic signals		8
Parks and recreation facilities		288
Libraries		17
Radio Trunking		47
Cultural Facilities		3,407
Affordable Housing		5,304
Central Library		1,622
Mobility		3,044
Planning & development improvements		1
TPSD general improvements		1,731
Build Austin		281
Police and courts		6,797
Capital Reserve		332
Public Works		1,039
Watershed Protection		670
City Hall, plaza, parking garage		7,055
Conservation Land		15
Waller Creek Tunnel		3,518
Nonmajor Enterprise		
Solid Waste Services		3,791

11 – INTERFUND BALANCES AND TRANSFERS

Interfund receivables, payables, and advances at September 30, 2011, are as follows (in thousands):

		Amount	
Receivable Fund	**Payable Fund**	**Current**	**Long-Term**
Governmental funds:			
General Fund	Nonmajor governmental funds	$ 227	--
Nonmajor governmental funds	Austin Water Utility	--	3,172
	General Fund	19	--
	Nonmajor enterprise funds	--	425
	Nonmajor governmental funds	44,452	--
Internal Service funds	Nonmajor governmental funds	11	92
Business-type funds:			
Austin Energy	Austin Water Utility (restricted)	1,240	22,723
	Airport	138	1,398
	General Fund	178	1,809
	Internal service funds	141	315
	Nonmajor enterprise funds	315	1,315
	Nonmajor governmental funds	--	227
Airport (restricted)	Nonmajor governmental funds	--	96
Nonmajor enterprise funds	Nonmajor enterprise funds	350	--
	Nonmajor governmental funds	--	59
		$ 47,071	31,631

11 – INTERFUND BALANCES AND TRANSFERS, continued

Interfund receivables, payables, and advances reflect loans between funds. Of the above current amount, $10.4 million is an interfund loan from the Fiscal Surety Fund, a special revenue fund, to other special revenue funds (primarily grant funds) to cover deficit pooled investments and cash. The above current amount also includes $34.1 million in interfund loans between capital project funds to cover deficit pooled investments and cash.

Interfund transfers during fiscal year 2011 were as follows (in thousands):

	Transfers In			
Transfers Out	**General Fund**	**Nonmajor Governmental**	**Nonmajor Enterprise**	**Total**
General Fund	$ --	6,949	2,538	9,487
Nonmajor governmental funds	1,092	14,985	44,582	60,659
Austin Energy	103,000	758	--	103,758
Austin Water Utility	35,484	509	--	35,993
Nonmajor enterprise funds	1,872	3,989	--	5,861
Internal service funds	--	10,838	--	10,838
Total transfers out	$ 141,448	38,028	47,120	226,596

Interfund transfers are authorized through City Council approval. Significant transfers include Austin Energy and Austin Water Utility transfers to the General Fund, which are comparable to a return on investment to owners, and the transfer of hotel occupancy and vehicle rental tax collections from the Hotel-Motel Occupancy Tax and the Vehicle Rental Tax Funds to the Convention Center Fund.

12 – SELECTED REVENUES
a -- Major Enterprise Funds

Austin Energy and Austin Water Utility
The Texas Public Utility Commission (PUC) has jurisdiction over electric utility wholesale transmission rates. On June 9, 2006, the PUC approved the City's most recent wholesale transmission rate of $1.002466/KW. Transmission revenues totaled approximately $59.1 million in 2011. 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 Austin Energy. Any over- or under-collections are applied to the cost-adjustment factor. The fuel factor is reviewed 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 the fiscal year 2011, the Airport fund revenues included minimum concession guarantees of $8,834,593.

12 – SELECTED REVENUES, continued
a -- Major Enterprise Funds, continued

The following is a schedule by year of minimum future rentals on noncancelable operating leases with remaining terms of up to ten years for the Airport Fund as of September 30, 2011.

Fiscal Year Ended September 30	Enterprise Airport Lease Receipts
2012	$ 12,899
2013	11,140
2014	7,679
2015	575
2016	327
2017-2021	491
Totals	$ 33,111

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, 2009 through April 30, 2014. 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.

13 – 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 LCRA. Austin Energy has an undivided 50 percent interest in Units 1 and 2, and LCRA wholly owns Unit 3. 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.

FPP's Flexible Air permit received from the Texas Commission on Environmental Quality in 2002 requires that Austin Energy and LCRA install new SO2 scrubbers on FPP Units 1 and 2 by 2012. The scrubbers are currently in commercial operation.

Austin Energy's investment is financed through operations, revenue bonds, or commercial paper, which are repaid by Austin Energy (see Note 6), and its pro-rata share of operations is recorded as if wholly owned. Austin Energy's pro-rata interest in FPP was $24.3 million as of September 30, 2011. The decrease in the pro-rata interest from 2010 is primarily due to the transfer of the scrubbers to Plant in Service. The pro-rata interest in the FPP is calculated pursuant to the participation agreement and is reported in various assets and liability accounts within the City's financial statements. The original cost of 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.

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 NRG South Texas LP 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, 2011, Austin Energy's investment in the STP was approximately $446 million, net of accumulated depreciation.

Effective November 17, 1997, the participation agreement among the owners of STP was amended and restated, and the STP Nuclear Operating Company (STPNOC), a Texas non-profit non-member corporation created by the participants, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STPNOC. Each participant is responsible for its STP funding. The City's portion is financed through operations, revenue bonds, or commercial paper, which are repaid by Austin Energy (see Note 6). 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.

STP requested a 20 year license renewal for units 1 & 2 with the nuclear Regulatory Commission (NRC). NRC's review of the license application is proceeding on schedule with an anticipated approval during the first quarter of 2013.

13 – COMMITMENTS AND CONTINGENCIES, continued
c -- South Texas Project Decommissioning

Austin Energy began collecting in rates and accumulating funds for decommissioning STP in 1989 in an external trust. The Decommissioning Trust assets are reported as restricted cash and restricted investments held by trustee. The related liability is reported as decommissioning liability payable. Excess or unfunded liabilities related to decommissioning STP will be adjusted in future rates so that there are sufficient funds in place to pay for decommissioning. At September 30, 2011, the trust's assets were in excess of the estimated liability by $21.9 million which is reported as part of deferred revenue and other liabilities (in thousands):

Decommissioning trust assets	$	168,948
Pro rata decommissioning liability		(147,036)
	$	21,912

STP is subject to regulation by the Nuclear Regulatory Commission (NRC). The NRC requires that each holder of a nuclear plant-operating license submit a certificate of financial assurance to the NRC for plant decommissioning every two years or upon transfer of ownership. The certificate provides reasonable assurance that sufficient funds are being accumulated to provide the minimum requirement for decommissioning mandated by the NRC. The most recent annual calculation of financial assurance filed on December 31, 2010 showed that the trust assets exceeded the minimum required assurance by $29.2 million.

d -- Purchased Power

Austin Energy has commitments totaling $4.3 billion to purchase energy and capacity through purchase power agreements. This amount includes provisions for wind power through 2037, landfill power through 2020, biomass through 2032, and solar through 2035.

e -- Decommissioning and Environmental/Pollution Remediation Contingencies

Austin Energy may incur costs for environmental/pollution remediation of certain sites including the Holly, Fayette, and Seaholm Power Plants. The financial statements include a liability of approximately $27 million at September 30, 2011. Austin Energy anticipates payment of these costs in 2012 and future years. The amount is based on 2011 cost estimates to perform remediation and decommissioning. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

Austin Water Utility closed the Green Water Treatment Plant (GWTP) on September 23, 2008. The estimated decommissioning cost to close the GWTP is $11 million. The financial statements include a remaining liability of approximately $645 thousand at September 30, 2011. This amount is based on 2011 cost estimates. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. Plant decommissioning reached substantial completion in fiscal year 2011, with final completion expected to occur in fiscal year 2012.

Solid Waste Services may incur costs for environmental remediation of certain sites outside of the City's landfill site. The financial statements include a liability of approximately $8.7 million at September 30, 2011 for sites related to Harold Court, Rosewood and Loop 360. Solid Waste Services anticipates payment of these costs in 2012 and future years. The amount is based on 2011 cost estimates to perform remediation. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

f -- Texas Water Development Board

In November 2009, the City delivered $31,815,000 of initial Water and Wastewater System Revenue Bonds, Series 2010 as a private placement with the TWDB. This zero-interest issuance is part of the American Recovery and Reinvestment Act. As part of that program, the initial bonds, in $5,000 increments, are replaced with definitive bonds as the City requests reimbursement for expenditures related to the approved project: green infrastructure improvements at the Hornsby Bend Biosolids Management plant. The City recognizes a liability once the definitive bonds have been issued. The remaining commitment will be recognized as future definitive bonds are issued. At year end, the liability recognized by the Water and Wastewater System Revenue Bonds, Series 2010 and the remaining commitment are as follows (in thousands):

Total bonds authorized	$	31,815
Definitive bonds issued to date		(23,590)
Remaining commitment	$	8,225

13 – COMMITMENTS AND CONTINGENCIES, continued
f -- Texas Water Development Board, continued

The City intends to issue definitive bonds for the remaining commitment. If the full amount of bonds authorized is not converted to definitive bonds, the TWDB and the City would agree to cancel any remaining initial bonds authorized but not converted. The City's liability in the financial statements represents the amount of definitive bonds outstanding.

g -- Arbitrage Rebate Payable

The City's arbitrage consultant has determined that the City has not earned interest revenue on unused bond proceeds in excess of amounts allowed by applicable Federal regulations. Therefore, the City will not be required to rebate any amounts to the federal government. There are no estimated payables at September 30, 2011.

h -- 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.

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 2011 Capital Budget has substantial contractual commitments relating to its capital improvement plan.

The key projects in progress include improvements to and development of the electric system, water and wastewater systems, airport, transportation infrastructure, public recreation and culture activities, and urban growth management activities. Remaining commitments represent current unspent budget and future costs required to complete projects.

Project (in thousands)	Remaining Commitment
Governmental activities:	
General government	$ 62,175
Public safety	16,950
Transportation	135,800
Public health	2,525
Public recreation and culture	71,214
Urban growth management	70,121
Business-type activities:	
Electric	301,530
Water	664,243
Wastewater	531,595
Airport	73,399
Convention	11,171
Environmental and health services	21,002
Urban growth management	135,894
Total	$ 2,097,619

13 – COMMITMENTS AND CONTINGENCIES, continued
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. Substantial closure occurred in FY11, and the City is no longer accepting waste. Final closure is expected to occur in FY2012. The amount of costs reported, based on landfill capacity of 100% as of September 30, 2011, is as follows (in thousands):

	Closure	Postclosure	Total
Total estimated costs	$ 12,961	7,282	20,243
% capacity used	100%	100%	100%
Cumulative liability accrued	12,961	7,282	20,243
Costs incurred	(12,734)	--	(12,734)
Closure and post-closure liability	$ 227	7,282	7,509

These amounts are based on the 2011 cost estimates to perform closure and postclosure care. 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.

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 HMO for health coverage. Approximately 31% of city employees and 39% of retirees use the HMO option; approximately 69% of city employees and 61% of retirees use the PPO option. 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 the number of full-time equivalent (FTE) employees per fund.

The City purchases stop-loss insurance for the City's PPO and HMO. This stop-loss insurance covers individual claims that exceed $500,000 per calendar year, up to a maximum of $5 million. In fiscal year 2011, six claims exceeded the stop-loss limit of $500,000; during fiscal year 2010, six claims exceeded the stop-loss limit of $500,000, and during fiscal year 2009, five claims exceeded the stop-loss limit of $500,000. City coverage is unlimited for 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 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.

13 – COMMITMENTS AND CONTINGENCIES, continued
k -- Risk-Related Contingencies, continued

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. Possible losses are estimated to range from $33.8 to $62.6 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	
	2011	2010	2011	2010	2011	2010
Liability balances, beginning of year	$ 10,558	9,260	7,576	6,965	15,301	14,052
Claims and changes in estimates	7,386	9,480	4,289	3,270	3,810	4,445
Claim payments	(7,306)	(8,182)	(4,280)	(2,659)	(3,473)	(3,196)
Liability balances, end of year	$ 10,638	10,558	7,585	7,576	15,638	15,301

The Liability Reserve Fund claims liability balance at fiscal year end includes liabilities of $5.0 million discounted at 4.47% in 2011 and $4.9 million discounted at 4.22% in 2010.

l -- Redevelopment of Robert Mueller Municipal Airport

In December 2004, City Council approved a master development agreement with Catellus Development Group (Catellus) to develop approximately 700 acres at the former site of the City's municipal airport into a mixed-use urban village near downtown Austin. Catellus will develop and market the property. The Mueller Local Government Corporation (MLGC), created by the City for this development, 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.

In September 2006, the MLGC issued debt in the amount of $12 million. Proceeds of the debt have been used to reimburse the developer for eligible infrastructure such as streets, drainage, and parks. 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.

In October 2009, the MLGC issued debt in the amount of $15 million. Proceeds of the debt have been used to reimburse the developer for additional eligible infrastructure for the residential portion of the development. Debt service payments will be funded through an economic development grant from the City of Austin, and supported by property tax proceeds from the development.

The development contains Class A office space, medical uses, and more than 390.000 square feet of retail space. These uses host over 40 employers providing more than 3,300 jobs at Mueller. From the start of home sales in 2007, the community has been well received. As of September 30, 2011, approximately 707 single-family homes, 642 apartment units, and 88 condos were either complete or under construction.

m -- Other Commitments and Contingencies

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, 2011 was $22.9 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 equipment for both governmental and business-type activities. 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 6 for the debt service requirements on these leases.

13 – COMMITMENTS AND CONTINGENCIES, continued
m -- Other Commitments and Contingencies, continued

The following summarizes capital assets recorded at September 30, 2011, under capital lease obligations (in thousands):

Capital Assets	Governmental Activities	Business-type Activities: Electric	Business-type Activities: Airport	Business-type Activities: Total
Building and improvements	$ --	1,405	--	1,405
Equipment	1,051	--	2,320	2,320
Accumulated depreciation	(648)	(316)	(2,217)	(2,533)
Net capital assets	$ 403	1,089	103	1,192

14 – LITIGATION

A number of claims and lawsuits 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 lawsuits 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, 2011. These liabilities, reported in the government-wide statement of net assets, include amounts for claims and lawsuits settled subsequent to year-end.

15 – 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 outstanding of these bonds could not be determined; however, their original issue amounts totaled $310.2 million. Subsequent to September 30, 1997, the City has issued $83.8 million in various series of housing revenue bonds that have an outstanding balance of $75.8 million as of September 30, 2011.

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. As of September 30, 2011, $344.4 million in revenue and revenue refunding bonds was outstanding that had an original issue value of $382.2 million.

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.

16 – RESTATEMENT AS A RESULT OF THE IMPLEMENTATION OF A NEW ACCOUNTING STANDARD

During fiscal year 2011, the City implemented a new accounting standard, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which changed the standards for reporting fund balance classifications and made changes to the definitions of governmental fund types. GASB Statement No. 54 requires a restatement of prior financial statements for prior period impacts of implementation. The most significant change in the governmental fund type definitions were made to special revenue funds. The focus moved from the purpose of the expenditure to the source of the revenues and the use of those revenue streams. The City reviewed all governmental funds and determined that twenty-nine special revenue funds no longer met the special revenue definition. The main reason for this is because inflows to most of these funds were not specific revenues assigned for a special purpose, but were transfers from other funds with the intention of expending for a specified purpose. The funds providing the inflows include the General Fund, other nonmajor governmental funds, Austin Energy, Austin Water Utility, and other nonmajor enterprise funds. As a result, these twenty-nine funds were consolidated with their major source of funding for financial reporting under GASB Statement No. 54.

16 – RESTATEMENT AS A RESULT OF THE IMPLEMENTATION OF A NEW ACCOUNTING STANDARD, continued

The City has restated the beginning fund balances and beginning net assets in 2011 for the General Fund, nonmajor governmental funds, Governmental Activities, Austin Energy, Austin Water Utility, nonmajor enterprise funds, and Business-type activities to reflect this implementation as represented in the table below. In addition, beginning cash and cash equivalents balances on the proprietary cash flows were also restated.

	Exhibit A-2	
September 30, 2010	**Governmental Activities**	**Business-Type Activities**
Net assets, as previously reported	$ 1,558,548	2,904,310
Adjustments to properly record:		
Implementation of GASB Statement No. 54	(2,081)	2,081
Net assets, as restated	$ 1,556,467	2,906,391

	Exhibit B-2		
September 30, 2010	**General Fund**	**Nonmajor Governmental Funds**	**Total Governmental Funds**
Fund balances, as previously reported	$ 108,710	261,725	370,435
Adjustments to properly record:			
Implementation of GASB Statement No. 54	19,334	(21,415)	(2,081)
Fund balances, as restated	$ 128,044	240,310	368,354

	Exhibit C-2			
September 30, 2010	**Austin Energy**	**Austin Water**	**Nonmajor Enterprise Funds**	**Business-Type Activities**
Net assets, as previously reported	$ 1,599,555	502,440	321,730	2,892,544
Adjustments to properly record:				
Implementation of GASB Statement No. 54	1,335	265	481	2,081
Net assets, as restated	$ 1,600,890	502,705	322,211	2,894,625

	Exhibit C-3			
September 30, 2010	**Austin Energy**	**Austin Water**	**Nonmajor Enterprise Funds**	**Business-Type Activities**
Cash and cash equivalents, as previously reported	$ 216,509	66,984	167,095	619,186
Adjustments to properly record:				
Implementation of GASB Statement No. 54	2,284	587	515	3,386
Cash and cash equivalents, as restated	$ 218,793	67,571	167,610	622,572

17 – SUBSEQUENT EVENTS
a -- General Obligation Bond Issue

In October 2011, the City delivered $78,090,000 of Public Improvement Bonds, Series 2011A. The proceeds from the issue will be used as follows: streets and signals ($29,605,000), watershed protection improvements ($21,490,000), parks and recreation ($2,745,000), cultural arts ($10,500,000), central library ($4,000,000), and facility improvements ($9,750,000). These bonds will be amortized serially on September 1 of each year from 2012 to 2031. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2012. Total interest requirements for these bonds, at rates ranging from 2.0% to 4.0%, are $42,099,100.

17 – SUBSEQUENT EVENTS, continued

a -- General Obligation Bond Issue, continued

In October 2011, the City delivered $8,450,000 of Public Improvements Bonds, Taxable Series 2011B. The proceeds from the issue will be used for affordable housing. These bonds will be amortized serially on September 1 of each year from 2014 to 2031. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2012. Total interest requirements for these bonds, at rates ranging from 2.5% to 4.5%, are $4,747,410.

In October 2011, the City delivered $51,150,000 of Certificates of Obligation, Series 2011. The proceeds from this issue will be used as follows: Solid Waste Environmental Remediation ($8,650,000), Transportation Projects ($7,500,000), and Waller Creek Project ($35,000,000). These certificates of obligation will be amortized serially on September 1 of each year from 2012 to 2041. Interest is payable on March 1 and September 1 of each year, commencing on March 1, 2012. Total interest requirements for these obligations, at rates ranging from 3.0% to 4.3%, are $35,660,738.

In October 2011, the City delivered $26,725,000 of Public Property Finance Contractual Obligations, Series 2011. The proceeds from this issue will be used as follows: water utility capital equipment ($315,000), wastewater utility capital equipment ($1,650,000), public safety radio replacements ($7,500,000), police vehicles & equipment ($8,635,000), public works capital equipment ($3,003,000), and solid waste services capital equipment ($5,622,000). These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2012 to 2018. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2012. Total interest requirements for these obligations, at rates ranging from 0.05% to 2.0%, are $1,793,440.

b -- Public Improvement Refunding Bond Issue

In November 2011, the City issued $68,285,000 of Public Improvement Refunding Bonds, Series 2011A. The net proceeds of $75,164,595 (after issue costs, discounts, and premiums) from the refunding were used to refund $4,375,000 of Public Improvement Bonds, Series 2001; $14,420,000 of Public Improvement Refunding Bonds, Series 2001; $5,045,000 of Certificates of Obligation, Series 2001; $5,500,000 of Public Improvement Bonds, Series 2002; $1,775,000 of Certificates of Obligation, Series 2002; $5,950,000 Public Improvement Refunding Bonds, Series 2002; $12,485,000 of Public Improvement and Refunding Bonds, Series 2003; $2,515,000 of Certificates of Obligation, Series 2003; $9,590,000 of Certificates of Obligation, Series 2004; $4,980,000 of Public Improvement and Refunding Bonds, Series 2004; $2,780,000 HUD 108 Loan, Series 2002A; $785,000 HUD 108 Loan, Series 2003A; and $655,000 HUD 108 Loan, Series 2006A. The refunding resulted in future interest requirements to service the debt of $14,428,816 with interest rates ranging from 2.0% to 5.0%. An economic gain of $4,953,123 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of $5,572,626. An accounting loss of $3,504,769, which will be deferred and amortized, was recognized on this refunding.

In November 2011, the City issued $3,000,000 of Public Improvement Refunding Bonds, Taxable Series 2011B. The net proceeds of $2,975,379 (after issue costs, discounts, and premiums) from the refunding were used to refund $2,865,000 of HUD 108 Loan, Series 2010A. The refunding resulted in future interest requirements to service the debt of $107,077 with interest rates ranging from 0.44% to 1.86% An economic loss of $72,356 was recognized on this transaction. The change in net cash flows that resulted from the refunding was an increase of $82,456. An accounting loss of $110,379, which will be deferred and amortized, was recognized on this refunding.

c -- Water and Wastewater System Revenue Refunding Bond Issue

In December 2011, the City issued $237,530,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2011. The net proceeds from the bond refunding were used to refund $175,000,000 of the City's outstanding tax-exempt commercial paper issued for the water and wastewater utility system; $52,345,000 of subordinate lien revenue refunding bonds, series 1998A; $3,545,000 of subordinate lien revenue bonds, series 1998B; $8,830,000 of water & wastewater system revenue refunding bonds, series 2001A; and $7,885,000 of water & wastewater system revenue refunding bonds, series 2001B. The debt service requirements on the refunding bonds are $449,868,159, with interest rates ranging from 2.0% to 5.0%. Interest payments are due May 15 and November 15 of each year from 2012 to 2041. Principal payments are due November 15 of each year from 2014 to 2041. An economic gain of $4,040,325 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of $5,988,362. An accounting loss of $2,614,243, which will be deferred and amortized, was recognized on this refunding.

17 – SUBSEQUENT EVENTS, continued
d -- Texas Water Development Board

As of February 24, 2012, the City has converted an additional $3,010,000 of initial bonds to definitive Water and Wastewater System Revenue Bonds, Series 2010 over three separate draw requests. With these issuances, the outstanding commitment with the TWDB in now reduced to $5,215,000.

e -- Special Assessment Bonds Issue

In November 2011, the City issued $15,500,000 of Special Assessment Revenue Bonds, Senior Series 2011 related to the Whisper Valley Public Improvement District. These bonds are being used by the City pursuant to the Public Improvement District Act, Chapter 372, Texas Local Government Code, Ordinance No. 20111103-054 adopted by the City Council on November 3, 2011. The proceeds from the issue will be used as follows: payment of a portion of the costs of construction, acquisition, or purchase of certain water, wastewater, and roadway public improvements for the benefit of Whisper Valley Public Improvement District; funding of a reserve fund; payment of a portion of the costs incidental to the organization of the District; funding of capitalized interest; and payment of the cost of issuance of the bonds. The bonds are special obligations of the City payable solely from pledged revenues and any other funds held under the indenture, as and to the extent provided in the indenture. The bonds do not give rise to a charge against the general credit or taxing powers of the City. These term bonds mature on September 1 of 2018, 2020, 2022, and 2026 and are subject to mandatory sinking fund redemption prior to their respective maturities. Interest is payable on September 1 of each year, commencing September 1, 2012. Total interest requirements for these bonds, at rates ranging from 7.875% to 8.5%, are $14,194,080.

In November 2011, the City issued $2,860,000 of Special Assessment Revenue Bonds, Senior Series 2011 related to the Indian Hills Public Improvement District. These bonds are being used by the City pursuant to the Public Improvement District Act, Chapter 372, Texas Local Government Code, Ordinance No. 20111103-052 adopted by the City Council on November 3, 2011. The proceeds from the issue will be used as follows: payment of a portion of the costs of construction, acquisition, or purchase of certain water, wastewater, and roadway public improvements for the benefit of Indian Hills Public Improvement District; funding of a reserve fund; payment of a portion of the costs incidental to the organization of the District; funding of capitalized interest; and payment of the cost of issuance of the bonds. The bonds are special obligations of the City payable solely from pledged revenues and any other funds held under the indenture, as and to the extent provided in the indenture. The bonds do not give rise to a charge against the general credit or taxing powers of the City. These term bonds mature on September 1 of 2018, 2020, 2022, and 2026 and are subject to mandatory sinking fund redemption prior to their respective maturities. Interest is payable on September 1 of each year, commencing September 1, 2012. Total interest requirements for these bonds, at rates ranging from 7.875% to 8.5%, are $2,617,613.

In November 2011, the City issued $18,485,168 of Special Assessment Revenue Bonds, Subordinate Series 2011 related to the Whisper Valley Public Improvement District. These bonds are being used by the City pursuant to the Public Improvement District Act, Chapter 372, Texas Local Government Code, Ordinance No. 20111103-055 adopted by the City Council on November 3, 2011. The proceeds from the issue will be used as follows: payment of a portion of the costs of construction, acquisition, or purchase of certain water, wastewater, and roadway public improvements for the benefit of Whisper Valley Public Improvement District; payment of a portion of the costs incidental to the organization of the District; and payment of the cost of issuance of the bonds. The bonds are special obligations of the City payable solely from pledged revenues and any other funds held under the indenture, as and to the extent provided in the indenture. The bonds do not give rise to a charge against the general credit or taxing powers of the City. These bonds will be amortized serially on December 1 of 2015 and 2016. Interest is payable on December 1 of 2015 and 2016. Total interest requirements for these bonds, at rates ranging from 2.5% to 2.8%, are $2,534,832.

In November 2011, the City issued $2,332,350 of Special Assessment Revenue Bonds, Subordinate Series 2011 related to the Indian Hills Public Improvement District. These bonds are being used by the City pursuant to the Public Improvement District Act, Chapter 372, Texas Local Government Code, Ordinance No. 20111103-053 adopted by the City Council on November 3, 2011. The proceeds from the issue will be used as follows: payment of a portion of the costs of construction, acquisition, or purchase of certain water, wastewater, and roadway public improvements for the benefit of Indian Hills Public Improvement District; payment of a portion of the costs incidental to the organization of the District; and payment of the cost of issuance of the bonds. The bonds are special obligations of the City payable solely from pledged revenues and any other funds held under the indenture, as and to the extent provided in the indenture. The bonds do not give rise to a charge against the general credit or taxing powers of the City. These bonds will be amortized serially on December 1 of each year of 2015 and 2016. Interest is payable on December 1 of 2015 and 2016. Total interest requirements for these bonds, at rates ranging from 2.5% to 2.8%, are $297,650.

17 – SUBSEQUENT EVENTS, continued

f -- Convention Center - Subordinate Lien Revenue Refunding Bonds

In March 2012, the City issued $20,185,000 of Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2012. The net proceeds of $22,422,882 (after issue costs, discounts, and premiums) from the refunding were used to refund $20,175,000 of the City's outstanding Waller Creek Venue Project, Series 1999A. The debt service requirements on the refunding bonds are $30,314,439, with interest rates ranging from 2.0% to 5.0%. Interest payments are due May 15 and November 15 of each year from 2012 to 2029. Principal payments are due November 15 of each year from 2012 to 2029. An economic gain of $1,337,876 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of $1,421,296.

REQUIRED SUPPLEMENTARY INFORMATION

(In thousands)

General Fund	Actual	Adjustments (1) (2)	Actual-Budget Basis	Budget Original	Budget Final	Variance (3) Positive (Negative)
REVENUES						
Taxes	$ 409,344	--	409,344	401,767	401,767	7,577
Franchise fees	32,904	8	32,912	35,139	35,139	(2,227)
Fines, forfeitures and penalties	18,131	(5)	18,126	18,863	18,863	(737)
Licenses, permits and inspections	18,653	--	18,653	13,036	13,353	5,300
Charges for services/goods	44,464	(7)	44,457	40,780	41,834	2,623
Interest and other	5,096	(1,062)	4,034	5,314	5,588	(1,554)
Total revenues	528,592	(1,066)	527,526	514,899	516,544	10,982
EXPENDITURES						
General government						
Municipal Court	12,229	10	12,239	12,426	12,426	187
Public safety						
Police	246,985	(173)	246,812	250,889	250,889	4,077
Fire	126,927	(1,247)	125,680	126,637	126,637	957
Emergency Medical Services	48,180	(499)	47,681	46,550	47,777	96
Transportation, planning and sustainability						
Transportation, Planning and Sustainability	14	(14)	--	--	--	--
Public health:						
Health	39,230	883	40,113	40,046	40,506	393
Public recreation and culture						
Parks and Recreation	46,210	(2,326)	43,884	44,013	44,013	129
Austin Public Library	25,979	(44)	25,935	26,207	26,207	272
Urban growth management						
Neighborhood Planning and Zoning	19,540	48	19,588	21,194	21,194	1,606
Development Services and Watershed Protection	3	(3)	--	--	--	--
Other Urban Growth Management	14,756	(669)	14,087	15,841	15,358	1,271
General city responsibilities (4)	74,291	(53,090)	21,201	19,655	19,655	(1,546)
Total expenditures	654,344	(57,124)	597,220	603,458	604,662	7,442
Excess (deficiency) of revenues over expenditures	(125,752)	56,058	(69,694)	(88,559)	(88,118)	18,424
OTHER FINANCING SOURCES (USES)						
Transfers in	141,448	13,574	155,022	154,073	154,073	949
Transfers out	(9,487)	(71,931)	(81,418)	(79,321)	(80,989)	(429)
Total other financing sources (uses)	131,961	(58,357)	73,604	74,752	73,084	520
Excess (deficiency) of revenues and other sources over expenditures and other uses	6,209	(2,299)	3,910	(13,807)	(15,034)	18,944
Fund balance at beginning of year	128,044	(10,927)	117,117	97,991	118,780	(1,663)
Fund balance at end of year	$ 134,253	(13,226)	121,027	84,184	103,746	17,281

(Continued)

(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.

(In thousands)

Budgetary General Fund

	Actual	Adjustments (1) (2)	Actual-Budget Basis	Budget Original	Budget Final	Variance (3) Positive (Negative)
REVENUES						
Taxes	$ 409,344	--	409,344	401,767	401,767	7,577
Franchise fees	32,904	8	32,912	35,139	35,139	(2,227)
Fines, forfeitures and penalties	18,131	(5)	18,126	18,863	18,863	(737)
Licenses, permits and inspections	18,653	--	18,653	13,036	13,353	5,300
Charges for services/goods	44,463	(7)	44,456	40,780	41,834	2,622
Interest and other	4,984	(1,062)	3,922	5,194	5,468	(1,546)
Total revenues	528,479	(1,066)	527,413	514,779	516,424	10,989
EXPENDITURES						
General government						
Municipal Court	12,229	10	12,239	12,426	12,426	187
Public safety						
Police	246,985	(173)	246,812	250,889	250,889	4,077
Fire	126,927	(1,247)	125,680	126,637	126,637	957
Emergency Medical Services	48,180	(499)	47,681	46,550	47,777	96
Transportation, planning and sustainability						
Transportation, Planning and Sustainability	14	(14)	--	--	--	--
Public health:						
Health	39,230	883	40,113	40,046	40,506	393
Public recreation and culture						
Parks and Recreation	46,210	(2,326)	43,884	44,013	44,013	129
Austin Public Library	25,979	(44)	25,935	26,207	26,207	272
Urban growth management						
Neighborhood Planning and Zoning	19,540	48	19,588	21,194	21,194	1,606
Development Services and Watershed Protection	3	(3)	--	--	--	--
Other Urban Growth Management	42	(42)	--	--	--	--
General city responsibilities (4)	74,291	(53,090)	21,201	19,655	19,655	(1,546)
Total expenditures	639,630	(56,497)	583,133	587,617	589,304	6,171
Excess (deficiency) of revenues over expenditures	(111,151)	55,431	(55,720)	(72,838)	(72,880)	17,160
OTHER FINANCING SOURCES (USES)						
Transfers in	134,263	1,200	135,463	135,463	135,463	--
Transfers out	(7,819)	(69,629)	(77,448)	(77,019)	(77,019)	(429)
Total other financing sources (uses)	126,444	(68,429)	58,015	58,444	58,444	(429)
Excess (deficiency) of revenues and other sources over expenditures and other uses	15,293	(12,998)	2,295	(14,394)	(14,436)	16,731
Fund balance at beginning of year	110,127	(10,208)	99,919	79,485	100,274	(355)
Fund balance at end of year	$ 125,420	(23,206)	102,214	65,091	85,838	16,376

(Continued)

(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.

(In thousands)

Economic Incentives Reserve	**Actual**	**Adjustments (1) (2)**	**Actual-Budget Basis**	**Budget Original**	**Budget Final**	**Variance (3) Positive (Negative)**
REVENUES						
Interest and other	$ 49	--	49	--	--	49
Total revenues	49	--	49	--	--	49
EXPENDITURES						
Other Urban Growth Management	8,269	(502)	7,767	9,853	8,870	1,103
Total expenditures	8,269	(502)	7,767	9,853	8,870	1,103
Excess (deficiency) of revenues over expenditures	(8,220)	502	(7,718)	(9,853)	(8,870)	1,152
OTHER FINANCING SOURCES (USES)						
Transfers in	1,092	10,072	11,164	10,735	10,735	429
Transfers out	(983)	--	(983)	--	(983)	--
Total other financing sources (uses)	109	10,072	10,181	10,735	9,752	429
Excess (deficiency) of revenues and other sources over expenditures and other uses	(8,111)	10,574	2,463	882	882	1,581
Fund balance at beginning of year	5,364	(255)	5,109	6,417	6,417	(1,308)
Fund balance at end of year	(2,747)	10,319	7,572	7,299	7,299	273

New Central Library	**Actual**	**Adjustments (1) (2)**	**Actual-Budget Basis**	**Budget Original**	**Budget Final**	**Variance (3) Positive (Negative)**
REVENUES						
Interest and other	55	--	55	120	120	(65)
Total revenues	55	--	55	120	120	(65)
Fund balance at beginning of year	10,418	--	10,418	10,418	10,418	--
Fund balance at end of year	$ 10,473	--	10,473	10,538	10,538	(65)

(Continued)

(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.

(In thousands)

Neighborhood Housing and Community Development

	Actual	Adjustments (1) (2)	Actual-Budget Basis	Budget Original	Budget Final	Variance (3) Positive (Negative)
REVENUES						
Charges for services/goods	$ 1	--	1	--	--	1
Interest and other	8	--	8	--	--	8
Total revenues	9	--	9	--	--	9
EXPENDITURES						
Other Urban Growth Mangement	2,616	(283)	2,333	2,501	2,501	168
Total expenditures	2,616	(283)	2,333	2,501	2,501	168
Excess (deficiency) of revenues over expenditures	(2,607)	283	(2,324)	(2,501)	(2,501)	177
OTHER FINANCING SOURCES (USES)						
Transfers in	--	2,302	2,302	2,302	2,302	--
Total other financing sources (uses)	--	2,302	2,302	2,302	2,302	--
Excess (deficiency) of revenues and other sources over expenditures and other uses	(2,607)	2,585	(22)	(199)	(199)	177
Fund balance at beginning of year	607	(351)	256	256	256	--
Fund balance at end of year	(2,000)	2,234	234	57	57	177

Sustainability

	Actual	Adjustments (1) (2)	Actual-Budget Basis	Budget Original	Budget Final	Variance (3) Positive (Negative)
EXPENDITURES						
Other Urban Growth Mangement	3,829	158	3,987	3,487	3,987	--
Total expenditures	3,829	158	3,987	3,487	3,987	--
Excess (deficiency) of revenues over expenditures	(3,829)	(158)	(3,987)	(3,487)	(3,987)	--
Transfers in	6,093	--	6,093	5,573	5,573	520
Transfers out	(685)	(2,302)	(2,987)	(2,302)	(2,987)	--
Total other financing sources (uses)	5,408	(2,302)	3,106	3,271	2,586	520
Excess (deficiency) of revenues and other sources over expenditures and other uses	1,579	(2,460)	(881)	(216)	(1,401)	520
Fund balance at beginning of year	1,528	(113)	1,415	1,415	1,415	--
Fund balance at end of year	$ 3,107	(2,573)	534	1,199	14	520

(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.

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, as reported in the financial statements is comprised of five separately budgeted funds. The Budgetary General Fund which represents the General Fund as budgeted by the City plus the Economic Incentives Reserve, New Central Library, Neighborhood Housing and Community Development, and Sustainability activities. The last four activities were previously reported as Special Revenue funds prior to the implementation of GASB Statement No. 54. These activities no longer meet the Special Revenue test and must be reported in the General Fund in accordance with GAAP.

The Budgetary 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 ($340,000), accrued payroll ($2,247,680), expenditures for workers' compensation ($5,353,014), liability reserve ($2,000,000), and public safety ($2,394,022).

b -- Budget Amendments

The original revenue budget of the General Fund was amended during the fiscal year 2011 to increase emergency medical services and public health. The original expenditure budget of the General Fund was amended during fiscal year 2011 primarily for increased public safety and public health costs. The original and final budget is presented in the accompanying financial statements.

BUDGET BASIS REPORTING, continued

c -- 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 activities comprising the General Fund are provided, as follows (in thousands):

		Combined General Fund
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis		$ 6,209
Adjustments - increases (decreases) due to:		
Unbudgetd revenues:		
Budgetary General Fund	(1,571)	(1,571)
Worker's compensation adjustment		
Budgetary General Fund	(4,137)	(4,137)
Net compensated absences accrual		
Budgetary General Fund	(146)	(146)
Outstanding encumbrances established in current year		
Budgetary General Fund	(3,018)	
Economic Incentives Reserve	(459)	
Neighborhood Housing and Community Development	(38)	
Sustainability	(263)	(3,778)
Payments against prior year encumbrances		
Budgetary General Fund	1,936	
Neighborhood Housing and Community Development	271	
Sustainability	105	2,312
Other		
Budgetary General Fund	(6,562)	
Economic Incentives Reserve	11,033	
Neighborhood Housing and Community Development	2,352	
Sustainability	(2,302)	4,521
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis		$ 3,410

RETIREMENT PLANS-TREND INFORMATION

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

Valuation Date, December 31	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
City Employees						
2008	1,481,377	2,246,903	765,526	65.9%	448,740	170.6%
2009	1,672,470	2,330,937	658,467	71.8%	442,539	148.8%
2010	1,711,600	2,460,700	749,100	69.6%	438,900	170.7%
Police Officers						
2008	464,230	693,202	228,972	67.0%	122,735	186.6%
2009	518,112	733,635	215,523	70.6%	122,928	175.3%
2010	546,957	776,231	229,274	70.5%	127,732	179.5%
Fire Fighters (2)						
2005	493,567	580,054	86,487	85.1%	65,885	131.3%
2007	584,420	586,802	2,382	99.6%	76,556	3.1%
2009	589,261	664,185	74,924	88.7%	78,980	94.9%

(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 7.

OTHER POST EMPLOYMENT BENEFITS-TREND INFORMATION

Under GAAP, the City is required to have an actuarial valuation of its other post employment benefits program every other year. The Schedule of Funding Progress for other post employment benefits is as follows (in thousands):

Fiscal Year Ended September 30	Valuation Date, October 1	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
2009	2006	$ --	1,035,766	1,035,766	0.0%	629,822	164.5%
2010	2008	--	1,134,864	1,134,864	0.0%	620,526	182.9%
2011	2010	--	1,404,692	1,404,692	0.0%	668,679	210.1%

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

Supplementary information for the OPEB plan can be found in Footnote 8.

APPENDIX C

SUMMARY OF CERTAIN MASTER ORDINANCE PROVISIONS

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ORDINANCE NO. 010118-53A

AN ORDINANCE providing for the issuance of ELECTRIC UTILITY SYSTEM revenue obligations; making provision for the payment of such obligations from the revenues of the City's Electric Utility System; enacting provisions incident and related to the issuance, payment and security of such obligations, including covenants and agreements relating to the operation and management of the Electric Utility System, the revenues derived from its operation and ownership, the establishment and maintenance of funds and accounts for the payment of such obligations, specifying the terms and conditions for the issuance of parity revenue obligations and other matters incident and related to their issuance and security; suspending the rule requiring ordinances be read on three separate days; and declaring an emergency.

WHEREAS, the City of Austin, Texas (the "City" or the "Issuer"), a "home-rule" city operating under a home-rule charter adopted pursuant to Section 5 of Article XI of the Texas Constitution has heretofore financed improvements and extensions to the City's Electric Light and Power System (the "System") by the issuance and sale of revenue obligations payable from and secured by a joint and several lien on and pledge of the Net Revenues of the City's Electric Light and Power System and the City's Water and Wastewater System; and

WHEREAS, the revenue obligations currently outstanding payable from and secured by a joint and several lien on and pledge of the Net Revenues of the City's Electric Light and Power System and the City's Water and Wastewater System include:

(a) "Prior First Lien Obligations" more particularly identified as follows : (i) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1986", dated March 1, 1986, (ii) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1986C", dated November 15, 1986, (iii) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1987", dated May 15, 1987, (iv) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1989", dated July 15, 1989, (v) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990A", dated February 1, 1990, (vi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990B", dated February 1, 1990, (vii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1991-A", dated June 1, 1991, (viii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992", dated March 1, 1992, (ix) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992A", dated May 15, 1992, (x) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993", dated January 15, 1993, (xi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993A", dated June 1, 1993, (xii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1994", dated September 1, 1994,

(xiii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1995", dated June 1, 1995, (xiv) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996A", dated August 1, 1996, (xv) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996B", dated August 1, 1996, (xvi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1997", dated August 1, 1997, (xvii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998", dated July 1, 1996, and (xviii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998A", dated August 1, 1997,

(b) “Prior Subordinate Lien Obligations” more particularly described as follows: (i) "City of Austin, Texas, Water, Sewer and Electric Refunding Revenue Bonds, Series 1982", dated March 15, 1982, (ii) "City of Austin, Texas, Subordinate Lien Revenue Bonds, Series 1990", dated June 1, 1990, (iii) "City of Austin, Texas, Subordinate Lien Revenue Bonds, Series 1994", dated March 1, 1994, (iv) "City of Austin, Texas, Combined Utility System Subordinate Lien Revenue Bonds, Series 1998, dated August 1, 1998, (v) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998", dated October 1, 1998 and (vi) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998A", dated October 1, 1998, and

(c) “Commercial Paper Obligations” more particularly described as follows: (i) City of Austin, Texas Combined Utility Systems Commercial Paper Notes, Series A”, authorized for issuance pursuant to Ordinance No. 930318-A, as amended by Ordinance No. 961121-A and Ordinance No. 980513-A currently authorized up to an aggregate principal amount of $350,000,000 and (ii) "City of Austin, Texas Combined Utility Systems Taxable Commercial Paper Notes", authorized for issuance pursuant to Ordinance No. 980513-B, as amended by Ordinance No. 000627-A, currently authorized up to an aggregate principal amount of $160,000,000, and in such aggregate principal amounts as hereinafter provided by amendments to either Ordinance No. 930318-A, as amended, or Ordinance No.980513-B, as amended; and

AND WHEREAS, in the ordinances authorizing the issuance of the Prior First Lien Obligations, Prior Subordinate Lien Obligations and Commercial Paper Obligations, the City retained the authority to issue “Separate Lien Obligations” payable solely from either the Net Revenues of the Water and Wastewater System or the Net Revenues of the Electric Light and Power System, but not both, without specifying any terms or limitations on the issuance of such “Separate Lien Obligations”; and

WHEREAS, the City has determined future financing of capital improvements for the City’s Electric Light and Power System and the City’s Water and Wastewater System should be undertaken and accomplished through the issuance of "Separate Lien Obligations" which will enable the City to restructure provisions governing the issuance of such obligations and relating to the operations of such systems and provide financing flexibility to both systems, particularly the Electric Light and Power System in a more competitive market resulting from a change in laws affecting the regulation, generation, distribution and sale of electric energy, and

WHEREAS, in furtherance of its determination that future financing of capital improvements to the City's Electric Light and Power System shall be undertaken through the issuance of revenue obligations payable solely from and secured by a lien on and pledge of the Net Revenues of the City's Electric Light and Power System, the Council hereby finds a master ordinance governing and pertaining to their issuance should be adopted and enacted; and

WHEREAS, the terms used in this Ordinance and not otherwise defined shall have the meaning given Exhibit A to this Ordinance attached hereto and made a part hereof;

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF AUSTIN, TEXAS:

Section 1. REVENUE OBLIGATION FINANCING FOR THE CITY'S ELECTRIC UTILITY SYSTEM. From and after the date hereof, all revenue obligations, other than Commercial Paper Obligations, to finance capital improvements for the Electric Utility System shall be payable from and secured only by a lien on and pledge of the Net Revenues of the Electric Utility System and from the funds and accounts hereinafter provided in this Ordinance and in any Supplement. This Ordinance is intended to provide for and govern the issuance of such Parity Electric Utility Obligations and establish the security for their payment, the agreements and covenants with the holders or owners of such obligations in regard to the management and operation of the Electric Utility System, the application and disbursement of revenues derived from its operation and ownership and other matters incident and related to the issuance of such revenue obligations. Each issue or series of Parity Electric Utility Obligations shall be issued, incurred or assumed pursuant to the terms of a Supplement, and each such Supplement shall provide for the authorization, issuance, sale, delivery, form, characteristics, terms of payment and redemption, and any other related matters not inconsistent with the Constitution and laws of the State of Texas or the provisions of this Ordinance.

Section 2. PLEDGE OF REVENUES/SECURITY FOR PAYMENT. Subject to the prior claim on and lien on the Net Revenues of the Electric Utility System to the payment and security of the Prior First Lien Obligations currently Outstanding, including the funding and maintenance of the special funds established and maintained for the payment and security of such Prior First Lien Obligations, the Net Revenues of the Electric Utility System are hereby pledged to the payment of the Parity Electric Utility Obligations and such Parity Electric Utility Obligations, together with the Prior Subordinate Lien Obligations, shall be equally and ratably secured by a parity lien on and pledge of the Net Revenues of the Electric Utility System in accordance with the terms of this Ordinance and any Supplement. Additionally, Parity Electric Utility Obligations shall be secured by a lien on the funds, if any, deposited to the credit of the Debt Service Fund, any special fund or funds created and maintained for the payment and security of the Parity Electric Utility Obligations pursuant to a Supplement and funds on deposit in any construction fund maintained and established with the proceeds of sale of Parity Electric Utility Obligations pending expenditure in accordance with the terms of this Ordinance and any Supplement. Parity Electric Utility Obligations are and will be secured by and payable only from the Net Revenues of the Electric Utility System, and are not secured by or payable from a mortgage or deed of trust on any properties, whether real, personal, or mixed, of the Electric Utility System. The owners of the Parity Electric Utility Obligations shall never have the right to demand payment out of funds raised or to be raised by taxation, or from any source other than specified in this Ordinance or any Supplement.

Section 3. NO ADDITIONAL PRIOR FIRST LIEN /PRIOR SUBORDINATE LIEN COMBINED UTILITY SYSTEMS REVENUE OBLIGATIONS. From and after the date of the adoption of this Ordinance, the City hereby provides that no additional revenue obligations payable from the same sources and secured in the same manner as the Prior First Lien Obligations or the Prior Subordinate Lien Obligations shall be issued, and at such time as the Prior First Lien Obligations, Prior Subordinate Lien Obligations currently Outstanding and the Commercial Paper Obligations have been fully paid and discharged in a manner such obligations are no longer deemed to be Outstanding under the terms of their respective ordinances and by law, all revenue obligations of the Electric Utility System then Outstanding shall be Parity Electric Utility Obligations or obligations subordinate to the Parity Electric Utility Obligations then Outstanding, and payable only from and secured only by a lien on and pledge of the Net Revenues of the Electric Utility System and the revenues deposited to the credit of the accounts and funds established and maintained in the ordinances providing for their issuance, including this Ordinance with respect to Parity Electric Utility Obligations and any Supplement.

Section 4. RATE COVENANT. Subject to any rate regulation by any state or federal regulatory authority, the City will fix, establish, maintain and collect such rates, charges and fees for electric power and energy and services furnished by the Electric Utility System and to the extent legally permissible, revise such rates, charges and fees to produce Gross Revenues each Fiscal Year sufficient:

(i) to pay all current Operating Expenses,

(ii) to produce Net Revenues, after (x) deducting amounts expended during the Fiscal Year from the Electric Utility System's Net Revenues for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations and (y) taking into account ending fund balances in the System Fund to be carried forward in a Fiscal Year, equal to an amount sufficient to pay the annual debt service due and payable in such Fiscal Year of the then Outstanding Parity Electric Utility Obligations; and

(iii) to pay after deducting the amounts determined in (i) and (ii) above, all other financial obligations of the Electric Utility System reasonably anticipated to be paid from Gross Revenues.

If the Net Revenues in any Fiscal Year are less than the aggregate amount specified above the City shall promptly upon receipt of the annual audit for such Fiscal Year cause such rates and charges to be revised and adjusted to comply with this Section or obtain a written report from a Utility System Consultant after a review and study of the operations of the Electric Utility System has been made concluding that, in their opinion, the rates and charges then in effect for the current Fiscal Year are sufficient or adjustments and revisions need to be made to such rates and charges to comply with this Section and such adjustments and revisions to electric rates and charges are promptly implemented and enacted in accordance with such Utility System Consultant's report. Notwithstanding anything herein to the contrary, the City shall be deemed to be in compliance herewith if either of the actions mentioned in the preceding sentence are undertaken and completed prior to the end of the Fiscal Year next following the Fiscal Year the deficiency in Net Revenues occurred.

Section 5. GENERAL COVENANTS. Subject to the provisions contained in the ordinances authorizing the issuance of the Prior First Lien Obligations, Prior Subordinate Lien Obligations and Commercial Paper Obligations which may be in conflict herewith and control to the extent of any conflict, the City hereby covenants and agrees with the Holders of the Parity Electric Utility Obligations to the extent permitted by law as follows:

(a) **PERFORMANCE**. All covenants, undertakings, stipulations, and provisions contained in this Ordinance and any Supplement shall be duly performed and honored at all times; the principal amount of and interest on Parity Electric Utility Obligations shall be timely paid as the same shall become due and payable on the dates, at the places and in the manner prescribed in each Supplement and such Parity Electric Utility Obligations; and all deposits to the credit of the Funds and Accounts shall be made at the times, in the amounts and in the manner specified by this Ordinance and in any Supplement; and any Holder may require the City, its officials and employees to perform, honor or enforce the covenants and obligations of this Ordinance, or any Supplement, by all legal and equitable means, including specifically, but without limitation, the use and filing of mandamus proceedings, in any court of competent jurisdiction, against the City, its officials and employees.

(b) **CITY'S LEGAL AUTHORITY**. The City is a duly created and existing home rule municipality of the State of Texas, and is duly authorized under the laws of the State of Texas to issue the Parity Electric Utility Obligations; with the adoption of each Supplement, all action on the City's part for the issuance of the Parity Electric Utility Obligations shall have been duly and effectively taken; and the Parity Electric Utility Obligations upon issuance and delivery to the Holders shall and will be valid and enforceable special obligations of the City in accordance with their terms.

(c) **OPERATION AND MAINTENANCE**. The Electric Utility System shall be operated in an efficient manner consistent with Prudent Utility Practice, and the plants, facilities and properties of the Electric Utility System shall be maintained, preserved and kept in good repair, working order and condition, and proper maintenance, repairs and replacements of such property, facilities and plants shall occur to preserve and keep the Electric Utility System operating in a business like manner; provided, however, nothing herein is intended nor shall any statement herein be construed to prevent the City from ceasing to operate or maintain, or from leasing or disposing of, any portion or component of the Electric Utility System if, in the judgment of the governing body of the City having responsibility for the management and operation of the Electric Utility System, including the making of any final decision on the acquisition and disposal of Electric Utility System properties, determines (i) it is advisable to lease, dispose of or not operate and maintain the same, (ii) the operation thereof is not essential to the maintenance and continued operation of the remainder of the Electric Utility System and (iii) the lease, disposition or failure to maintain or operate such component or portion of the Electric Utility System will not prevent the City from complying with the requirements of Section 4 hereof.

(d) **TITLE.** The City has or will have lawful title, whether such title is in fee or lesser interest, to the lands, buildings, structures and facilities constituting the Electric Utility System; the City warrants it will defend the title to all the aforesaid lands, buildings, structures and facilities, and every part thereof against the claims and demands of all persons whomsoever; and the City is lawfully qualified to pledge the Net Revenues to the payment of the Parity Electric Utility Obligations in the manner prescribed herein, and has lawfully exercised such rights.

(e) **LIENS.** All taxes, assessments and governmental charges, if any, which shall be lawfully imposed upon the Electric Utility System, its properties or revenues, shall be paid before the same become delinquent; all lawful claims for rents, royalties, labor, materials and supplies shall be paid in a timely manner, which if unpaid might by law become a lien or charge on the revenues of the Electric Utility System or the Electric Utility System's properties prior to or interfere with the liens hereof, and it will not create or suffer to be created any mechanic's, laborer's, materialman's or other lien or charge which might or could be prior to the liens hereof, or do or suffer any matter or thing whereby the lien on and pledge of the Net Revenues of the Electric Utility System for the Parity Electric Utility Obligations granted by this Ordinance or any Supplement might or could be impaired; provided however, that no such tax, assessment or charge, and no such claims that might result in a mechanic's, laborer's, materialman's or other lien or charge, shall be required to be paid while the validity of the same shall be contested in good faith by the City.

(f) **NO FREE SERVICE.** Save and except as provided by V.T.C.A., Government Code, Section 1502.057, as amended, no free service of the Electric Utility System shall be allowed.

(g) **FURTHER ENCUMBRANCE.** Save and except for the issuance of Parity Electric Utility Obligations, the Net Revenues of the Electric Utility System shall not hereafter be encumbered in any manner unless such encumbrance is made junior and subordinate in all respects to the liens, pledges, covenants and agreements of this Ordinance and any Supplement; but the right to issue Subordinated Debt payable in whole or in part from a subordinate lien on the Net Revenues is specifically recognized and retained.

(h) **SALE, LEASE OR DISPOSAL OF SYSTEM PROPERTY.** To the extent and in the manner provided by law, the City can sell, exchange or otherwise dispose of property, facilities and assets of the Electric Utility System at any time and from time to time. Furthermore, the City to the extent and in the manner provided by law may lease, contract, or grant licenses for the operation of, or make arrangements for the use of, or grant easements or other rights to the properties and facilities of the Electric Utility System. The proceeds of any such sale, exchange or disposal of property or facilities shall be deposited to the credit of a special Fund or Account, and funds deposited to the credit of such special Fund or Account shall be used to acquire other property necessary or desirable for the safe or efficient operation of the Electric Utility System, to redeem or purchase Prior First Lien Obligations, Prior Subordinate Lien Obligations, Parity Electric Utility Obligations or for any other Electric Utility System purpose.

(i) **BOOKS, RECORDS AND ACCOUNTS**. Proper books, records and accounts pertaining to the operation and ownership of the Electric Utility System shall be established and maintained in accordance with generally accepted accounting principles, and such books, records and accounts shall be kept and maintained separate and apart from all other records and accounts of the City. Accurate and complete entries of all transactions relating to the Electric Utility System shall be recorded in such books, records and accounts, and such books and records relating to the financial operations of the Electric Utility System shall be kept current on a month to month basis.

(j) **INSURANCE**. Except as otherwise permitted below, insurance shall be obtained and maintained on the properties of the Electric Utility System in a manner and to the extent municipal corporations operating like properties carry and maintain such insurance, and such insurance shall be maintained with one or more responsible insurance companies and cover such risks, accidents or casualties customarily carried by municipal corporations operating like properties, including, to the extent reasonably obtainable, fire and extended coverage insurance, insurance against damage caused by floods, and use and occupancy insurance. Public liability and property damage insurance shall also be carried unless the City Attorney gives a written opinion to the effect that the City is not liable for claims which would be protected by such insurance. At any time while any contractor engaged in construction work shall be fully responsible therefor, the City shall not be required to carry insurance on the work being constructed if the contractor is required to carry appropriate insurance. All such policies shall be open to the inspection of the Holders and their representatives at all reasonable times during regular business hours. Upon the happening of any loss or damage covered by insurance from one or more of said causes, the City shall make due proof of loss and shall do all things necessary or desirable to cause the insuring companies to make payment in full directly to the City. The proceeds of insurance covering such property, together with any other funds available for such purpose as the City in its sole discretion shall determine, shall be used to repair the property damaged or replace the property destroyed; provided, however, if the insurance proceeds and other funds that might be lawfully appropriated therefore are insufficient to repair or replace the damaged property, then such insurance proceeds received for the damaged or destroyed property shall be deposited to the credit of a special insurance Account or Fund until other funds become available which, together with funds on deposit to the credit of such special insurance account, will be sufficient to make the repairs or replacements to the property damaged or destroyed that resulted in such insurance proceeds or make other improvements to the Electric Utility System.

In lieu of obtaining policies for insurance as provided above, the City may self-insure against risks, accidents, claims or casualties described above, or such risks, accidents, claims or casualties may be covered under one or more blanket insurance policies maintained by the City. The annual audit hereinafter required shall contain a section commenting on whether the City has complied with the requirements of this Section with respect to the maintenance of insurance, and listing the areas of insurance for which the City is self-insuring, all policies carried, and whether all insurance premiums upon the insurance policies to which reference is hereinbefore made have been paid.

(k) **AUDITS**. After the close of each Fiscal Year while any of the Parity Electric Utility Obligations are Outstanding, an annual audit of the books, records and accounts relating to the operations of the Electric Utility System shall be made by an Accountant as part of the City's overall annual comprehensive audit. After such annual audit has been completed and approved by the

City, a copy thereof shall be sent to the Municipal Advisory Council of Texas and to any owner of $100,000 or more in Outstanding Principal Amount of Parity Electric Utility Obligations who shall request a copy of such annual audit in writing. A copy of such annual audit shall be available for the inspection at the administrative offices of the Electric Utility System by the owners of the Parity Electric Utility Obligations and their agents and representatives at all reasonable times during regular business hours.

(l) **GOVERNMENTAL AGENCIES**. Any and all franchises, licenses, permits and authorizations received or obtained from any governmental agency or department and applicable to or necessary with respect to the operations of the Electric Utility System shall be kept current and in effect, and no franchise, permit, license or authorization required or necessary for the acquisition, construction, equipment, operation and maintenance of the Electric Utility System shall be allowed to expire or terminate by a failure of the City to act or shall the City fail to comply with any terms or conditions that results in a forfeiture or early termination of any such franchise, permit, license, or authorization.

(m) **RIGHTS OF INSPECTION**. Subject to public safety and other restrictions as may be reasonably imposed, the owner of Parity Electric Utility Obligations shall have the right at all reasonable times during regular business hours to inspect properties of the Electric Utility System and all records, accounts and data relating thereto, and copies of such records, accounts and data will be furnished to such owner from time to time, upon the written request and at the payment of the cost of making such copies by the owner making such request.

Section 6. SYSTEM FUND. In accordance with the provisions of the ordinances authorizing the issuance of the Prior First Lien Obligations, Prior Subordinate Lien Obligations and the Commercial Paper Obligations, the City has created and there shall be maintained on the books of the City while the Parity Electric Utility Obligations are Outstanding a separate fund or account known and designated as the "Electric Light and Power System Fund" (herein called the "Electric Fund" or "System Fund"). All funds deposited to the credit of the System Fund and disbursements from such Fund shall be recorded in the books and records of the City and moneys deposited to the credit of such Fund shall be in an account or fund maintained at an official depository of the City. The Gross Revenues of Electric Utility System shall be deposited, as collected, to the credit of the System Fund and such Gross Revenues deposited to the credit of the System Fund shall be allocated, budgeted and appropriated to the extent required for the following uses and in the order of priority shown:

FIRST: To the payment of Operating Expenses, as defined herein or required by statute to be a first charge on and claim against the Gross Revenues.

SECOND: To the payment of the amounts required to be deposited in any special funds or accounts created for the payment and security of the Prior First Lien Obligations, including the amounts required to be deposited to the credit of the common reserve fund established for the Prior First Lien Obligations and Prior Subordinate Lien Obligations.

THIRD: Equally and ratably to the payment of the amounts required to be deposited to the credit of (i) the special fund created and established for the payment of principal of and interest on the Prior Subordinate Lien Obligations as the same becomes due and payable and (ii) the special Funds and Accounts maintain for the payment and security of the Parity Electric Utility Obligations pursuant to this Ordinance or a Supplement.

FOURTH: To pay Subordinated Debt, including amounts for the payment of the Commercial Paper Obligations, and the amounts, if any, due and payable under any credit agreement executed in connection therewith.

Any Net Revenues remaining in the System Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other City purpose now or hereafter permitted by law.

Section 7. DEBT SERVICE FUND. For the sole purpose of paying the principal amount of, premium, if any, and interest on, and other payments (other than Operating Expenses) incurred in connection with Parity Electric Utility Obligations, there is hereby created and there shall be established and maintained on the books of the City a separate fund designated as the "Electric Utility Revenue Obligation Debt Service Fund" (the "Debt Service Fund") and moneys to the credit of such Debt Service Fund shall be placed in a special fund or account maintained at an official depository of funds of the City.

The amount of the deposits to be made to the credit of the Debt Service Fund to pay the principal of and interest on the Parity Electric Utility Obligations as the same shall become due and payable and the manner for making such deposits shall be addressed and contained in each Supplement. In addition, the City reserves the right in any Supplement to establish within the Debt Service Fund various Accounts to facilitate the timely payment of Parity Electric Utility Obligations as the same become due and owing.

Section 8. ISSUANCE OF ADDITIONAL OBLIGATIONS. (a) Parity Electric Utility Obligations. The City reserves and shall have the right and power to issue or incur Parity Electric Utility Obligations for any purpose authorized by law pursuant to the provisions of this Ordinance and a Supplement hereafter adopted. The City may issue, incur, or otherwise become liable in respect of any Parity Electric Utility Obligations if a Designated Financial Officer shall certify in writing:

(i) the City is in compliance with all covenants contained in this Ordinance and any Supplement, is not in default in the performance and observance of any of the terms, provisions and conditions hereof and thereof, and the Funds and Accounts established for the payment and security of the Parity Electric Utility Obligations then Outstanding contain the amounts then required to be deposited therein or the proceeds of sale of the Parity Electric Utility Obligations then to be issued are to be used to cure any deficiency in the amounts on deposit to the credit of such Funds and Accounts, if any; and

(ii) the Net Revenues of the Electric Utility System, for the last completed Fiscal Year preceding the date of the then proposed Parity Electric Utility Obligations, or for any twelve consecutive calendar month period ending not more than ninety days prior to the date of the then proposed Parity Electric Utility Obligations and after deducting amounts expended from the Electric Utility System's Net Revenues during the last completed Fiscal Year for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations, exceed One Hundred Ten Per Cent (110%) the maximum Annual Debt Service Requirement of the Parity Electric Utility Obligations to be Outstanding after giving effect to the issuance of the then proposed Parity Electric Utility Obligations.

For purposes of paragraph (a) (ii), if Parity Electric Utility Obligations are issued to refund less than all of the Parity Electric Utility Obligations then Outstanding, the Designated Financial Officer's certificate required above shall give effect to the issuance of the proposed refunding Parity Electric Utility Obligations (and shall not give effect to the Parity Electric Utility Obligations being refunded following their cancellation or provision being made for their payment).

(b) Short-Term Parity Electric Utility Obligations. The City may issue or incur Parity Electric Utility Obligations issued in the form of commercial paper and for purposes of this subsection, the term "Outstanding Funded Debt" shall include Subordinated Debt that matures by its terms, or that is renewable at the option of the City to a date, more than one year after the date of its issuance by the City. The terms and conditions pertaining to the issuance of Parity Electric Utility Obligations in the form of commercial paper, including, without limitation, the security, liquidity and reserves necessary to support such commercial paper obligations, shall be contained in a Supplement relating to their issuance.

(c) Special Facilities Debt and Subordinated Debt. Special Facilities Debt and Subordinated Debt may be incurred by the City without limitation.

(d) Separately Financed Projects. The City expressly retains the right to issue or incur bonds, notes, or other obligations or evidences of indebtedness, other than Parity Electric Utility Obligations, for any project or purpose for goods or services other than the generation, transmission, distribution and sale of electric energy and capacity or related goods and services, which presently are or hereafter may be authorized or permitted to be provided or maintained by municipal electric systems generally or the City specifically under the laws of the State of Texas, federal law or the City's home rule charter; provided the bonds, notes or other obligations issued or incurred for any such separately financed project are payable from and secured by other available funds derived from the ownership or operation thereof or excess Net Revenues remaining after satisfying, or making provision for the satisfaction of, the "First" through the "Fourth" priority of claims identified on such Net Revenues in Section 6 hereof and separate books and records for such separately financed project or activity are maintained by the City

(e) Credit Agreements. Payments to be made under a Credit Agreement may be treated as Parity Electric Utility Obligations if the governing body of the City makes a finding in the Supplement authorizing and approving the Credit Agreement that Gross Revenues will be sufficient to meet the obligations of the Electric Utility System, including sufficient Net Revenues to satisfy the Annual Debt Service Requirements of Parity Electric Utility Obligations then Outstanding and the financial obligations of the City under the Credit Agreement, and such finding is supported by a certificate executed by a Designated Financial Officer of the City.

(f) Determination of Net Revenues. In making a determination of Net Revenues for any of the purposes described in this Section, the Designated Financial Officer may take into consideration a change in the rates and charges for services and facilities afforded by the Electric Utility System that became effective at least 30 days prior to the last day of the period for which Net Revenues are determined and, for purposes of satisfying the Net Revenues coverage test described above, make a pro forma determination of the Net Revenues of the Electric Utility System for the period of time covered by his or her certification based on such change in rates and charges being in effect for the entire period covered.

Section 9. FINAL DEPOSITS; GOVERNMENT OBLIGATIONS. (a) Any Parity Electric Utility Obligation shall be deemed to be paid, retired and cease to be Outstanding within the meaning of this Ordinance, and the Supplement pursuant to which it was issued, when payment of the principal amount of, redemption premium, if any, on such Parity Electric Utility Obligation, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, upon redemption, or otherwise) either shall have been (i) made in accordance with the terms thereof or (ii) provided by irrevocably depositing with, or making available to, a Paying Agent (or escrow agent) therefor, in trust and set aside exclusively for such payment, in accordance with the terms and conditions of an agreement between the City and said Paying Agent (or escrow agent), (1) money sufficient to make such payment or (2) Government Obligations, certified by an independent public accounting firm of national reputation, to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation, and expenses of such Paying Agent pertaining to the Parity Electric Utility Obligation with respect to which such deposit is made shall have been paid or the payment thereof duly provided (and irrevocable instructions shall have been given by the City to such Paying Agent to give notice of such redemption in the manner required by the Supplement authorizing the issuance of such Parity Electric Utility Obligation) to the satisfaction of such Paying Agent. Such Paying Agent shall give notice to each owner of any Parity Electric Utility Obligation that such deposit as described above has been made, in the same manner as required with respect to the redemption of such Parity Electric Utility Obligation, all in accordance with the terms of the Supplement pursuant to which such Parity Electric Utility Obligation was issued. In addition, in connection with a defeasance, such Paying Agent shall give notice of redemption, if necessary, to the owners of any Parity Electric Utility Obligation in the manner provided in the Supplement for such Parity Electric Utility Obligation and as directed in the redemption instructions delivered by the City to such Paying Agent. At such time as a Parity Electric Utility Obligation shall be deemed to be paid hereunder, as aforesaid, it shall no longer be secured by or entitled to the benefit of this Ordinance or the Supplement pursuant to which it was issued or a lien on and pledge of the Net Revenues, and shall be entitled to payment solely from such money or Government Obligations.

(b) Any moneys deposited with a Paying Agent (or escrow agent) may, at the direction of the City, also be invested in Government Obligations, maturing in the amounts and times as hereinbefore set forth, and all income from all Government Obligations in the hands of the Paying Agent pursuant to this Section which is not required for the payment of the principal of the Parity Electric Utility Obligations, the redemption premium, if any, and interest thereon, with respect to which such money has been so deposited, shall be remitted to the City for deposit to the credit of the Debt Service Fund.

(c) Except as provided in clause (b) of this Section, all money or Government Obligations set aside and held in trust pursuant to the provisions of this Section for the payment of Parity Electric Utility Obligations, the redemption premium, if any, and interest thereon, shall be applied solely to and used solely for the payment of such Parity Electric Utility Obligations, the redemption premium, if any, and interest thereon.

Section 10. AMENDMENT OF ORDINANCE. (a) Required Owner Consent for Amendments. The owners of a majority in Outstanding Principal Amount of the Parity Electric Utility Obligations shall have the right from time to time to approve any amendment to this Ordinance which may be deemed necessary or desirable by the City, provided, however, that nothing contained herein shall permit or be construed to permit the amendment of the terms and conditions in this Ordinance or in the Parity Electric Utility Obligations so as to:

(1) Make any change in the maturity of any of the Outstanding Parity Electric Utility Obligations;

(2) Reduce the rate of interest borne by any of the Outstanding Parity Electric Utility Obligations;

(3) Reduce the amount of the principal payable on the Outstanding Parity Electric Utility Obligations;

(4) Modify the terms of payment of principal of, premium, if any, or interest on the Outstanding Parity Electric Utility Obligations or impose any conditions with respect to such payment;

(5) Affect the rights of the owners of less than all of the Parity Electric Utility Obligations then Outstanding;

(6) Amend this subsection (a) of this Section; or

(7) Change the minimum percentage of the principal amount of Parity Electric Utility Obligations necessary for consent to any amendment;

unless such amendment or amendments be approved by the owners of all of the Parity Electric Utility Obligations affected by the change or amendment then Outstanding.

(b) Notice of Amendment Requiring Consent. If at any time the City shall desire to amend the Ordinance under this Section, the City shall cause notice of the proposed amendment to be published in a financial newspaper or journal published in The City of New York, New York, and a newspaper of general circulation in the City, once during each calendar week for at least two successive calendar weeks. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file with each Paying Agent or Registrar, as the case may be, for the Parity Electric Utility Obligations for inspection by all Holders of Parity Electric Utility Obligations. Such publication is not required, however, if notice in writing is given by mail, first class postage prepaid, to each Holder of Parity Electric Utility Obligations.

(c) Time Period for Obtaining Consent If within one year from (i) the date of the first publication of said notice or (ii) the date of the mailing by the Paying Agent of written notice to the owners of the Parity Electric Utility Obligations, whichever date first occurs if both methods of giving notice are used, the City shall receive an instrument or instruments executed by the owners of at least a majority in Outstanding Principal Amount of the Parity Electric Utility Obligations consenting to and approving such amendment in substantially the form of the copy thereof on file with each Paying Agent or Registrar, as the case may be, for the Parity Electric Utility Obligations, the governing body of the City may pass the amendatory ordinance in substantially the same form.

(d) Revocation of Consent. Any consent given by the owner of a Parity Electric Utility Obligation pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date for measuring the one year period to obtain consents noted in paragraph (c) above, and shall be conclusive and binding upon all future owners of the same Parity Electric Utility Obligation during such period. At any time after six months from the date for measuring the one year period to obtain consents noted in paragraph (c) above, such consent may be revoked by the owner who gave such consent, or by a successor in title, by filing written notice thereof with the Paying Agent or Registrar, as the case may be, for such Parity Electric Utility Obligation and the City, but such revocation shall not be effective if the owners of at least a majority in Outstanding Principal Amount of the then Outstanding Parity Electric Utility Obligations as determined in accordance with this Section have, prior to the attempted revocation, consented to and approved the amendment.

(e) Implementation of Amendment. Upon the passage of any amendatory ordinance pursuant to the provisions of this Section, this Ordinance shall be deemed to be amended in accordance with such amendatory ordinance, and the respective rights, duties and obligations of the City under this Ordinance and all the owners of then Outstanding Parity Electric Utility Obligations and all future Parity Electric Utility Obligations shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such amendments.

(f) Amendment without Consent. The foregoing provisions of this Section notwithstanding, the City by action of its governing body may amend this Ordinance for any one or more of the following purposes:

(1) To vest the management and control of the Electric Utility System in an independent board of trustees or similar board pursuant to authority conferred by V.T.C.A., Government Code, Section 1502.070 et seq. or other law now or hereafter enacted;

(2) To add to the covenants and agreements of the City in this Ordinance contained, other covenants and agreements thereafter to be observed, grant additional rights or remedies to the owners of the Parity Electric Utility Obligations or to surrender, restrict or limit any right or power herein reserved to or conferred upon the City;

(3) To make such provisions for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective provision contained in this Ordinance, or in regard to clarifying matters or questions arising under this Ordinance, as are necessary or desirable and not contrary to or inconsistent with this Ordinance and which shall not adversely affect the interests of the owners of the Parity Electric Utility Obligations then outstanding;

(4) To modify any of the provisions of this Ordinance in any other respect whatever, provided that such modification shall be, and be expressed to be, effective only after all Parity Electric Utility Obligations outstanding at the date of the adoption of such modification shall cease to be outstanding;

(5) To make such amendments to this Ordinance as may be required, in the opinion of Bond Counsel, to ensure compliance with sections 103 and 141 through 150 of the Code and the regulations promulgated thereunder and applicable thereto;

(6) To make such changes, modifications or amendments as may be necessary or desirable in order to allow the owners of the Parity Electric Utility Obligations to thereafter avail themselves of a book-entry system for payments, transfers and other matters relating to the Parity Electric Utility Obligations, which changes, modifications or amendments are not contrary to or inconsistent with other provisions of this Ordinance and which shall not adversely affect the interests of the owners of the Parity Electric Utility Obligations;

(7) To make such changes, modifications or amendments as may be necessary or desirable in order to obtain or maintain the granting of a rating on the Parity Electric Utility Obligations by a Rating Agency or to obtain or maintain a Credit Agreement or a Credit Facility; and

(8) To make such changes, modifications or amendments as may be necessary or desirable, which shall not adversely affect the interests of the owners of the Parity Electric Utility Obligations, in order, to the extent permitted by law, to facilitate the economic and practical utilization of interest rate swap agreements, foreign currency exchange agreements, or similar types of agreements with respect to the Parity Electric Utility Obligations. Notice of any such amendment may be published by the City in the manner described in clause (b) of this Section; provided, however, that the publication of such notice shall not constitute a condition precedent to the adoption of such amendatory ordinance and the failure to publish such notice shall not adversely affect the implementation of such amendment as adopted pursuant to such amendatory ordinance.

(g) Ownership. For the purpose of this Section, the ownership and other matters relating to all Parity Electric Utility Obligations may be determined as provided in each Supplement and unless otherwise provided in a Supplement, the owners of the Parity Electric Utility Obligations insured as to the payment of principal of and interest thereon shall be deemed to be the insurance company providing the insurance coverage on such Parity Electric Utility Obligations; provided such amendment to this Ordinance is an amendment that can be made with the consent of a majority in Outstanding Principal Amount of the Parity Electric Utility Obligations and such insurance company is not in default with respect to its obligations under its insurance policy.

(h) Amendments of Supplements. Each Supplement shall contain provisions governing the ability of the City to amend such Supplement; provided, however, that no amendment may be made to any Supplement for the purpose of granting to the owners of Parity Electric Utility Obligations then Outstanding under such Supplement a priority over the owners of any other Parity Electric Utility Obligations then Outstanding.

Section 11. DEFICIENCIES. If on any occasion there shall not be sufficient Net Revenues to make the required deposits into the Funds and Accounts established in accordance with this Ordinance and any Supplement, then such deficiency shall be made up as soon as possible from the next available Net Revenues, or from any other source available for such purpose.

Section 12. FUNDS SECURED. Moneys in all Funds and Accounts created in accordance with this Ordinance and any Supplement shall be secured in the manner prescribed by law for securing funds of the City.

Section 13. INVESTMENTS. Moneys in any Fund or Account established pursuant to this Ordinance and any Supplement may, at the option of the City, be placed or invested in Eligible Investments. The value of any such Fund or Account shall be established by adding any money therein to the Value of Investment Securities. The value of each such Fund or Account shall be established no less frequently than annually during the last month of each Fiscal Year. Earnings derived from the investment of moneys on deposit in the various Funds and Accounts shall be credited to the Fund or Account from which moneys used to acquire such investment shall have come.

Section 14. BENEFITS OF ORDINANCE. Nothing in this Ordinance, expressed or implied, is intended or shall be construed to confer upon any person other than the City, the Paying Agent/Registrar and the Holders, any right, remedy, or claim, legal or equitable, under or by reason of this Ordinance or any provision hereof, this Ordinance and all its provisions being intended to be and being for the sole and exclusive benefit of the City, the Paying Agent/Registrar and the Holders.

Section 15. GOVERNING LAW. This Ordinance shall be construed and enforced in accordance with the laws of the State of Texas and the United States of America.

Section 16. EFFECT OF HEADINGS. The Section headings herein are for convenience only and shall not affect the construction hereof.

Section 17. CONSTRUCTION OF TERMS. If appropriate in the context of this Ordinance, words of the singular number shall be considered to include the plural, words of the plural number shall be considered to include the singular, and words of the masculine, feminine or neuter gender shall be considered to include the other genders.

Section 18. SEVERABILITY. If any provision of this Ordinance or the application thereof to any circumstance shall be held to be invalid, the remainder of this Ordinance and the application thereof to other circumstances shall nevertheless be valid, and the City Council hereby declares that this Ordinance would have been enacted without such invalid provision.

Section 19. PUBLIC MEETING. It is officially found, determined, and declared that the meeting at which this Ordinance is adopted was open to the public and public notice of the time, place, and subject matter of the public business to be considered at such meeting, including this Ordinance, was given; all as required by V.T.C.A., Government Code, Chapter 551, as amended.

Section 20. EMERGENCY. The public importance of this measure and the fact that there is an urgent public need for the City to obtain the funds from the sale of the Bonds as soon as possible and without delay for the immediate preservation of the public peace, health and safety of the citizens of the City constitute and create an emergency requiring the suspension of the rule providing for ordinances to be read on three separate days; and such rule relating to the passage of ordinances and the Charter provision relating to the effective date of ordinances are hereby suspended and this ordinance is hereby passed as an emergency measure and shall be effective immediately upon its passage and adoption as provided by the Charter of the City.

PASSED AND ADOPTED, this 18th day of January, 2001.

CITY OF AUSTIN, TEXAS

KIRK WATSON
Mayor

ATTEST:

SHIRLEY A. BROWN
City Clerk

APPROVED:

ANDREW MARTIN
City Attorney

(City Seal)

EXHIBIT "A"

DEFINITIONS

As used in the Ordinance, the following terms and expressions shall have the meanings set forth below, unless the text hereof specifically indicates otherwise:

"**Account**" means any account created, established and maintained on the books and records of the City under the terms of any Supplement.

"**Accountant**" means a nationally recognized independent certified public accountant, or an independent firm of certified public accountants.

"**Annual Debt Service Requirements**" means, for any Fiscal Year, the principal of and interest on all Parity Electric Utility Obligations coming due at Maturity or Stated Maturity (or that could come due on demand of the owner thereof other than by acceleration or other demand conditioned upon default by the City on such Debt, or be payable in respect of any required purchase of such Debt by the City) in such Fiscal Year, and, for such purposes, any one or more of the following rules shall apply at the election of the City:

(i) Committed Take Out. If the City has entered into a Credit Agreement with a Credit Provider to discharge any of its Funded Debt at its Stated Maturity (or, if due on demand, at any date on which demand may be made) or to purchase any of its Funded Debt at any date on which such Debt is subject to required purchase, all under arrangements whereby the City's obligation to repay the amounts advanced under the Credit Agreement for the discharge or purchase constitutes Funded Debt, then the portion of the Funded Debt committed to be discharged or purchased by the Credit Provider shall be excluded from such calculation and the principal of and interest on the Funded Debt incurred for such discharging or purchase that would be due in the Fiscal Year for which the calculation is being made, if incurred at the Stated Maturity or purchase date of the Funded Debt to be discharged or purchased, shall be added;

(ii) Balloon Debt. If the principal (including the accretion of interest resulting from original issue discount or compounding of interest) of any series or issue of Funded Debt due (or payable by reason of any required purchase of such Funded Debt by the City) in any Fiscal Year is either (a) equal to 25%, or more, of the total principal (including the accretion of interest resulting from original issue discount or compounding of interest) of such Funded Debt or (b) exceeds by more than 50% the greatest amount of principal of such series or issue of Funded Debt due in any preceding or succeeding Fiscal Year (such principal due in such Fiscal Year for such series or issue of Funded Debt being referred to herein and throughout this Exhibit A as "Balloon Debt"), the amount of principal of such Balloon Debt taken into account during any Fiscal Year shall be equal to the debt service calculated using the original principal amount of such Balloon Debt amortized over the Term of Issue on a level debt service basis at an assumed interest rate equal to the rate borne by such Balloon Debt on the date of calculation;

(iii) Consent Sinking Fund. In the case of Balloon Debt, if a Designated Financial Officer executes a certificate to the effect that such Balloon Debt (a) may be treated as being retired in installments (and the instrument creating such Balloon Debt expressly permits such Debt to be treated as being retired in installments), or (b) paid from the funding and accumulation of a sinking fund (and the instrument creating such Balloon Debt expressly permits the funding and accumulation of a sinking fund) according to a fixed schedule stated in such certificate, then the principal of (and, in the case of retirement, or to the extent provided for the funding and accumulation of a sinking fund, the premium, if any, and interest and other debt service charges on) such Balloon Debt shall be computed as if the same were due in accordance with such fixed schedule, provided this clause (iii) shall apply only to Balloon Debt when installments due and payable prior to such certificate have been duly paid or all deposits to the sinking fund established for such Debt have been duly credited to the sinking fund on or before the times required by such schedule; and provided further this clause (iii) shall not apply when the City has elected to apply the rule set forth in clause (ii) above;

(iv) Prepaid Debt. Principal of and interest on Parity Electric Utility Obligations, or portions thereof, payable from capitalized interest, accrued interest and amounts deposited or set aside in trust for the payment thereof with a financial institution shall not be included in the computation of the Annual Debt Service Requirements for any Fiscal Year;

(v) Variable Rate. As to any Parity Electric Utility Obligation that bears interest at a variable interest rate which cannot be ascertained at the time of calculation of the Annual Debt Service Requirement then, at the option of the City, either (a) an interest rate equal to the average rate borne by such Parity Electric Utility Obligations (or by comparable debt in the event that such Parity Electric Utility Obligations has not been outstanding during the preceding 24 months) for any 24 month period ending within 30 days prior to the date of calculation, or (b) an interest rate equal to the 30-year Tax-Exempt Revenue Bond Index (as most recently published in The Bond Buyer), shall be presumed to apply for all future dates, unless such index is no longer published in The Bond Buyer, in which case an index of tax-exempt revenue bonds with maturities of 20 years, or more, published in a financial newspaper or journal with national circulation may be used for this purpose;

(vi) Commercial Paper. Any Parity Electric Utility Obligations issued in the form of commercial paper shall use an interest rate for such Parity Electric Utility Obligations calculated in the manner provided in clause (v) of this definition and the maturity schedule shall be calculated in the manner provided in clause (ii) of this definition; and

(vii) Credit Agreement Payments. If the City has entered into a Credit Agreement in connection with an issue of Debt, payments due under the Credit Agreement, from either the City or the Credit Provider, shall be included in such calculation except to the extent that the payments are already taken into account under (i) through (vi) above and any payments otherwise included above under (i) through (vi) which are to be replaced by payments under a Credit Agreement, from either the City or the Credit Provider, shall be excluded from such calculation. For any calculation of historic data, only those payments actually made in the subject period shall be taken into account in making such calculation and, for prospective calculations, only those payments reasonably expected to be made in the subject period shall be taken into account in making the calculation.

"**Bond Counsel**" means Messrs. Fulbright & Jaworski L.L.P. or other firm engaged by the City with legal experience and expertise in the issuance and sale of obligations by municipalities in the State of Texas and with respect to the exclusion of interest on obligations from federal income taxation under Section 103(a) of the Code.

"**City**" and "**Issuer**" mean the City of Austin, Texas.

"**Code**" means the Internal Revenue Code of 1986, as amended, or any successor thereto.

"**Commercial Paper Obligations**" means those obligations identified and described in the preamble of the Ordinance.

"**Credit Agreement**" means, collectively, a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase Parity Electric Utility Obligations, purchase or sale agreements, interest rate swap agreements, or commitments or other contracts or agreements authorized, recognized and approved by the City in connection with the authorization, issuance, security, or payment of Parity Electric Utility Obligations and on a parity therewith.

"**Credit Facility**" means (i) a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations, provided that a Rating Agency having an outstanding rating on Parity Electric Utility Obligations would rate the Parity Electric Utility Obligations fully insured by a standard policy issued by the issuer in its highest generic rating category for such obligations; and (ii) a letter or line of credit issued by any financial institution, provided that a Rating Agency having an outstanding rating on the Parity Electric Utility Obligations would assign a rating to the Parity Electric Utility Obligations of one of its two highest generic rating categories for such obligations if the letter or line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of the Parity Electric Utility Obligations and the interest thereon.

"**Credit Provider**" means any bank, financial institution, insurance company, surety bond provider, or other institution which provides, executes, issues, or otherwise is a party to or provider of a Credit Agreement.

"**Debt**" of the City payable from Net Revenues means all:

(i) indebtedness incurred or assumed by the City for borrowed money (including indebtedness arising under Credit Agreements) and all other financing obligations of the Electric Utility System that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet; and

(ii) all other indebtedness (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or for the acquisition, construction, or improvement of property or capitalized lease obligations that is guaranteed, directly or indirectly, in any manner by the City, or that is in effect guaranteed, directly or indirectly, by the City through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise.

For the purpose of determining the "Debt" payable from the Net Revenues of the Electric Utility System, there shall be excluded any particular Debt if, upon or prior to the Maturity thereof, there shall have been deposited with the proper depository (A) in trust the necessary funds (or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption, or satisfaction of such Debt or (B) evidence of such Debt deposited for cancellation; and thereafter it shall not be considered Debt. No item shall be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements of the City in prior Fiscal Years.

"**Debt Service Fund**" means the "Electric Utility System Revenue Obligation Debt Service Payment Fund" established pursuant to Section 7 of the Ordinance.

"**Designated Financial Officer**" shall mean the Director of Finance, City Treasurer or such other official of the City having primary responsibility for the fiscal management and operations of the System.

"**Electric Utility System**" means all properties, facilities and plants currently owned, operated and maintained by the City for the generation, transmission, distribution and sale of electric energy and power, together with all future extensions, improvements, replacements and additions thereto; provided, however, that notwithstanding the foregoing and to the extent now or hereafter authorized or permitted by law, the Electric Utility System, as defined herein, shall not include (i) properties and facilities owned in whole or in part by the City and under the management and control of the electric utility department of the City but provide a service or product apart from the generation, transmission, distribution or sale of electric energy and power such as a fiber optic system, chiller tower facilities, etc.; (ii) facilities of any kind which are declared not to be a part of the Electric Utility System and which are acquired or constructed by or on behalf of the City with the proceeds from the issuance of "Special Facilities Debt", which term is defined as being special revenue obligations of the City not secured by or payable from the Net Revenues but which are secured by and payable solely from special contract revenues, or payments received from the City or any other legal entity, or any combination thereof, in connection with such facilities; or (iii) separately financed projects or properties contemplated and authorized pursuant to Section 8(d) of the Ordinance.

"Eligible Investments" means those investments in which the City is now or hereafter authorized by law, including, but not limited to, the Public Funds Investment Act (V.T.C.A., Government Code, Chapter 2256), as amended, to purchase, sell and invest its funds and funds under its control.

"Fiscal Year" means the twelve month financial accounting period for the Electric Utility System which currently ends on September 30 of each calendar year.

"Fund" means any fund created, established and maintained under the terms of the Ordinance and any Supplement.

"Funded Debt" of the Electric Utility System means all Parity Electric Utility Obligations (and, for purposes of Section 9(b) of the Ordinance, all Subordinated Debt) created or assumed by the City and payable from Net Revenues maturing by their terms (in the absence of the exercise of any earlier right of demand), or renewable at the option of the City to a date, more than one year after the original creation or assumption of such Debt by the City.

"Government Obligations" means (i) direct noncallable obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations unconditionally guaranteed or insured by the agency or instrumentality and on the date of their acquisition or purchase by the City are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent or (iv) such other obligations hereafter authorized by law to be acquired for defeasance and payment of outstanding indebtedness of the City.

"Gross Revenues" means those revenues, income, and receipts derived or received by the City from the operation and ownership of the Electric Utility System, including interest income and earnings from the investment or deposit of money in any Fund created by the Ordinance or a Supplement or maintained by the City in connection with the Electric Utility System, other than those amounts subject to payment to the United States of America as rebate pursuant to section 148 of the Code. The term "Gross Revenues", however, does not include refundable meter deposits, restricted gifts, grants in aid of construction or "transition charges" or similar charges imposed pursuant to V.T.C.A., Utilities Code, Subchapter G of Chapter 39 or similar law imposed for the payment of "transition bonds".

"Holder" or **"Bondholder"** or **"owner"** means the registered owner appearing on the books and records of the Registrar of any Parity Electric Utility Obligation registered as to ownership and the holder of any Parity Electric Utility Obligation payable to bearer.

"Maturity" when used with respect to any Debt means the date the principal of such Debt or any installment thereof becomes due and payable, whether at its Stated Maturity or by declaration of acceleration, call for redemption, or otherwise.

"Net Revenues" and **"Net Revenues of the Electric Utility System"** with respect to any period of time means the Gross Revenues for such period less Operating Expenses incurred during such period.

"Operating Expenses" means the expenses of operation and maintenance of the Electric Utility System, including all salaries, labor, materials repairs, and extensions necessary to render efficient service, provided, however, that only such repairs and extensions, as in the judgment of the City, reasonably and fairly exercised by the passage of appropriate ordinances, are necessary to render adequate service, or such as might be necessary to meet some physical accident or condition which would otherwise impair any Parity Electric Utility Obligations. Operating Expenses shall include the purchase of power, and, to the extent permitted by law Operating Expenses may include payments made on or in respect of obtaining and maintaining any Credit Agreement or Credit Facility. Depreciation shall not be considered as expenses of operation and maintenance.

"Opinion of Counsel" means a written opinion of counsel acceptable to the City.

"Ordinance" means this Ordinance No. 010118-53A pertaining to the issuance of Parity Electric Utility Obligations, and any amendments thereto.

"Outstanding" when used with respect to Parity Electric Utility Obligations means, as of the date of determination, all Parity Electric Utility Obligations theretofore delivered under this Ordinance and any Supplement, except:

(i) Parity Electric Utility Obligations theretofore canceled and delivered to the City or delivered to the Paying Agent or the Registrar for cancellation;

(ii) Parity Electric Utility Obligations deemed paid pursuant to the provisions of Section 11 of the Ordinance or any comparable section of any Supplement;

(iii) Parity Electric Utility Obligations upon transfer of or in exchange for and in lieu of which other Parity Electric Utility Obligations have been authenticated and delivered pursuant to the Ordinance and any Supplement; and

(iv) Parity Electric Utility Obligations under which the obligations of the City have been released, discharged, or extinguished in accordance with the terms thereof;

provided, that, unless acquired for purposes of cancellation, Parity Electric Utility Obligations owned by the City shall be deemed to be Outstanding as though owned by any other owner.

"Outstanding Principal Amount" means, with respect to all Parity Electric Utility Obligations or to a series of Parity Electric Utility Obligations, the outstanding and unpaid principal amount of such Parity Electric Utility Obligations paying interest on a current basis and the accreted value as of each compounding date for Parity Electric Utility Obligations paying accrued, accreted, or compounded interest only at maturity and as determined and established in the Supplement authorizing the issuance of such Parity Electric Utility Obligations

"Parity Electric Utility Obligations" means all Debt of the City issued or incurred in accordance with the terms of the Ordinance and a Supplement, and secured by a lien on and pledge of the Net Revenues.

"Paying Agent" means bank, trust company or other entity selected by the City in a Supplement undertaking the duties and responsibilities for the payment to the Holders of the principal of and interest on the series or issue of Parity Electric Utility Obligations.

"Prior First Lien Obligations" means those obligations identified and described in the preamble of the Ordinance.

"Prior Subordinate Lien Obligations" means those obligations identified and described in the preamble of the Ordinance.

"Prudent Utility Practice" means any of the practices, methods and acts, in the exercise of reasonable judgment, in the light of the facts, including but not limited to the practices, methods and acts engaged in or approved by a significant portion of the public utility industry prior thereto, known at the time the decision was made, would have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. It is recognized that Prudent Utility Practice is not intended to be limited to the optimum practice, method or act at the exclusion of all others, but rather is a spectrum of possible practices, methods or acts which could have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. In the case of any facility included in the Electric Utility System which is owned in common with one or more other entities, the term "Prudent Utility Practice", as applied to such facility, shall have the meaning set forth in the agreement governing the operation of such facility.

"Rating Agency" means a nationally recognized securities rating agency which has assigned a rating to the Parity Electric Utility Obligations.

"Registrar" means bank, trust company or other entity selected by the City in a Supplement to serve as the registrar for the registration and transfer of a series or issue of Parity Electric Utility Obligations issued in fully registered form as to the payment of principal of and interest thereon.

"Stated Maturity" when used with respect to Debt or any installment of interest thereon means any date specified in the instrument evidencing or authorizing such Debt or such installment of interest as a fixed date on which the principal of such Debt or any installment thereof or the fixed date on which such installment of interest is due and payable.

"Subordinated Debt" means any Debt which expressly provides that all payments thereon shall be subordinated to the timely payment of all Parity Electric Utility Obligations then Outstanding or subsequently issued.

"Supplement" or **"Supplemental Ordinance"** means an ordinance supplemental to, and authorized and adopted by the governing body of the City pursuant to the terms of, the Ordinance.

"System Fund" or **"Electric Fund"** means the "Electric Light and Power System Fund" affirmed in Section 6 of the Ordinance.

"Term of Issue" means with respect to any Balloon Debt, a period of time equal to the greater of (i) the period of time commencing on the date of issuance of such Balloon Debt and ending on the final maturity date of such Balloon Debt or the "maximum maturity date" in the case of commercial paper ("maximum maturity date" having the meaning given to said term in any Supplement authorizing the issuance of commercial paper) or (ii) twenty-five years.

"Utility System Consultant" means an independent firm, person or corporation recognized as having expertise and with a favorable reputation for special skill and knowledge in the operations and financing of municipal electric light and power facilities and systems similar in size to the Electric Utility System.

"Value of Investment Securities" and words of like import shall mean the amortized value thereof, provided, however, that all United States of America, United States Treasury Obligations--State and Local Government Series shall be valued at par and those obligations which are redeemable at the option of the holder shall be valued at the price at which such obligations are then redeemable. The computations made under this paragraph shall include accrued interest on the investment securities paid as a part of the purchase price thereof and not collected. For the purposes of this definition "amortized value", when used with respect to a security purchased at par means the purchase price of such security.

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APPENDIX D

SELECTED MODIFIED PROVISIONS FROM ORDINANCES RELATING TO PRIOR FIRST LIEN OBLIGATIONS AND PRIOR SUBORDINATE LIEN OBLIGATIONS

Definitions. The following definitions are provided:

City-shall mean the City of Austin, Texas, located in the Counties of Travis and Williamson.

Electric Light and Power System-shall mean all facilities and plants currently owned, operated and maintained by the City, wholly or partially in participation with others, for the generation, transmission, supply and distribution of electrical energy and power, together with all future extensions, improvements, replacements and additions thereto, and all replacements thereof; provided that, notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term "Electric Light and Power System" shall not include facilities of any kind (including any electric power generating and transmission facilities) which are declared not to be a part of the Electric Light and Power System and which are acquired or constructed by the City, or in participation with others, with the proceeds from the issuance of "Special Facilities Bonds," which are hereby defined as being special revenue obligations of the City which are not Prior Lien Bonds, Subordinate Lien Bonds or Separate Lien Obligations but which are payable from and secured by other liens on and pledges of any revenues, sources or payments not pledged to the payment of the Prior Lien Bonds, the Subordinate Lien Bonds or Separate Lien Obligations including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

Fiscal Year-shall mean the twelve month period used by the City in connection with the operation of the Systems which may be any twelve consecutive month period established by the City.

Government Obligations-shall mean direct obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, which may be United States Treasury obligations such as its State and Local Government Series, and which may be in book-entry form.

Gross Revenues-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, all income, receipts and revenues of every nature derived or received from the operation and ownership (excluding refundable meter deposits, restricted gifts and grants and proceeds derived from the sale or other disposition of all or part of the City's participating interest in the South Texas Project and revenues, sources or payment from facilities acquired or constructed with "Special Facilities Bonds") of the respective system, including earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established by the City for the payment and security of the Prior Lien Bonds or the Subordinate Lien Bonds or Separate Lien Obligations.

Maintenance and Operating Expenses-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, all current expenses of operating and maintaining the respective system, including all salaries, labor, materials, repairs and extensions necessary to render efficient service; provided, however, that only such repairs and extensions, as in the judgment of the City Council, reasonably and fairly exercised, are necessary to maintain the operations and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair the Prior Lien Bonds or the Subordinate Lien Bonds shall be deducted in determining "Net Revenues." Depreciation shall never be considered as an expense of Maintenance and Operation. Maintenance and Operating Expenses shall include payments under contracts for the purchase of power and energy, water supply or other materials, goods or services for the Systems to the extent authorized by law and the provisions of such contract.

Net Revenues-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, Gross Revenues of the respective system after deducting the system's Maintenance and Operating Expenses.

Outstanding-shall mean with respect to Bonds, as of the date of determination, all Bonds theretofore issued and delivered under this Ordinance, except:(i) those Bonds canceled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation; (ii) those Bonds for which payment has been duly provided by the City in accordance with the provisions of Section 27 hereof; and(iii) those Bonds that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof as provided in Section 30 hereof.

Prior Lien Bonds-shall mean the outstanding revenue bonds of those issues or series identified as follows: (i) City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990B," dated February 1, 1990, (ii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992," dated March 1, 1992, (iii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992A," dated May 15, 1992, (iv) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993," dated January 15, 1993, (v) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993A," dated June 1, 1993, (vi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1994," dated September 1, 1994, (vii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1995," dated June 1, 1995, (viii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996A," dated August 1, 1996, (ix) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996B," dated August 1, 1996, (x) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1997," dated August 1, 1997, (xi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998," dated July 1, 1996, and (xii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998A," dated August 1, 1997.

Subordinate Lien Bonds-shall mean the outstanding revenue bonds of those series designated (i) "City of Austin, Texas, Subordinate Lien Revenue Bonds, Series 1994," dated March 1, 1994, (ii) "City of Austin, Texas, Combined Utility System Subordinate Lien Revenue Bonds, Series 1998," dated August 1, 1998, (iii) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998," dated October 1, 1998 and (iv) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998A," dated October 1, 1998.

Required Reserve-shall mean the amount required to be accumulated and maintained in the Reserve Fund under the provisions of Section 15 hereof.

Separate Lien Obligations-shall mean (a) those obligations hereafter (i) issued or incurred by the City payable solely from the Net Revenues of either the Electric Light and Power System or the Net Revenues of the Waterworks and Sewer System, but not both, (ii) incurred pursuant to express charter or statutory authority heretofore or hereafter adopted or enacted and (iii) which by the terms of the ordinance authorizing their issuance or the incurring of the obligation provide for payments to be made by the City for the retirement or payment thereof to be secured solely by a lien on and pledge of the Net Revenues of the Electric Light and Power System or the Net Revenues of the Waterworks and Sewer System, but not both, of equal dignity with the lien on and pledge of said Net Revenues securing the payment of the Subordinate Lien Bonds and (b) those contractual obligations of the City heretofore incurred payable solely from and secured by a lien on and pledge of the Net Revenues of the Water and Sewer System and securing the payment of certain outstanding contract revenue bonds more specifically identified in Exhibit B.

South Texas Project-shall mean the City's ownership interest in two nuclear steam electric generating units and related land and facilities, as more particularly defined in the South Texas Project Participation Agreement effective as of December 1, 1973, as amended.

Systems-shall mean collectively the Electric Light and Power System and the Waterworks and Sewer System.

Waterworks and Sewer System-means all properties, facilities and plants currently owned, operated and maintained by the City for the supply, treatment and transmission of treated potable water and the collection, treatment and disposal of water-carried wastes, together with all future extensions, improvements, replacements and additions thereto; provided, however, that notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term "Waterworks and Sewer System" shall not include facilities of any kind which are declared not to be a part of the Waterworks and Sewer System and which are acquired or constructed by or on behalf of the City with the proceeds from the issuance of "Special Facilities Bonds," which are hereby defined as being special revenue obligations of the City which are not Prior Lien Bonds, Subordinate Lien Bonds or Separate Lien Obligations but which are payable from and secured by other liens on and pledges of any revenues, sources or payments, not pledged to the payment of Prior Lien Bonds, the Subordinate Lien Bonds or Separate Lien Obligations including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

Pledge. (a) Electric Light and Power System. Subject only to the prior lien on and pledge of the Net Revenues of the Electric Light and Power System for the payment and security of the Prior Lien Bonds, the City hereby covenants and agrees that the Net Revenues of the Electric Light and Power System, with the exception of those in excess of the amounts required for the payment and security of the Subordinate Lien Bonds and the Separate Lien Obligations, shall be and are hereby irrevocably pledged, equally and ratably, to the payment of the principal of and interest on the Subordinate Lien Bonds and Additional Subordinate Lien Bonds, if issued, and to satisfy amounts required for the payment of Separate Lien Obligations, if issued or incurred, and the pledge of the Net Revenues of the Electric Light and Power System herein affirmed and made for the payment and security of the Subordinate Lien Bonds and Separate Lien Obligations, if issued, shall constitute a lien on the Net Revenues of the Electric Light and Power System in accordance with the terms and provisions hereof, subject and subordinate only to the lien and pledge securing the payment of the Prior Lien Bonds.

(b) Waterworks and Sewer System. Subject only to the prior lien on and pledge of the Net Revenues of the Waterworks and Sewer System for the payment and security of the Prior Lien Bonds, the City hereby covenants and agrees that the Net Revenues of the Waterworks and Sewer System, with the exception of those in excess of the amounts required for the payment and security of the Subordinate Lien Bonds and the Separate Lien Obligations, shall be and are hereby irrevocably pledged, equally and ratably, to the payment of the principal of and interest on the Subordinate Lien Bonds and Additional Subordinate Lien Bonds, if issued, and to satisfy amounts required for the payment of Separate Lien Obligations now outstanding and hereafter issued or incurred, and the pledge of the Net Revenues of the Waterworks and Sewer System herein affirmed and made for the payment and security of the Subordinate Lien Bonds and Separate Lien Obligations now outstanding and hereafter issued, shall constitute a lien on the Net Revenues of the Waterworks and Sewer System in accordance with the terms and provisions hereof, subject and subordinate only to the lien and pledge securing the payment of the Prior Lien Bonds.

Rates and Charges. For the benefit of the Holders and in addition to all provisions and covenants in the laws of the State of Texas and in this Ordinance, the City hereby expressly stipulates and agrees, while any of the Subordinate Lien Bonds are outstanding, to establish and maintain rates and charges for facilities and services afforded by the Electric Light and Power System and the Waterworks and Sewer System to provide Gross Revenues in each Fiscal Year from each System sufficient:

(1) To pay the respective Maintenance and Operating Expenses thereof,

(2) To provide amounts required to establish, maintain or restore, as the case may be, a required balance in any reserve or contingency fund created for the payment and security of Separate Lien Obligations,

(3) To produce combined Net Revenues of the Systems sufficient to pay the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Prior Lien Bonds, the Subordinate Lien Bonds, and other obligations or evidences of indebtedness issued or incurred that are payable only from and secured solely by a lien on and pledge of the combined Net Revenues of the Systems, and

(4) To produce combined Net Revenues of the Systems (after satisfaction of the amounts required to be paid in 2 and 3 above) equal to at least the sum of (i) 1.25 times the annual principal and interest requirements (or other similar payments) for the then outstanding Prior Lien Bonds and Separate Lien Obligations and (ii) 1.10 times the total annual principal and interest requirements (or other similar payments) for the then outstanding Subordinate Lien Bonds and all other indebtedness (except Prior Lien Bonds and Separate Lien Obligations) payable only from and secured solely by lien on and pledge of the Net Revenues of the Systems, either or both.

Electric Light and Power System Fund. The City hereby covenants and agrees that the Gross Revenues of the Electric Light and Power System shall be deposited, as collected, into a separate account maintained with a depository bank of the City and known as the “Electric Light and Power System Fund” (herein called the “Electric Fund”) and such revenues of the Electric Light and Power System shall be kept separate and apart from all other funds of the City. All revenues deposited in the Electric Fund shall be pledged and appropriated to the extent required for the following uses and in the order of precedence shown:

FIRST: To the payment of all necessary and reasonable Maintenance and Operating Expenses of the Electric Light and Power System, as defined herein or required by statute to be a first charge on and claim against the Gross Revenues thereof.

SECOND: To the payment of the amounts required to be deposited in the special funds or accounts created for the payment and security of the Prior Lien Bonds.

THIRD: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the provisions of this Ordinance or any other ordinance relating to obligations for which the Reserve Fund was created and established to pay.

FOURTH: To the payment of the amounts required to be deposited in the Interest and Redemption Fund created and established for the payment of principal of and interest on the Subordinate Lien Bonds as the same becomes due and payable and the payment of Separate Lien Obligations secured by a lien on and pledge of the Net Revenues of the Electric Light and Power System.

Any Net Revenues remaining in the Electric Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other City purpose now or hereafter permitted by law.

Water and Sewer System Fund. The City hereby covenants and agrees that Gross Revenues of the Waterworks and Sewer System shall be deposited, as collected, into a separate account maintained with a depository bank of the City and known as the "Water and Sewer System Fund" (herein called the "Water and Sewer Fund") and such revenues of the Waterworks and Sewer System shall be kept separate and apart from all other funds of the City. All revenues deposited in the Water and Sewer Fund shall be pledged and appropriated to the extent required for the following uses and in the order of precedence shown:

FIRST: To the payment of all necessary and reasonable Maintenance and Operating Expenses of the Waterworks and Sewer System, as defined herein or required by statute to be a first charge on and claim against the Gross Revenues thereof.

SECOND: To the payment of the amounts required to be deposited in any special funds or accounts created for the payment and security of the Prior Lien Bonds.

THIRD: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the provisions of this Ordinance or any other ordinance relating to obligations for which the Reserve Fund was created and established to pay.

FOURTH: To the payment of the amounts required to be deposited in the Interest and Redemption Fund created and established for the payment of principal of and interest on the Subordinate Lien Bonds as the same becomes due and payable and the payment of Separate Lien Obligations secured by a lien on and pledge of the Net Revenues of the Waterworks and Sewer System.

Any Net Revenues remaining in the Water and Sewer Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other City purpose now or hereafter permitted by law.

Reserve Fund. (a) In connection with the issuance of the Prior Lien Bonds and Subordinate Lien Bonds, the City agrees and covenants to keep and maintain with its depository bank a separate and special fund known as the "Combined Pledge Revenue Bond Common Reserve Fund" (the "Reserve Fund") for the purpose of accumulating and maintaining funds as a reserve for the payment of the Prior Lien Bonds and Subordinate Lien Bonds in an amount (the "Required Reserve") equal to the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior Lien Bonds and Subordinate Lien Bonds, as determined on (i) the date of the initial deposit of a Financial Commitment (hereinafter defined) to the Reserve Fund or (ii) the date one or more rating agencies announces the rating of the insurance company or association providing the Financial Commitment for the Reserve Fund falls below the minimum requirement noted below, whichever date is the last to occur. All funds deposited in the Reserve Fund (excluding earnings and income derived or received from deposits or investments which, subject to the limitations hereinafter specified, may be withdrawn and transferred from the Reserve Fund) shall be used solely for the payment of the principal of and interest on the Prior Lien Bonds and the Subordinate Lien Bonds on a pro rata basis, when (whether at maturity, upon mandatory redemption prior to maturity or any interest payment date) and to the extent other funds available for such purpose are insufficient, and, in addition, may be used to retire the last of the Prior Lien Bonds or Subordinate Lien Bonds outstanding.

The total amount required to be accumulated and maintained in the Reserve Fund is $106,790,235.15 (the Required Reserve), which amount is equal to or greater than the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior Lien Bonds and Subordinate Lien Bonds as determined on the date of the initial deposit of a Financial Commitment (hereinafter defined) to the Reserve Fund.

Currently, the Required Reserve is fully funded with Financial Commitments of Financial Security Assurance Inc. in the amounts of $30,000,000 (the Initial Financial Commitment acquired) and $76,790,325.15 (an additional Financial Commitment acquired on or about August 31, 2004).

When and so long as the money and investments, or Financial Commitments, are on deposit to the credit of the Reserve Fund in an amount equal to or exceeding the Required Reserve, no deposits need be made to the credit of the Reserve Fund; but when and if the Reserve Fund at any time contains less than the Required Reserve, the City covenants and agrees to cure the deficiency in the Required Reserve within twelve (12) months from the date the Required Reserve deficiency occurred with available Net Revenues in the Electric Fund and the Water and Sewer Fund, and the City hereby covenants and agrees that, subject only to payments required for the payment of principal of and interest on the Prior Lien Bonds and the establishment and maintenance of the special funds (other than the Reserve Fund) created for the payment and security thereof, all Net Revenues remaining in the Electric Fund and the Water and Sewer Fund shall be applied and appropriated and used to establish and maintain the Required Reserve and to cure any deficiency in such amount as required by the terms of this Ordinance and any other ordinance pertaining to obligations the payment of which are secured by the Required Reserve. During such time as the Reserve Fund contains the total Required Reserve, the City may, at its option, withdraw all surplus in the Reserve Fund in excess of the Required Reserve and deposit such surplus in the "Interest and Redemption Fund" created and established for the payment and redemption of the Subordinate Lien Bonds while the same remain outstanding and, at such time as the Subordinate Lien Bonds are no longer outstanding, such surplus may be deposited in the Bond Fund.

Notwithstanding any provision contained herein to the contrary, the Required Reserve may be funded, in whole or in part, by depositing to the credit of the Reserve Fund (i) cash, (ii) investments, and (iii) one or more Financial Commitments. The term Financial Commitments means an irrevocable and unconditional policy of bond insurance or surety bond in full force and effect issued by an insurance company or association duly authorized to do business in the State of New York and the State of Texas and with financial strength meeting the requirements below. Such insurance policy or surety bond shall provide for payment thereunder of moneys when other funds available to the payment of the Prior Lien Bonds or Subordinate Lien Bonds, or both, in the interest and sinking fund maintained for the payment of the Prior Lien Bonds or Subordinate Lien Bonds, or both, is insufficient on a payment date when interest or principal, or both, is due and payable for such obligations.

The financial strength of the insurance company or association providing the Financial Commitment must be rated on the date of the deposit of the Financial Commitment to be credit of the Reserve Fund in the highest rating category by Moody's Investors Service, Inc., Standard & Poor's Ratings Services and Fitch Ratings and, if rated, by A.M. Best . In the event the rating of the financial strength of a provider of a Financial Commitment falls below (i) "Aa2" by Moody's Investors Service, Inc., (ii) "AA" by Standard & Poor's Ratings Services, (iii) "AA" by Fitch Ratings or (iv) if applicable, "A+" by A.M. Best, the City will be required to replace the Financial Commitment with (a) cash and Authorized Securities or (b) a substitute Financial Commitment issued by an insurance company or association that satisfies the ratings requirements summarized above in this paragraph (but in no event less than the ratings described in clauses (i), (ii), (iii) and (iv) of this sentence.).

Notwithstanding any provision herein to the contrary, the City may at any time substitute one or more Financial Commitments for the cash and securities deposited to the credit of the Reserve Fund, and following the substitution of one or more Financial Commitments for cash and securities held in the Reserve Fund, the cash and securities released from the Reserve Fund**,** net of costs incurred with respect to the initial substitution of the Financial Commitment, shall be deposited to the credit of one or more special accounts maintained on the books and records of the City and expended only to pay, discharge and defease Prior Lien Bonds and Subordinate Lien Bonds in a manner that reduces the principal amount and Maturity Amount of outstanding Prior Lien Bonds and Subordinate Lien Bonds.

(b) Initial Financial Commitment. As permitted in paragraph (a) above, the City has determined to acquire initially a Financial Commitment for the Reserve Fund with coverage in the maximum amount of $30,000,000 to fund in part the Required Reserve from Financial Security Assurance Inc., a New York domiciled insurance company (hereinafter referred to as "FSA"). In accordance with FSA's terms for the issuance of a "Municipal Bond Debt Service Reserve Insurance Policy" (the "Reserve Policy"), an Insurance Agreement by and between the City and FSA has been submitted to the City for approval and execution, and such Insurance Agreement, substantially in the form and content of Exhibit A attached hereto, is hereby approved and authorized to be executed by the City Manager and such Insurance Agreement, as executed and delivered by the City Manager, shall be deemed the Insurance Agreement herein approved by the City Council and authorized for execution.

To the extent the City should make a draw under the Reserve Policy, the City acknowledges and agrees the repayment of "Policy Costs," as defined in the Insurance Agreement, shall constitute a payment of an amount required to be deposited in the Reserve Fund to establish and maintained the Required Reserve, and insofar as the priority of uses of the revenues of (i) Electric Light and Power System and (ii) the Waterworks and Sewer System, such Policy Costs shall be entitled to the same priority of payment identified in the Prior Lien Bond Ordinances for payments required to be deposited in the Reserve Fund to establish and maintain the Required Reserve.

Interest and Redemption Funds. For purposes of providing funds to pay the principal of and interest on the Prior Lien Bond or the Subordinate Lien Bonds, as the case may be, as the same becomes due and payable (whether at maturity or upon redemption), the City agrees to maintain at a depository bank of the City a separate and special account or fund known as the "City of Austin Interest and Redemption Fund" (the "Interest and Redemption Fund").

The City covenants that there shall be deposited into said Fund prior to each interest and principal payment date for the Prior Lien Bonds and for the Subordinate Lien Bonds from the Net Revenues in the Electric Fund and the Water and Sewer Fund amounts equal to one hundred per centum (100%) of the amount required to fully pay the interest on and principal then due and payable on the Prior Lien Bonds and the Subordinate Lien Bonds, as the case may be, such deposits to pay principal at maturity or redemption, as the case may be, and accrued interest to be made in substantially equal monthly installments on or before the 14th day of each month, beginning on or before the 14th day of the month. If the Net Revenues in the Electric Fund and the Water and Sewer Fund in any month are then insufficient to make the required payments into the Interest and Redemption Fund, then the amount of any deficiency in the payment shall be added to the amount otherwise required to be paid into the Interest and Redemption Fund in the next month.

The monthly deposits to the Interest and Redemption Fund for the payment of principal and interest on the Prior Lien Bonds and the Subordinate Lien Bonds shall continue to be made as hereinabove provided until such time as (i) the total amounts on deposit in the respective Interest and Redemption Fund and Reserve Funds is equal to the amount required to pay all outstanding indebtedness (principal and interest) for which said Funds were created and established or (ii) the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, are no longer Outstanding.

Accrued interest and premium, if any, received from the purchaser of the Bonds shall be deposited to the credit of the Interest and Redemption Fund and taken into consideration and reduce the amount of the monthly deposits hereinabove required to be deposited in the Interest and Redemption Fund from the Net Revenues of the Systems.

Investment of Certain Funds. (a) Money in any Fund required to be maintained pursuant to this Ordinance may, at the option of the City, be placed in time deposits or certificates of deposit secured by obligations of the type hereinafter described, or be invested, including investments held in book-entry form, in direct obligations of the United States of America, obligations guaranteed or insured by the United States of America, which, in the opinion of the Attorney General of the United States, are backed by its full faith and credit or represent its general obligations, or invested in indirect obligations of the United States of America, including, but not limited to, evidences of indebtedness issued, insured or guaranteed by such governmental agencies as the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Government National Mortgage Association, United States Postal Service, Farmers Home Administration, Federal Home Loan Mortgage Association, Small Business Administration, Federal Housing Association, or Participation Certificates in the Federal Assets Financing Trust; provided that all such deposits and investments shall be made in such a manner that the money required to be expended from any Fund will be available at the proper time or times. Such investments (except State and Local Government Series investments held in book entry form, which shall at all times be valued at cost) shall be valued in terms of current market value within 45 days of the close of each Fiscal Year. All interest and income derived from deposits and investments in the Interest and Redemption Fund immediately shall be credited to, and any losses debited to, the Interest and Redemption Fund. All interest and interest income derived from deposits in and investments of the Reserve Fund shall, subject to the limitations provided in Section 14 hereof, be credited to and deposited in the Interest and Redemption Fund.

All such investments with respect to the Interest and Redemption Fund and Reserve Fund shall be sold promptly when necessary to prevent any default in connection with the Subordinate Lien Bonds and, with respect to the Reserve Fund, to prevent any default in connection with the Prior Lien Bonds.

(b) Money in all Funds required to be maintained by this Ordinance, to the extent not invested, shall be secured in the manner prescribed by law for securing funds of the City.

Obligations of Inferior Lien and Pledge. The City hereby reserves the right to issue obligations payable from and secured by a lien on and pledge of the Net Revenues of the Systems, either or both, junior and subordinate to the lien and pledge securing the payment of the Subordinate Lien Bonds, as may be authorized by the laws of the State of Texas.

Maintenance and Operation-Insurance. The City shall maintain the Systems in good condition and operate each in an efficient manner and at reasonable cost. So long as any Bonds are Outstanding, the City agrees to maintain insurance, for the benefit of the Holders of the Bonds, on the Systems of a kind and in an amount which usually would be carried by municipal corporations engaged in a similar type of business. Nothing in this Ordinance shall be construed as requiring the City to expend any funds derived from sources other than the operation of the Systems, but nothing herein shall be construed as preventing the City from doing so.

Sale, Lease or Disposal of System Property. To the extent and in the manner provided by law, the City can sell, exchange or otherwise dispose of property and facilities constituting part of the System at any time and from time to time, provided such sale or exchange of property or facilities does not impede the operations of the System. In the event the property, facilities or assets of the System sold or exchanged represents more than 5% of the total assets of the System, the City agrees to notify the rating agencies then rating the Prior Lien Bonds, Subordinate Lien Bonds and Separate Lien Obligations and bond insurance companies insuring the Prior Lien Bonds, Subordinate Lien Bonds and Separate Lien Obligations of such sale, exchange or disposal of property and facilities. Prior to the sale or exchange of any assets or properties representing more than 5% of the total assets of the System being completed, a written response shall be obtained from the rating agencies then rating the Prior Lien Bonds, Subordinate Lien Bonds and Separate Lien Obligations to the effect that such sale or exchange of such assets or properties in and of itself will not result in a rating category change of the ratings then assigned on such obligations. Furthermore, the City to the extent and in the manner provided by law may lease, contract, or grant licenses for the operation of, or make arrangements for the use of, or grant easements or other rights to the properties and facilities of the System, provided such lease, contract, license, arrangement, easement or right does not impede or disrupt the operations of the System. The proceeds of any such sale, exchange or disposal of property or facilities shall be deposited to the credit of a special Fund or Account, and funds deposited to the credit of such Fund or Account shall be used either (i) to acquire other property necessary or desirable for the safe or efficient operation of the System, or (ii) to redeem, defease or retire Prior Lien Bonds, Subordinate Lien Bonds or Separate Lien Obligations.

Records and Accounts. The City hereby covenants and agrees that so long as any of the Bonds or any interest thereon remains Outstanding, it will keep and maintain separate and complete records and accounts pertaining to the operations of the Waterworks and Sewer System and the Electric Light and Power System in which complete and correct entries shall be made of all transactions relating thereto, as provided by Article 1113, V.A.T.C.S. The Holders of any Bonds or any duly authorized agent or agents of such Holders shall have the right at all reasonable times to inspect such records, accounts and data relating thereto, and to inspect the respective Systems and all properties comprising same. The City further agrees that following the close of each Fiscal Year, it will cause an audit of such books and accounts to be made by an independent firm of Certified Public Accountants. Each such audit, in addition to whatever other matters may be thought proper by the Accountant, shall particularly include the following:

(a) A detailed statement of the income and expenditures of the Electric Light and Power System and of the Waterworks and Sewer System for such Fiscal Year.

(b) A balance sheet for the Electric Light and Power System and the Waterworks and Sewer System as of the end of such Fiscal Year.

(c) The Accountant's comments regarding the manner in which the City has carried out the requirements of this Ordinance and any other ordinance authorizing the issuance of Prior Lien Bonds or Subordinate Lien Bonds and his recommendations for any changes or improvements in the operations, records and accounts of the respective Systems.

(d) A list of insurance policies in force at the end of the Fiscal Year covering the properties of the respective Systems, setting out as to each policy the amount thereof, the risk covered, the name of the insurer and the policy's expiration date.

Expenses incurred in making an annual audit of the operations of the Systems are to be regarded as Maintenance and Operating Expenses of the respective Systems and paid on a pro rata basis or as otherwise determined by the City from available revenues in the Electric Fund and Water and Sewer Fund, either or both. Copies of each annual audit shall be furnished to the Executive Director of the Municipal Advisory Council of Texas at his office in Austin, Texas, the Texas Water Development Board, Attention: Executive Administrator, State Water Pollution Control Revolving Fund and, upon request, to the original purchaser of any series of Subordinate Lien Bonds. The audits herein required shall be made within 120 days following the close of each Fiscal Year insofar as is possible.

<u>Deficiencies; Excess Net Revenues</u>. (a) If on any occasion there shall not be sufficient Net Revenues of the Systems to make the required deposits into the Interest and Redemption Fund and the Reserve Fund, then such deficiency shall be cured as soon as possible from the next available Net Revenues of the Systems, or from any other sources available for such purpose.

(b) Subject to making the required deposits to (i) all special funds created for the payment and security of the Prior Lien Bonds (including the Reserve Fund) (ii) all special funds created for the payment and security of the Subordinate Lien Bonds (including the Interest and Redemption Fund) and (iii) all funds or accounts created for the benefit of Separate Lien Obligations, the excess Net Revenues of the Systems, either or both, may be used by the City for any lawful purpose.

<u>Final Deposits; Governmental Obligations</u>. (a) All or any of the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, shall be deemed to be paid, retired and no longer outstanding within the meaning of their respective ordinances when payment of the principal of, and redemption premium, if any, on such obligations, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption), or (ii) shall have been provided by irrevocably depositing with, or making available to, the Paying Agent/Registrar, in trust and irrevocably set aside exclusively for such payment, (1) money sufficient to make such payment or (2) Government Obligations, certified by an independent public accounting firm of national reputation, to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the Paying Agent/Registrar with respect to which such deposit is made shall have been paid or the payment thereof provided for the satisfaction of the Paying Agent/Registrar. At such time as an obligation shall be deemed to be paid hereunder, as aforesaid, it shall no longer be secured by or entitled to the benefit of this Ordinance or a lien on and pledge of the Net Revenues of the Systems, and shall be entitled to payment solely from such money or Government Obligations.

(b) Any moneys so deposited with the Paying Agent/Registrar, or an authorized escrow agent, may at the direction of the City also be invested in Government Obligations, maturing in the amounts and at the times as hereinbefore set forth, and all income from all Government Obligations not required for the payment of the obligations, the redemption premium, if any, and interest thereon, with respect to which such money has been so deposited, shall be turned over to the City or deposited as directed by the City.

(c) The City covenants that no deposit will be made or accepted under clause (a)(ii) of this Section and no use made of any such deposit which would cause the obligations to be treated as arbitrage bonds within the meaning of Section 103 of the Internal Revenue Code of 1986, as amended.

(d) Notwithstanding any other provisions of the ordinances, all money or Government Obligations set aside and held in trust pursuant to the provisions of this Section for the payment of the obligations, the redemption premium, if any, and interest thereon, shall be applied to and used for the payment of such obligations, the redemption premium, if any, and interest thereon and the income on such money or Government Obligations shall not be considered to be "Gross Revenues" under this Ordinance.

Remedy in Event of Default. In addition to all rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City (a) defaults in payments to be made to the Interest and Redemption Fund or the Reserve Fund as required by the ordinances authorizing the issuance of the Prior Lien Bonds or the Subordinate Lien Bonds, as the case may be, or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in such ordinances, the Holders of any of the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, shall be entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the City and its officers to observe and perform any covenant, condition or obligation prescribed in the ordinance authorizing their issuance. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

The specific remedy herein provided shall be cumulative of all other existing remedies and the specification of such remedy shall not be deemed to be exclusive.

Special Obligations. The Bonds are special obligations of the City payable from the pledged Net Revenues of the Systems and the Holders shall never have the right to demand payment thereof out of funds raised or to be raised by taxation.

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APPENDIX E

FORMS OF BOND COUNSEL'S OPINIONS

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FULBRIGHT
& Jaworski L.L.P.
Attorneys at Law

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[Closing Date]

IN REGARD to the authorization and issuance of the "City of Austin, Texas, Electric Utility System Revenue Refunding Bonds, Series 2012A" (the "Bonds"), dated December 1, 2012, in the principal amount of $267,770,000, we have examined into the legality and validity of the issuance thereof by the City of Austin, Texas (the "City"), which Bonds are issuable in fully registered form only and mature on November 15 in each of the years stated in the pricing certificate (the "Pricing Certificate") executed pursuant to the Ordinance adopted by the City Council of the City authorizing the issuance of the Bonds (the "Ordinance" and, collectively with the Pricing Certificate, the "Authorization"), unless redeemed prior to maturity in accordance with the applicable redemption provisions. The Bonds accrue interest from the dates, at the rates, and in the manner and interest is payable on the dates, all as provided in the Authorization.

We have acted as Bond Counsel for the City solely to pass upon the legality and validity of the Bonds under the Constitution and laws of the State of Texas, the defeasance and discharge of the City's certain outstanding obligations being refunded by the Bonds, and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes, and none other. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data or other material relating to the financial condition or capabilities of the City or the City's Electric Utility System (the "System") and have not assumed any responsibility with respect thereto. Capitalized terms used herein and not otherwise defined have the meanings assigned in the Ordinance.

Our examination into the legality and validity of the Bonds included a review of the applicable and pertinent provisions of the Constitution and laws of the State of Texas; the Charter of the City; a transcript of certified proceedings of the City relating to the authorization, issuance, sale, and delivery of the Bonds, including a Master Ordinance and the Ordinance (collectively, the "Ordinances"), a Special Escrow Agreement between the City and BOKF, NA dba Bank of Texas, Houston, Texas (the "Escrow Agreement"), a special report (the "Report") of The Arbitrage Group, Inc., Certified Public Accountants (the "Accountants"); certificates and opinions of officials of the City; other pertinent instruments authorizing and relating to the issuance of the Bonds; and an examination of the Bond executed and delivered initially by the City, which we found to be in due form and properly executed.

BASED ON OUR EXAMINATION, we are of the opinion that, under applicable law of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds have been duly authorized, issued and delivered in accordance with law and the Bonds are valid, legally binding and enforceable special obligations of the City in accordance with their terms payable solely from and, together with the "City of Austin, Texas, Electric Utility System Revenue Refunding Bonds, Taxable Series 2012B", the outstanding

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Previously Issued Electric Utility Obligations and outstanding Prior Subordinate Lien Obligations (identified and defined in the Ordinances), equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System in the manner provided in the Ordinances except to the extent the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally. Subject to the restrictions stated in the Ordinances, the City has reserved the right, to issue and incur additional revenue obligations payable from and equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System in the same manner and to the same extent as the Bonds.

2. The Escrow Agreement has been duly authorized, executed and delivered and is a binding and enforceable agreement in accordance with its terms and the outstanding obligations refunded, discharged, paid and retired with the proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in trust pursuant to the Escrow Agreement and in accordance with the provisions of V.T.C.A., Government Code, Chapter 1207. In rendering this opinion, we have relied upon the verification by the Accountants of the sufficiency of cash and investments deposited with the Escrow Agent pursuant to the Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

3. Assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance and in reliance upon the Report and representations and certifications of the City made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, interest on the Bonds for federal income tax purposes (i) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof, of the owners thereof pursuant to section 103 of such Code, existing regulations, published rulings, and court decisions thereunder, and (ii) will not be included in computing the alternative minimum taxable income of individuals or, except as hereinafter described, corporations. Interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporations, other than an S corporation, a qualified mutual fund, a real estate mortgage investment conduit, a real estate investment trust, or a financial asset securitization investment trust (FASIT). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code will be computed.

We express no opinion with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income tax credit, owners of interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

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FULBRIGHT
& Jaworski L.L.P.
Attorneys at Law

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[Closing Date]

IN REGARD to the authorization and issuance of the "City of Austin, Texas, Electric Utility System Revenue Refunding Bonds, Taxable Series 2012B" (the "Bonds"), dated December 1, 2012, in the principal amount of $107,715,000, we have examined into the legality and validity of the issuance thereof by the City of Austin, Texas (the "City"), which Bonds are issuable in fully registered form only and mature on November 15 in each of the years stated in the pricing certificate (the "Pricing Certificate") executed pursuant to the Ordinance adopted by the City Council of the City authorizing the issuance of the Bonds (the "Ordinance" and, collectively with the Pricing Certificate, the "Authorization"), unless redeemed prior to maturity in accordance with the applicable redemption provisions. The Bonds accrue interest from the dates, at the rates, and in the manner and interest is payable on the dates, all as provided in the Authorization.

We have acted as Bond Counsel for the City solely to pass upon the legality and validity of the Bonds under the Constitution and laws of the State of Texas and the defeasance and discharge of the City's certain outstanding obligations being refunded by the Bonds and none other. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data or other material relating to the financial condition or capabilities of the City or the City's Electric Utility System (the "System") and have not assumed any responsibility with respect thereto. Capitalized terms used herein and not otherwise defined have the meanings assigned in the Ordinance.

Our examination into the legality and validity of the Bonds included a review of the applicable and pertinent provisions of the Constitution and laws of the State of Texas; the Charter of the City; a transcript of certified proceedings of the City relating to the authorization, issuance, sale, and delivery of the Bonds, including a Master Ordinance and the Ordinance (collectively, the "Ordinances"), a Special Escrow Agreement between the City and BOKF, NA dba Bank of Texas, Houston, Texas (the "Escrow Agreement"), a special report of The Arbitrage Group, Inc., Certified Public Accountants (the "Accountants"); certificates and opinions of officials of the City; other pertinent instruments authorizing and relating to the issuance of the Bonds; and an examination of the Bond executed and delivered initially by the City, which we found to be in due form and properly executed.

BASED ON OUR EXAMINATION, we are of the opinion that, under applicable law of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds have been duly authorized, issued and delivered in accordance with law and the Bonds are valid, legally binding and enforceable special obligations of the City in accordance with their terms payable solely from and, together with the "City of Austin, Texas, Electric Utility System Revenue Refunding Bonds, Series 2012A", the outstanding Previously

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Issued Electric Utility Obligations and outstanding Prior Subordinate Lien Obligations (identified and defined in the Ordinances), equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System in the manner provided in the Ordinances except to the extent the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally. Subject to the restrictions stated in the Ordinances, the City has reserved the right, to issue and incur additional revenue obligations payable from and equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System in the same manner and to the same extent as the Bonds.

2. The Escrow Agreement has been duly authorized, executed and delivered and is a binding and enforceable agreement in accordance with its terms and the outstanding obligations refunded, discharged, paid and retired with the proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in trust pursuant to the Escrow Agreement and in accordance with the provisions of V.T.C.A., Government Code, Chapter 1207. In rendering this opinion, we have relied upon the verification by the Accountants of the sufficiency of cash and investments deposited with the Escrow Agent pursuant to the Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.