OFFICIAL STATEMENT
Dated February 28, 2008

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

NEW ISSUE – Book-Entry-Only

In the opinion of Bond Counsel, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings and court decisions is NOT intended to be excluded from the gross income of the owners thereof (See "TAX MATTERS" herein).

$50,000,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
Electric Utility System Revenue Refunding Bonds, Taxable Series 2008

Dated: March 1, 2008 **Due: November 15, on the inside cover**

The bonds offered hereby are the $50,000,000 City of Austin, Texas (the "City") Electric Utility System Revenue Refunding Bonds, Taxable Series 2008 (the "Bonds"). The Bonds are the eighth series 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 a Supplemental Ordinance (the "Eighth Supplement"). The Master Ordinance provides the terms for the issuance of Parity Electric Utility Obligations and the covenants and security provisions related thereto. The City must comply with the covenants and security provisions relating to the Prior First Lien Obligations (as hereinafter defined) and Prior Subordinate Lien Obligations (as hereinafter defined) 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 (as hereinafter defined) 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 and the Eighth Supplement. **Neither the taxing power of the City nor the State of Texas is pledged as security for the Bonds.** See "SECURITY FOR THE BONDS" herein.

The 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 March 1, 2008 and shall be payable on November 15, 2008 and each May 15 and November 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" herein. U.S. Bank National Association, Houston, Texas will serve as the initial paying agent/registrar (the "Paying Agent/Registrar") for the Bonds.

ASSURED GUARANTY

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a insurance policy issued concurrently with the delivery of the Bonds by Assured Guaranty Corp. See "BOND INSURANCE" herein.

MATURITY SCHEDULE

See Schedule on Inside of Cover Page

The City reserves the right, at its option, to redeem Bonds maturing on any date as described herein. See "DESCRIPTION OF THE BONDS – Optional Redemption".

It is expected that the Bonds will be delivered through the facilities of DTC on or about March 27, 2008.

Banc of America Securities LLC

First Southwest Company **Goldman, Sachs & Co.** **JPMorgan**
Ramirez & Co., Inc. **RBC Capital Markets** **Siebert Brandford Shank & Co., LLC**
UBS Investment Bank

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. Certain legal matters will be opined on for the Underwriters by their counsel, Andrews Kurth LLP, Austin, Texas and for the City by McCall, Parkhurst & Horton L.L.P., Dallas, Texas. The opinion of Bond Counsel will be printed or attached to the Bonds. (See "APPENDIX E - Form of Bond Counsel's Opinion".)

MATURITY SCHEDULE

Maturity	Principal Amount	Interest Rate	Price or Yield	Maturity	Principal Amount	Interest Rate	Price or Yield
11-15-2009	$1,085,000	3.079%	3.079%	11-15-2012	$1,205,000	4.004%	4.004%
11-15-2010	1,120,000	3.229%	3.229%	11-15-2013	1,255,000	4.154%	4.154%
11-15-2011	1,160,000	3.429%	3.429%				

$5,700,000 5.218% Term Bonds Due November 15, 2017; Priced to Yield 5.218%
$3,325,000 5.200% Term Bonds Due November 15, 2019; Priced to Yield 5.288%
$35,150,000 6.262% Term Bonds Due November 15, 2032; Priced to Yield 6.262%

(Plus Accrued Interest from March 1, 2008)

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CITY OF AUSTIN

Elected Officials

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

Appointed Officials

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

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

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

FINANCIAL ADVISOR
The PFM Group
Austin, Texas

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

For additional information regarding the City, please contact:

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Austin, Texas 78701
(512) 472–7194
allenc@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, 2003 through 2006 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 – "Excerpts From the Annual Financial Report".

Operating Summary (000's)

	Fiscal Year Ended September 30				
	(Unaudited) 2007	2006	2005	2004	2003
Combined Gross Revenues	$1,393,344	$1,412,853	$1,260,401	$1,076,511	$1,189,672
Combined Maintenance and Operating Expenses	846,005	824,870	730,697	626,412	663,651
Combined Net Revenues	$ 547,339	$ 587,983	$ 529,704	$ 450,099	$ 526,021
Principal and Interest on Revenue Bonds (1)	$ 137,553	$ 108,258	$ 131,749	$ 169,039	$ 173,010
Debt Service Coverage on Revenue Bonds (1)	3.98x	5.43x	4.02x	2.66x	3.05x

(1) Prior First Lien Bonds and Prior Subordinate Lien Bonds only.

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, 2003 through 2006 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 – "Excerpts From the Annual Financial Report."

Operating Summary (000's)

	Fiscal Year Ended September 30				
	(Unaudited) 2007	2006	2005	2004	2003
Gross Revenues	$1,096,869	$1,103,665	$989,534	$841,541	$943,729
Maintenance and Operating Expenditures	711,181	695,271	614,219	516,857	554,235
Net Revenues	$ 385,688	$ 408,394	$375,315	$324,684	$389,494
Principal and Interest on Prior First Lien/Prior Subordinate Lien Revenue Bonds	$ 117,951	$ 88,681	$111,944	$131,788	$132,280
Net Revenues available for Separate Lien Obligations (1)	$ 267,737	$ 319,713	$263,371	$192,896	$257,114
Principal and Interest on Separate Lien Obligations (1)	$ 50,035	$ 50,282	$ 45,911	$ 42,384	$ 18,718
Debt Service Coverage (Separate Lien Obligations)	5.35x	6.36x	5.74x	4.55x	13.79x

(1) Parity Electric Utility Obligations.

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 APPENDICES ATTACHED HERETO, 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 herein, 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 BONDS ARE EXEMPT FROM REGISTRATION WITH THE SEC AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED FROM REGISTRATION SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in the Official Statement in accordance with, and as part of, their responsibility 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 THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau, and the City, The PFM Group and the Underwriters are not responsible for the selection or correctness of CUSIP numbers.

Assured Guaranty makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, Assured Guaranty makes no representation regarding, nor does it accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading "BOND INSURANCE" and APPENDIX F – Specimen Financial Guaranty Insurance Policy.

Neither the City, The PFM Group, nor 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 or the information under the caption "BOND INSURANCE".

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."

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OFFICIAL STATEMENT
$50,000,000
City of Austin, Texas
Electric Utility System Revenue Refunding Bonds, Taxable Series 2008

INTRODUCTION

This Official Statement is being furnished in connection with the proposed issuance by the City of Austin, Texas (the "City") of its $50,000,000 Electric Utility System Revenue Refunding Bonds, Taxable Series 2008 (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 covenant and security provisions related thereto, and a supplemental ordinance of the City Council (the "Eighth Supplement") 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 hereto 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 hereto as APPENDIX D. **Capitalized terms not otherwise defined herein have the meanings assigned in the Master Ordinance as modified by the Eighth Supplement, or the Bond Ordinance, as applicable (see APPENDICES C and D)**. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document.

PLAN OF FINANCING

The Bonds are being issued to refund $48,800,000 of the City's outstanding taxable commercial paper issued for the Electric Utility System (the "Refunded Notes"), thereby enabling the City to restore the available capacity under its taxable commercial paper note program, which will permit the City to issue commercial paper notes pursuant to its current program in the principal amount of the Refunded Notes. Proceeds from the Bonds in an amount equal to the principal amount of the Refunded Notes will be deposited with the Issuing and Paying Agent for the Refunded Notes. (Any interest on the Refunded Notes due is expected to be paid from available Electric Utility System Revenues.) Proceeds from the Bonds will also be used to pay costs of issuance. The Bonds represent the eighth encumbrance 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. At such time as the Prior First Lien Obligations, Prior Subordinate Lien Obligations and the Commercial Paper Obligations have been fully paid or discharged in a manner that such obligations are no longer deemed to be outstanding under the terms of their respective ordinances and by law, all Electric Utility System revenue obligations then outstanding shall be Parity Electric Utility Obligations, or obligations subordinate to the Parity Electric Utility Obligations then outstanding, 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 in the ordinances providing for their issuance. The Master Ordinance governs the issuance of Parity Electric Utility Obligations and contains covenants and security provisions related thereto. 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" herein, approximately $540.9 million of Prior First Lien Obligations and Prior Subordinate Lien Obligations were outstanding as of February 1, 2008 and no assurances can be given as to when or if such obligations will be defeased or paid 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.

SOURCES AND USES OF FUNDS

The sources and uses of funds are as follows.

Sources*:	
Par Amount of Bonds	$50,000,000
Original Issue Discount	25,436
Accrued Interest	208,083
	$50,182,647
Uses*:	
Payment of Refunded Notes	$48,800,000
Cost of Issuance, including Bond Insurance Premium	895,915
Underwriter's Discount	278,649
Deposit to Interest & Sinking Fund	208,083
	$50,182,647

*Amounts rounded to nearest dollar.

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DEBT PAYABLE FROM SYSTEMS REVENUES

(As of February 1, 2008)

Combined Utility Systems Obligations	
Prior Lien Bonds (a)	$ 292,456,086
Subordinate Lien Bonds	248,454,512
Sub-Total	$ 540,910,598
Parity Electric Utility Obligations (b)	$ 877,520,000
Water & Wastewater System Separate Lien Obligations (a) (c)	
Parity Water & Wastewater Obligations	$1,365,740,000
North Austin MUD No. 1	1,695,000
Sub-Total	$1,367,435,000
Commercial Paper (d)	$ 193,943,000
General Obligation Bonds (e)	$ 8,379,695
Assumed Bonds and Obligations	
Assumed District Bonds (f)	$ 7,628,768
TOTAL (f)	$2,995,817,061

(a) Excludes Prior Lien and Water and Wastewater Separate Lien Obligations to be refunded by the $174,165,000 Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2008 scheduled to be delivered on March 27, 2008.

(b) Includes the Bonds.

(c) The Water and Wastewater System Separate Lien Obligations are payable from the Net Revenues of the Water and Wastewater System only. Includes the $174,165,000 Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2008 scheduled to be delivered on March 27, 2008.

(d) 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. See "Plan of Financing". 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 Bonds, the Prior Subordinate Lien Bonds, 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 can only be utilized (i) to finance capital improvements required for normal business operation for Electric 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).

(e) Contractual Obligations and Public Improvement Bonds 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.

(f) 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 (b)	Outstanding Subordinate Lien Bond	Total Prior & Subordinate Lien Bond Requirements	The Bonds Principal	The Bonds Interest	Electric Utility System Obligations	Water & WW Separate Lien Obligation Bonds (b)(c)	Assumed MUD Obligations (d)	Total Separate Lien and Combined Utility Systems Requirements
2008	$ 25,474,244	$ 8,317,074	$ 33,791,318	$ -	$ -	$ 21,100,550	$ 40,802,285	$ 765,671	$ 96,459,824
2009	110,487,438	15,447,071	125,934,509	-	3,473,384	68,168,344	109,080,584	906,295	307,563,116
2010	110,553,144	15,117,876	125,671,020	1,085,000	2,864,445	72,416,569	98,349,968	911,470	301,298,472
2011	106,530,006	15,912,755	122,442,761	1,120,000	2,829,659	76,970,475	89,431,651	914,612	293,709,158
2012	101,218,069	16,861,853	118,079,921	1,160,000	2,791,688	75,184,175	94,187,878	915,777	292,319,440
2013	61,565,588	17,129,078	78,694,665	1,205,000	2,747,676	102,824,800	110,224,792	930,072	296,627,005
2014	5,967,175	18,579,978	24,547,153	1,255,000	2,697,485	143,923,938	139,889,899	1,077,183	313,390,658
2015	6,045,000	30,478,963	36,523,963	1,315,000	2,637,111	94,197,050	121,063,824	1,078,343	256,815,290
2016	6,045,000	31,239,715	37,284,715	1,385,000	2,566,668	57,351,013	125,654,551	1,088,425	225,330,371
2017	42,150,000	21,563,885	63,713,885	1,460,000	2,492,442	55,561,450	100,274,803	947,019	224,449,598
2018	62,050,000	21,805,425	83,855,425	1,540,000	2,414,172	41,736,250	78,703,398	650,355	208,899,599
2019	31,735,000	21,129,813	52,864,813	1,620,000	2,331,873	41,577,500	79,182,024	-	177,576,209
2020	-	23,728,400	23,728,400	1,705,000	2,245,423	41,290,125	86,065,804	-	155,034,752
2021	-	23,806,325	23,806,325	1,805,000	2,144,578	38,586,500	85,104,572	-	151,446,975
2022	-	29,843,513	29,843,513	1,925,000	2,027,792	32,551,250	81,790,076	-	148,137,631
2023	-	28,853,025	28,853,025	2,050,000	1,903,335	32,515,250	82,504,113	-	147,825,723
2024	-	28,640,038	28,640,038	2,180,000	1,770,894	32,440,000	83,253,607	-	148,284,538
2025	-	25,298,938	25,298,938	2,320,000	1,629,999	32,617,500	70,026,656	-	131,893,092
2026	-	9,630,775	9,630,775	2,470,000	1,480,024	32,535,000	70,240,279	-	116,356,077
2027	-	10,046,013	10,046,013	2,630,000	1,320,343	32,592,500	68,373,205	-	114,962,060
2028	-	10,138,313	10,138,313	2,800,000	1,150,329	32,585,000	68,491,705	-	115,165,347
2029	-	-	-	2,985,000	969,201	32,415,000	68,079,918	-	104,449,119
2030	-	-	-	3,175,000	776,331	19,217,500	60,023,065	-	83,191,896
2031	-	-	-	3,380,000	571,094	19,300,000	40,367,568	-	63,618,662
2032	-	-	-	3,600,000	352,551	9,490,000	25,994,988	-	39,437,538
2033	-	-	-	3,830,000	119,917	9,402,500	26,074,881	-	39,427,299
2034	-	-	-	-	-	9,397,500	26,105,875	-	35,503,375
2035	-	-	-	-	-	9,372,500	26,070,375	-	35,442,875
2036	-	-	-	-	-	9,327,500	17,559,500	-	26,887,000
2037	-	-	-	-	-	-	17,554,250	-	17,554,250
2038	-	-	-	-	-	-	8,743,250	-	8,743,250

(a) Debt outstanding as of 02/28/08.

(b) Excludes the bonds to be refunded by the Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2008 to be delivered on March 27, 2008. Preliminary, subject to change.

(c) Includes $174,165,000 Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2008 to be delivered on March 27, 2008. Preliminary, subject to change.

(d) Includes Assumed MUD's, each payable from City ad valorem taxes and additionally payable from surplus Net Revenues of the Waterworks and Sewer 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 said 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 eighth issue or series of Separate Lien Obligations of the City's Electric Utility System. The Master Ordinance and the Eighth 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 hereafter issued or incurred), 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 Eighth Supplement affirms that a Reserve Fund will be created and established only when the "Pledged Net Revenues" of the System for a 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 in the Pledged Net Revenues below 150% of the annual Debt Service Requirements for the Parity Electric Utility Obligations and range from a maximum amount of 50% of the Maximum Annual Debt Service when the Pledged Net Revenues for a Fiscal Year are less than 110% of the annual Debt Service Requirement for such 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 such Fiscal Year, but greater than or equal to 140% of the annual Debt Service Requirement for such 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 Light and Power 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 Light and Power System or the Water and Wastewater System, or both.

Rate Covenant Required by Master Ordinance

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, 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 prior to 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 under the Prior Lien Ordinance for the benefit of the Prior First Lien Bonds and Prior Subordinate Lien Bonds. 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 Prior Lien Ordinances 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 Division of The McGraw-Hill Companies, Inc. ("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 February 1, 2008 is $106,790,325.15 and such amount is funded with Financial Commitments issued by Financial Security Assurance Inc., a municipal bond insurance company having ratings in the highest respective rating category of Moody's, S&P and Fitch ("FSA"). 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 Eighth Supplement, however, affirms 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 System for a Fiscal

Year (the Net Revenues of the 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;

(i) 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;

(i) 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;

(i) 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;

(i) 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 such Fund or acquire and deposit a surety bond to provide the Required Reserve Amount or 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 consecutively monthly deposits commencing not later than the month following that 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 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 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 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 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

The City may issue or incur Parity Electric Utility Obligations issued in the form of commercial paper 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.

Special Facilities Debt and Subordinated Debt

Special Facilities Debt and Subordinated Debt may be incurred by the City without limitation.

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.

System Fund

The Master Ordinance recites that 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" (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 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 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 thereof, may be appropriated and used for any other City purpose now or hereafter permitted by law.

BOND INSURANCE

The following information is not complete and reference is made to APPENDIX F for a specimen of the financial guaranty insurance policy (the "Policy") of Assured Guaranty Corp. ("Assured Guaranty").

The Insurance Policy

Assured Guaranty has made a commitment to issue the Policy relating to the Bonds, effective as of the date of issuance of the Bonds. Under the terms of the Policy, Assured Guaranty will unconditionally and irrevocably guarantee to pay that portion of principal of and interest on the Bonds that becomes Due for Payment but shall be unpaid by reason of Nonpayment (the "Insured Payments"). Insured Payments shall not include any additional amounts owing by the City solely as a result of the failure by the Paying Agent/Registrar to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Paying Agent/Registrar by reason of such failure. The Policy is non-cancelable for any reason, including without limitation the non-payment of premium.

"Due for Payment" means, when referring to the principal of the Bonds, the stated maturity date thereof, or the date on which such Bonds shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and, when referring to interest on such Bonds, means the stated dates for payment of interest.

"Nonpayment" means the failure of the City to have provided sufficient funds to the Paying Agent/Registrar for payment in full of all principal and interest Due for Payment on the Bonds. It is further understood that the term Nonpayment in respect of a Bond also includes any amount previously distributed to the holder of such Bond in respect of any Insured Payment by or on behalf of the City, which amount has been recovered from such holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such holder. Nonpayment does not include nonpayment of principal or interest caused by the failure of the Paying Agent/Registrar, to pay such amount when due and payable.

Assured Guaranty will pay each portion of an Insured Payment that is Due for Payment and unpaid by reason of Nonpayment, on the later to occur of (i) the date such principal or interest becomes Due for Payment, or (ii) the business day next following the day on which Assured Guaranty shall have received a completed notice of Nonpayment therefor in accordance with the terms of the Policy.

Assured Guaranty shall be fully subrogated to the rights of the holders of the Bonds to receive payments in respect of the Insured Payments to the extent of any payment by Assured Guaranty under the Policy.

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

The Insurer

Assured Guaranty is a Maryland-domiciled insurance company regulated by the Maryland Insurance Administration and licensed to conduct financial guaranty insurance business in all fifty states of the United States, the District of Columbia and Puerto Rico. Assured Guaranty commenced operations in 1988. Assured Guaranty is a wholly owned, indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO." AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, structured finance and mortgage markets. Neither AGL nor any of its shareholders is obligated to pay any debts of Assured Guaranty or any claims under any insurance policy issued by Assured Guaranty.

Assured Guaranty is subject to insurance laws and regulations in Maryland and in New York (and in other jurisdictions in which it is licensed) that, among other things, (i) limit Assured Guaranty's business to financial guaranty insurance and related lines, (ii) prescribe minimum solvency requirements, including capital and surplus requirements, (iii) limit classes and concentrations of investments, (iv) regulate the amount of both the aggregate and individual risks that may be insured, (v) limit the payment of dividends by Assured Guaranty, (vi) require the maintenance of contingency reserves, and (vii) govern changes in control and transactions among affiliates. Certain state laws to which Assured Guaranty is subject also require the approval of policy rates and forms.

Assured Guaranty's financial strength is rated "AAA" by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P"), "AAA" by Fitch, Inc. ("Fitch") and "Aaa" by Moody's Investors Service, Inc. ("Moody's"). Each rating of Assured Guaranty should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by Assured Guaranty. Assured Guaranty does not guaranty the market price of the securities it guarantees, nor does it guaranty that the ratings on such securities will not be revised or withdrawn.

Capitalization of Assured Guaranty Corp.

As of December 31, 2007, Assured Guaranty had total admitted assets of $1,361,538,502 (unaudited), total liabilities of $961,967,238 (unaudited), total surplus of $399,571,264 (unaudited) and total statutory capital (surplus plus contingency reserves) of $982,045,695 (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2006, Assured Guaranty had total admitted assets of $1,248,270,663 (audited), total liabilities of $962,316,898 (audited), total surplus of $285,953,765 (audited) and total statutory capital (surplus plus contingency reserves) of $916,827,559 (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. The Maryland Insurance Administration recognizes only statutory accounting practices for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Maryland Insurance Code, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. No consideration is given by the Maryland Insurance Administration to financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") in making such determinations.

Incorporation of Certain Documents by Reference

The portions of the following documents relating to Assured Guaranty are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- The Annual Report on Form 10-K of AGL for the fiscal year ended December 31, 2007 (which was filed by AGL with the Securities and Exchange Commission (the "SEC") on February 29, 2008); and

- The Current Reports on Form 8-K filed by AGL with the SEC, as they relate to Assured Guaranty.

All consolidated financial statements of Assured Guaranty and all other information relating to Assured Guaranty included in documents filed by AGL with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such consolidated financial statements.

Any statement contained in a document incorporated herein by reference or contained herein under the heading "Bond Insurance-The Insurer" shall be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document which is incorporated by reference herein also modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

Copies of the consolidated financial statements of Assured Guaranty incorporated by reference herein and of the statutory financial statements filed by Assured Guaranty with the Maryland Insurance Administration are available upon request by contacting Assured Guaranty at 1325 Avenue of the Americas, New York, New York 10019 or by calling Assured Guaranty at (212) 974-0100. In addition, the information regarding Assured Guaranty that is incorporated by reference in this Official Statement that has been filed by AGL with the SEC is available to the public over the Internet at the SEC's web site at http://www.sec.gov and at AGL's web site at http://www.assuredguaranty.com, from the SEC's Public Reference Room at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, and at the office of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

Assured Guaranty makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, Assured Guaranty has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading "Bond Insurance".

DESCRIPTION OF THE BONDS

The Bonds will be dated March 1, 2008, and interest will accrue from their dated date and will be payable on each May 15 and November 15, commencing November 15, 2008, 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 is hereinafter defined.

Optional Redemption

The Bonds are subject to redemption prior to maturity at the option of the City, in whole or in part at any time, at a redemption price equal to the greater of (i) 100% of the principal amount of the Bonds then being redeemed or (ii) the sum of the present values of the remaining scheduled payments of principal and interest on such Bonds discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Yield (defined below) plus 12.5 basis points, subject to the provisions of Texas Government Code Chapter 1204, as amended, in either case plus accrued interest to the date of redemption. "Treasury Yield" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue (defined below), assuming a price for the Comparable Treasury Issue (defined below and expressed as a percentage of its principal amount) equal to the Comparable Treasury Price (defined below) for such redemption date. "Comparable Treasury Issue" means the United States Treasury security selected by an Independent Investment Banker (defined below) as having a maturity comparable to the remaining term of the Bonds that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Bonds. "Independent Investment Banker" means Banc of America Securities LLC or, if such firm is unwilling or unable to select the Comparable Treasury Issue, an independent investment banking institution of national standing appointed by the City. "Comparable Treasury Price" means, with respect to any redemption date, (i) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third business day preceding such redemption date, as set forth in the daily statistical release (or any successor release) published by the Federal Reserve Bank of New York and designated "Composite 3:30 p.m. Quotations for U.S. Government Securities LLC" or (ii) if such release (or any successor release) is not published or does not contain such prices on such business day, the average of the Reference Treasury Dealer Quotations (defined below) for such redemption date. "Reference Treasury Dealer Quotations" means, with respect to the Reference Treasury Dealer (defined below) and any redemption date, the average, as determined by the Paying Agent/Registrar, of the bid and asked prices of the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Paying Agent/Registrar by the Reference Treasury Dealer at 5:00 p.m. on the third business day preceding such redemption date. "Reference Treasury Dealer" means Banc of America Securities LLC and its successors and any other primary U.S. Government securities dealer in New York City appointed by the City. The Paying Agent/Registrar will calculate the redemption price determined as described above and such redemption price will be final and conclusive for all purposes.

Mandatory Redemption

The Bonds maturing on November 15 in each of the years 2017, 2019 and 2032 (the "Term Bonds") are subject to mandatory redemption prior to maturity in part at random, by lot or other customary method selected by the Paying Agent/Registrar, at 100% of the principal amount thereof plus accrued interest to the date of redemption on the dates, in the years and principal amounts as follows:

Bonds due November 15, 2017

Redemption Date (November 15)	Amount
2014	$1,315,000
2015	1,385,000
2016	1,460,000
2017 (a)	1,540,000

Bonds due November 15, 2019

Redemption Date (November 15)	Amount
2018	$1,620,000
2019 (a)	1,705,000

Bonds due November 15, 2032

Redemption Date (November 15)	Amount
2020	$1,805,000
2021	1,925,000
2022	2,050,000
2023	2,180,000
2024	2,320,000
2025	2,470,000
2026	2,630,000
2027	2,800,000
2028	2,985,000
2029	3,175,000
2030	3,380,000
2031	3,600,000
2032 (a)	3,830,000

(a) Maturity.

The principal amount of the 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 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 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.

Notice of Redemption

Not less than thirty (30) days prior to a redemption date for the Bonds, 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 book 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.

Defeasance

The City may defease and discharge its obligation to the Holders of any or all of the Bonds to pay the principal of, redemption premium, and interest thereon 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, 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; (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 no 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. Government Obligations deposited in trust to defease the Bonds 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 U.S. Bank National Association, Houston, Texas. The City retains the right to replace the Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Bonds, the City will promptly cause written notice thereof to be given to each registered owner of the Bonds, 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 for the Bonds.

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 (hereinafter defined), 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 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 action or mailing of a notice shall be the next succeeding day which is not such 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 with respect to the Bonds means the close of business on the last business day of the month preceding 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 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 shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each 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 next preceding the date of mailing of such notice.

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 thereof to the Paying Agent/Registrar, and such registration shall be at the expense of the City, except for any tax or other governmental charge with respect thereto. 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 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 nor the Eighth 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 either the Master Ordinance or the Eighth Supplement, 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 if there is no other available remedy at law to compel performance of the Bonds, the Master Ordinance or the Eighth Supplement authorizing the issuance of the Bonds, and 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. Neither the Master Ordinance nor the Eighth 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 Eighth Supplement, 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 finance 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 either the Master Ordinance or the Eighth 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, with 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 would be subject to the approval of the Bankruptcy Court (which could required 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

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: "AAA." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial

Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC [nor its nominee], the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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THE SYSTEMS

The City owns and operates an Electric Utility System (also referred to herein as "Austin Energy") and a Water and Wastewater System (also referred to herein 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 system demand. The Electric Utility System had approximately 1,642 full-time regular employees as of September 30, 2007. The Water and Wastewater System had approximately 1,033 full-time regular employees as of the same date.

"AUSTIN ENERGY"

Management

Name	Title	Length of Service with City*
Roger Duncan	General Manager	18 Years
Michael McCluskey	Deputy General Manager	21 Years
Elaine Hart, CPA	Senior Vice President, Finance and Corporate Services	19 Years**
Chris Kirksey	Senior Vice President, Power Production	22 Years
Cheryl Mele	Senior Vice President, Electric Service Delivery	16 Years
Kerry Overton	Senior Vice President, Customer Care	8 Years

* As of January 31, 2008.
**Length of service not continuous.

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 TXU 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.

Customer Base

Average Monthly Number of Customers

As of September 30, 2007	Average Monthly Number of Customers	Percent
Residential	345,197	88.83%
Commercial	41,825	10.76%
Industrial	75	0.02%
Public Street & Highway	4	0.00%
Sales to Governmental Authorities	1,519	0.39%
Total Service Area Customers	388,620	100.00%

DESCRIPTION OF PHYSICAL PROPERTY

Generation

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 and landfill methane projects. Generation capacity is adequate to meet native load.

Generation – TABLE ONE

The present generating facilities, or interest of Austin Energy therein, 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	325.0	Gas/No. 2 oil backup
Unit No. 2	1977	405.0	Gas or Nos. 1 through 5 oil
Gas Turbines	1988	200.0	Gas/No. 1 oil backup
Sand Hill Energy Center			
Gas Turbines	2001	180.0	Gas
Combined Cycle	2004	300.0	Gas
Domain Combined Heat & Power	2004	4.5	Gas
FM 812 Landfill	2004	.2	Landfill Methane
RMEC 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		2,389.3	
Purchased Power (1):			
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	128.0	Wind
Whirlwind Energy LLC	2007	60.0	Wind
Gas Recovery System, Inc	1994-2003	4.0	Landfill Methane
Ecogas Inc. and Energy Developments, Inc	2002-2003	7.8	Landfill Methane
Total Capability including Purchase Power		2,675.8	

(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".

See "Generation and Use Data - TABLE FOUR", "System Peak Demand" 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") 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) are provided below.

Percent of Power by Fuel Type

% Generation	2003	2004	2005	2006	2007
Coal	40.5%	37.8%	34.6%	29.7%	32.2%
Natural Gas & Oil	21.4%	20.2%	25.2%	27.9%	27.3%
Nuclear	19.4%	31.2%	27.9%	27.3%	25.8%
Renewable Energy	2.6%	2.6%	4.3%	5.7%	5.1%
Purchased Power	16.1%	8.2%	8.0%	9.4%	9.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Fuel Type

Coal . . . Coal supplies are procured through a portfolio of contracts with transportation specifically managed to minimize cost. Typically several months of coal inventory are maintained to protect against disruptions. During 2005, coal inventory levels fell below typical levels as a result of poor rail service; a problem experienced by coal burning utilities across the U.S. Austin Energy took several steps to mitigate delivery shortfalls, including power purchases, increased production from natural gas units and truck based deliveries of imported coal. In 2007 new rail agreements were signed. These agreements will improve delivery service but at a higher cost.

Natural Gas and Oil . . . Austin Energy utilizes a portfolio of gas contracts and multiple pipelines in an effort to diversify risk and minimize cost. In case of a curtailment in natural gas supplies, fuel oil may be used to replace the natural gas shortfall at Decker Power Station. Austin Energy maintains an oil reserve equivalent to several days of operation.

Nuclear . . . The South Texas Project Nuclear Operating Company, a Texas non-profit corporation ("STPNOC"), on behalf of the owners of the South Texas Project (see "South Texas Project Ownership" below), is responsible for the supply of nuclear fuel and for the disposal of spent fuel for the South Texas Project Electric Generation Station ("STP"). Sharp increases 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 ("NUF6").

Fayette Power Project

The Fayette Power Project is a joint power project owned by the Lower Colorado River Authority ("LCRA") (hereinafter defined) and Austin Energy. Austin Energy is a 50% owner in Units 1 & 2 of the Fayette Power Project. A third unit is also at the facility, but it is 100% owned by LCRA. Pursuant to the participation agreement, LCRA was appointed Project Manager and a Management Committee was established, supported by four Subcommittees (Environmental, Fiscal/Budget, Fuels and Technical) composed of two representatives from each participant to direct the operation of the project. The Fayette Power Project is located 8½ miles east of LaGrange, Texas, which is approximately 65 miles southeast of the City.

The Clean Air Act and other regulations require all existing coal plants to reduce the levels of SO2 and NOX by 2010. As a result, the Fayette Power Project is in the process of installing scrubbers on Units 1 & 2. It is estimated that the project cost will be in the range of $125-150 million for Austin Energy's share. The Design Phase was completed in February of 2006. Procurement of equipment and Phase II Engineering and Construction are currently underway. Project completion is scheduled for April 30, 2010.

Austin Energy Gas Generation Facilities

All four (4) of Austin Energy's gas generation facilities are located in Austin Energy's service territory. 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"), 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. The facility was funded with cash from operations.

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 and chilled water for adjacent buildings and electric power for the electric grid. The electric power is produced by a Mercury 50 gas turbine. The nameplate rating at ISO conditions is 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 gives the plant "Black Start" capability.

South Texas Project Electric Generation Station ("STP")

STP is a two-unit pressurized water reactor nuclear power plant, each unit nominally rated to produce 1,281.25 MW, located on a 12,220 acre site in Matagorda County, Texas, near the Texas Gulf Coast, approximately 200 miles southeast of the City.

South Texas Project Ownership

Participants	Ownership %	Nominal MW Output
City of Austin – Austin Energy	16.0	410.0
NRG South Texas LP	44.0	1,127.5
CPS Energy	40.0	1,025.0
Total	100.0	2,562.5

STP is operated by STPNOC, financed and controlled by the owners pursuant to an operating agreement among the owners and STPNOC. Currently, a four-member board of directors governs the STPNOC, with each owner appointing one member to serve. The fourth member is the STPNOC's chief executive officer and president. All costs and generation output continue to be shared in proportion to each participant's ownership interest.

STP Units 1 and 2 each have a 40-year Nuclear Regulatory Commission ("NRC") license that expires in 2027 and 2028, respectively. No firm decision has been made with respect to license renewal; however, under NRC regulations the STP owners can request a 20-year license renewal.

NRG South Texas LP has applied for an expansion at STP to include Units 3 & 4 at the STP site. While it is unknown whether this application for expansion will be approved, Austin Energy recommended and City Council resolved to not participate in this proposed expansion.

Five-Year South Texas Project Capacity Factor

For the calendar year ended December 31, 2007, the STP capacity factor for Unit 1 was 107.7%, and for Unit 2 the capacity factor was 94.4%, resulting in a total capacity factor of 101.5%. Low Pressure Upgrade turbines were completed in 2007. The replacement resulted in an additional 136.9 MW of capacity, of which Austin Energy's share is 21.9 MW. A scheduled major capital project will be the replacement of the reactor vessel heads in 2008 and 2010. This is a proactive move to eliminate reactor head corrosion issues found throughout the industry and reported at other facilities. This project will be performed during regular scheduled refueling outages and the cost of the project is estimated to be in the range of $100 million. Austin Energy's share of this total will be approximately $16 million, and is anticipated to be funded from current revenue.

CUSTOMER RATES

Retail Service Rates

The City's retail service rates are regulated by the City Council. Ratepayers can appeal rate changes to the PUCT under section 33.101 of the Public Utility Regulatory Act (Texas Utilities Code, Chapter 33, as amended, herein defined as "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.

The Texas 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. Austin Energy has not filed any requests with the City Council to change base rates since 1994. In December 1996, the Austin City Council approved changes to offer customers more choices, although the existing base electric rates did not change. TABLE THREE shows the current Electric Utility System rates by customer class.

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.

Typical Residential Electric Bills of Seven Largest Texas Cities

City	Electric Bill*
San Antonio	$ 76.97
AUSTIN	91.51
El Paso	123.29
Dallas/Fort Worth	138.63
Houston	149.27
Corpus Christi	154.38

*Average Residential Bill for 1,000 KWh during the period October 2006 – September 2007 including fuel costs. The cities shown, other than Austin and San Antonio, are served by investor owned utilities. Source: Public Utility Commission of Texas and powertochoose.org.

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CUSTOMER STATISTICS

TABLE TWO shows service area billed customer sales since the year ended September 30, 2003. 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.

Five Year Electric Customer Statistics – TABLE TWO

	Fiscal Year Ended September 30				
	2003	2004	2005	2006	2007
Revenue (000's)					
Residential	$ 328,704	$ 299,107	$ 348,281	$ 387,540	$ 356,143
Commercial	318,258	301,151	335,859	367,017	365,991
Industrial	82,683	77,497	93,448	108,491	113,248
Public Street & Highway	9,417	7,805	7,578	8,128	8,106
Sales to Government Authorities	71,786	65,947	74,110	80,334	76,358
Total	$ 810,850	$ 751,505	$ 859,278	$ 951,510	$ 918,846
MWH					
Residential	3,730,629	3,605,111	3,879,940	4,079,909	3,908,318
Commercial	3,982,273	4,013,463	4,195,212	4,287,176	4,350,912
Industrial	1,496,590	1,536,813	1,662,458	1,779,333	1,930,289
Public Street & Highway	47,635	48,177	46,366	46,873	47,230
Sales to Government Authorities	1,064,271	1,058,566	1,081,420	1,103,589	1,088,320
Total	10,321,398	10,262,130	10,865,396	11,296,880	11,325,069
Average Monthly Number of Customers					
Residential	320,710	325,905	331,490	338,184	345,197
Commercial	37,317	38,414	39,691	40,934	41,825
Industrial	67	65	68	75	75
Public Street & Highway	4	4	4	4	4
Sales to Government Authorities	1,428	1,486	1,482	1,501	1,519
Total	359,526	365,874	372,735	380,698	388,620
Average Monthly KWH per Customer					
Residential	969	922	975	1,005	943
Commercial	8,893	8,707	8,808	8,728	8,669
Industrial	1,861,430	1,970,273	2,037,325	1,974,842	2,135,275
Public Street & Highway	992,394	1,003,687	965,967	976,519	983,969
Sales to Government Authorities	62,107	59,403	60,809	61,283	59,712
Average Monthly Bill per Customer					
Residential	$ 85.41	$ 76.48	$ 87.55	$ 95.30	$ 85.98
Commercial	710.71	653.30	705.15	747.17	729.21
Industrial	102,840.01	99,354.79	114,519.75	120,411.70	125,274.28
Public Street & Highway	196,184.42	162,609.10	157,883.58	169,328.09	168,883.61
Sales to Government Authorities	4,189.22	3,700.70	4,167.25	4,460.99	4,134.63
Average Revenues per KWH					
Residential	$0.08811	$0.08297	$ 0.08976	$0.09499	$0.09112
Commercial	0.07992	0.07504	0.08006	0.08561	0.08412
Industrial	0.05525	0.05043	0.05621	0.06097	0.05867
Public Street & Highway	0.19769	0.16201	0.16345	0.17340	0.17164
Sales to Government Authorities	0.06745	0.06230	0.06853	0.07279	0.06924

Source: Austin Energy.

Electric Rates – TABLE THREE

The following electric rates were effective March 17, 1997 by Ordinance 970306-P (1).

Customer Class	Fuel Adjustment Clause (2)	Customer Charge	1st 500 kWh	Energy Charge Winter November – April	Energy Charge Summer May - October
Residential Service (E01)	All kWh	$6.00	$.0355 Per kWh	$.0602 All kWh Above 500 kWh	$.0782 All kWh Above 500 kWh
General Service Non-Demand (E02)	All kWh	6.00		.0464 All kWh	.0644 All kWh
State Accounts Non-Demand (E13)	All kWh	6.00		.0319 All kWh	.0499 All kWh
		Minimum Bill (3)			
Water and Wastewater (E03)	All kWh	$12.00		.0277 All kWh	.0648 All kWh
Other City (Including Electric) (E04)	All kWh	12.00		.0354 All kWh	.0521 All kWh
Streetlight/Traffic (E05)	All kWh	12.00		.1498 All kWh	.1498 All kWh
			Energy Charge	Demand Charge	
General Service Demand (E06)	All kWh	12.00	$.0180 All kWh	$12.65 All kW	$14.03 All kW
General Service Demand - Public Schools (E10) (3)	All kWh	12.00	.0228 All kWh	5.68 All kW	7.95 All kW
Primary Service (E07)	All kWh	12.00	.0151 All kWh	11.11 All kW	12.10 All kW
Large Primary Service (E08) (3)	All kWh	12.00	.0150 All kWh	11.81 All kW	12.60 All kW
State Accounts – Demand Secondary Service (E14)	All kWh	12.00	.0107 All kWh	10.94 All kW	11.64 All kW
State Accounts – Primary Service (E17)	All kWh	12.00	.0107 All kWh	10.94 All kW	11.64 All kW
State/Large Primary Service (E15) (3)	All kWh	12.00	.0107 All kWh	10.94 All kW	11.64 All kW
Transmission Service (E11)	All kWh	12.00	.0140 All kWh	10.98 All kW	11.72 All kW
Nightwatchman	Fuel Charge		Pole Rental		Customer Charge
175 Watt Mercury Vapor	60 kWh Per Light		$1.74 Per Pole		$ 7.34 Per Light
100 Watt High Pressure Sodium	35 kWh Per Light		1.74 Per Pole		4.28 Per Light
400 Watt Mercury Vapor	140 kWh Per Light		1.74 Per Pole		17.11 Per Light
250 Watt High Pressure Sodium	90 kWh Per Light		1.74 Per Pole		11.00 Per Light

(1) Does not include special contracts, time-of-use and economic development rates.
(2) The Fuel Adjustment Clause recovers fuel costs. Customers also have the option for Green Choice rider in lieu of the Fuel Adjustment Clause, discussed on the following page.
(3) Minimum Bill is applied when the sum of energy, demand and fuel charges is less than $12.00.

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 approximately $60 million in 2007. Austin Energy will continue to manage and review the need for wholesale transmission rate increases as necessitated by its investment and cost to serve.

Green Choice Energy Rider

In March 2001, Austin Energy adopted a Green Choice Energy charge for renewable energy. Customers who subscribe to the Green Choice program will pay a renewable energy charge in lieu of the fuel adjustment factor as determined by Austin Energy. Austin Energy's Green Choice program has been recognized as the leading utility-sponsored green power program in the nation for sales. Subscribers see the fuel charge on their electric bill replaced with a Green Choice charge that remains fixed for up to 15 years, based on Austin Energy's contracts for wind-generated power.

Green Choice Sales (kWh)	
2002	206,566,601
2003	235,478,890
2004	344,446,101
2005	434,040,739
2006	580,580,401
2007	577,636,840

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 days written notice. Any transactions are by mutual agreement; no party is obligated to offer, sell or buy energy under the agreements. At certain times, Austin Energy has surplus capacity and energy and is an active participant in the Texas wholesale power market.

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Generation And Use Data – TABLE FOUR

	Fiscal Year Ended September 30									
	2003		2004		2005		2006		2007	
	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh
Net kWh Generated		8,762,574,000		9,973,751,000		10,734,106,000		10,730,704,000		10,999,758,000
kWh Received from ERCOT		2,322,933,000		1,278,302,000		1,272,416,000		1,472,202,000		1,661,154,000
Less: kWh Delivered to ERCOT		(117,125,000)		(213,820,000)		(223,536,000)		(196,935,000)		(571,210,000)
Less: kWh Delivered to Other Utilities		(157,465,000)		(183,125,000)		(318,678,000)		(207,998,000)		(151,020,000)
Total kWh Delivered to Service Area		10,810,917,000		10,855,108,000		11,464,308,000		11,797,973,000		11.938,682,000
Service Area Energy Use:										
Residential	320,710	3,730,628,647	325,905	3,605,110,769	331,490	3,879,940,471	338,184	4,079,909,225	345,197	3,908,317,955
General Service (Less UT & ENW)	37,987	6,235,607,964	39,102	6,302,070,677	40,380	6,620,136,778	41,650	6,829,923,758	42,559	7,042,867,290
	358,697	9,966,236,611	365,007	9,907,181,446	371,870	10,500,077,249	379,834	10,909,832,983	387,756	10,951185,245
Public Street Lighting	4	35,072,993	4	35,538,803	4	33,713,031	4	34,145,561	4	34,486,701
City Utility Departments	177	194,839,055	176	192,467,642	173	200,818,623	172	213,515,923	180	200,560,827
Other City Departments	647	112,687,157	686	114,304,014	687	118,133,880	687	126,657,490	679	126,263,735
	828	342,599,205	866	342,310,459	864	352,665,534	863	374,318,974	863	361,311,263
Total Service Area Sales	359,525	10,308,835,816	365,873	10,249,491,905	372,734	10,852,742,783	380,697	11,284,151,957	388,619	11,312,324,408
Sales to UT & ENW (Nightwatchman)	1	12,561,939	1	12,638,165	1	12,653,375	1	12,727,340	1	12,743,795
Loss and Unaccounted For		489,519,245		592,977,930		598,911,842		501,093,703		613,613,797
Total kWh Delivered to Service Area	359,526	10,810,917,000	365,874	10,855,108,000	372,735	11,464,308,000	380,698	11,797,973,000	388,620	11,938,682,000
System Peak Demand (kW)		2,350,000		2,280,000		2,445,000		2,430,000		2,391,000

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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 to 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. See "INVESTMENTS – Legal Investments".

The realized gains and losses related to these transactions are netted to fuel expense in the period realized. As of September 28, 2007, the netting of Austin Energy's options, futures, and basis swaps, valued at mark-to-market, resulted in an unrealized gain of $8,332,063. The unrealized gain/loss refers to the difference between the cost and fair market value of the contracts, which is not included in the notes to the City's financial statements. For further information, refer to the footnotes from the Comprehensive Annual Financial Report for the fiscal year ended September 30, 2006 (APPENDIX B).

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. See "LITIGATION" for information concerning a lawsuit filed by FPL Energy Upton Wind I, LP.

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 128 MW with additional capacity from Sweetwater Phase III.

In September 2006, Austin Energy signed a contract with J. Aron & Company, a subsidiary of The Goldman Sachs Group, Inc., to purchase 100 to 150 MW of energy per month in May-September of 2008, 2009 and 2010.

In September 2006, Austin Energy signed a 20-year contract with Renewable Energy Systems ("RES") America Development, Inc. to purchase the output of a 60 MW wind energy project located in Floyd County, 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 MW wind energy project located near Abilene, Texas. On September 6, 2007, RES assigned the contract to Hackberry Wind, LLC. The project is expected to begin full-scale commercial operation in December 2008.

In September 2007, Austin Energy signed a 20-year contract with Sun Edison LLC to purchase the output of a 710 KW solar energy project to be located on Austin Energy's Decker Creek Power Station property in eastern Travis County. The project is expected to begin full-scale commercial operation in December 2008.

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.

Transmission and Distribution System

The transmission and distribution plant statistics of Austin Energy as of September 30, 2007, are as follows:

Electric Transmission & Distribution System Statistics

	Number of Substations	Miles of Lines	Kilovolts
Transmission	11	619	345/138/69
Distribution	56	10,956	35/12.5/7.2
Overhead Primary		2,363	
Overhead Secondary		3,164	
Underground Primary		2,621	
Underground Secondary		2,808	

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, with whom Austin Energy has a power interchange agreement. Austin Energy is also interconnected with CenterPoint Energy (formerly Houston Lighting & Power Co., and referred to herein as "CenterPoint"), 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 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 Texas 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 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 of the electric Service Delivery Quality Management System by NSAI auditors. The ISO Auditors noted that procedures and written work instructions have been implemented for more than 530 work activities. More than 250,000 companies worldwide, including 25,000 in the U.S., are certified in the ISO 9000 series. Austin Energy transmission and distribution work units however, are the first of any utility in the country to be so certified.

Conventional System Improvements

In September 2007, the 2008-2012 Capital Improvements Spending Plan was approved by the City Council in the amount of $998,836,000. 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 commercial paper.

RESPONSE TO COMPETITION

Austin Climate Protection Plan

On February 7, 2007, Austin Mayor Will Wynn presented an aggressive plan to address global warming from a City perspective. The Austin Climate Protection Plan is intended to eliminate carbon dioxide emissions from virtually all municipal activities by the year 2020. This includes powering all City facilities with 100% renewable energy by 2012, converting the entire city fleet of vehicles to alternative fuels and electric power by 2020, and implementing greenhouse gas reduction plans in every City department. The Plan calls for Austin Energy to aggressively ramp up its clean energy programs, achieving 700 megawatts of new conservation and efficiency savings, and having 30 percent of its energy needs come from renewable resources by 2020. It also calls for making all new single-family homes zero net-energy capable by 2015 and increasing efficiency in all new commercial buildings by 75 percent in the same period. This plan was adopted by City Council on February 15, 2007.

Further, on December 13, 2007, City Council passed a resolution directing the City Manager to conduct an open, extended Energy Resource Planning Public Participation Process to assist Austin Energy with the development of its future resource management plans, including generation planning in line with the Austin Climate Protection Plan goals; and that through the Energy Resource Planning Public Participation Process, Austin Energy will:

- Educate its customers on facts, issues and trends regarding the electric utility industry,
- Inform its customers in depth about Austin Energy's operations, particularly those involving power production, and
- Obtain suggestions from its customers and other outside sources for business approaches and proposed solutions designed to meet the future needs of the utility.

The City Manager is directed to report back to Council within 90 days with specific recommendations and timetables for implementing the Energy Resource Planning Public Participation Process.

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 carefully manage its exposure when considering future courses of action. This approach allows Austin Energy to prepare for future options without prematurely investing and allows for more information to become known before major commitments are made.

Second, a strategy to provide Excellent Customer Service positions Austin Energy to compete in the 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 first 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 intends not to prematurely commit to unproven technologies; however, Austin Energy intends to pursue a leading-edge position that will allow Austin Energy to readily identify, evaluate and deploy emerging renewable technologies.

Five objectives were identified to support the strategies including:

- Maintain Financial Integrity - Austin Energy's goal is to achieve an "AA" (Standard & Poor's) Credit Rating by 2010 on its separate lien revenue bonds. Austin Energy provides a return to its citizen owners in the form of financial support for local government.

- Create and Sustain Economic Development - Austin Energy will create and sustain economic development by providing contract opportunities for local businesses, attracting new businesses, and supporting the development of a clean energy industry. Austin Energy's goal is to exceed the City's M/WBE goals by 2008.

- Customer Satisfaction - Austin Energy will develop a better understanding of its customers by monitoring indicators and conducting customer surveys. Austin Energy's target is a customer satisfaction score of 83/100 by 2010.

  Additionally, Austin Energy understands the link between customer satisfaction and employee satisfaction, and includes an Employee Satisfaction goal in this strategy. Austin Energy will prepare its employees to work successfully in a competitive environment by providing the skill development and information necessary to make informed business decisions. Austin Energy targets an employee satisfaction index showing a 10% improvement in positive responses on the City's Listening to the Workforce Survey by 2010.

- Exceptional System Reliability - Austin Energy will pursue best operating and maintenance practices for its utility assets power plants to ensure unit availability and reliability. Austin Energy will target specific metrics to reduce the frequency (SAIFI) and duration (SAIDI) of power outages. A common measure of reliability for generating units is the Equivalent Availability Factor (EAF). The EAF is a measure of the number of hours a generating unit's full capacity is available for use per the total period hours.

  - SAIFI (system average interruption frequency index) = 0.8 interruptions per year
  - SAIDI (system average interruption duration index) = 60 minutes per year
  - Maintain an intermediate/peaking peak season EAF of 95% or better

- Renewable Portfolio Standard - Austin Energy intends to continue it's nationally recognized renewable resources and Green Building programs. By 2020, Austin Energy will achieve a Renewable Portfolio Standard of 30%, as well as 15% increase in demand side management impacts. Austin Energy will also achieve 700 MW of peak demand savings by 2020. Austin Energy demonstrates its commitment to solar energy through its Solar Rebate Program and its plan to achieve 100 MW of solar generation by 2020.

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The Strategic Plan is reviewed and updated annually. The following table outlines the results over the last 4 years:

STRATEGIC PLANNING PERFORMANCE MEASURES 2003-2006

STRATEGY	OBJECTIVE	TARGET			2002-2003		2003-2004		2004-2005		2005-2006	
Risk Management	Maintain Financial Integrity	"AA" (S&P) credit rating by 2010			"A"		"A+"		"A+"		"AA-"	
Excellent Customer Service	Create and Sustain Economic Development	Exceed M/WBE Goals by 2008	MBE (%)	WBE (%)	MBE (%)	WBE (%)	MBE (%)	WBE (%)	MBE (%)	WBE (%)	MBE (%)	WBE (%)
		Construction	12.90	12.60	10.27	13.46	30.50	34.64	6.86	9.62	1.07	5.48
		Commodity	3.50	6.20	4.66	13.56	0.49	7.71	2.55	5.00	0.87	6.20
		Non-Professional	14.10	15.00	11.42	4.61	17.21	4.22	7.83	3.07	4.24	3.37
		Professional	16.50	14.20	0.50	0.04	0.00	0.16	0.00	0.04	0.08	0.00
	Customer Satisfaction	Employee Satisfaction target of 10% improvement on LTW Survey by 2010, i.e. 70% positive rating overall			64%		57%		55.25%		58%	
		Customer Satisfaction target of 83/100 by 2010			76/100		79/100		79/100		80/100	
	Exceptional System Reliability	SAIDI @ 60 minutes by 2005			64.93		62.72		79.06		86.10	
		SAIFI of 0.8 interruptions/yr by 2005			0.85		0.88		1.05		0.99	
		SATLPI of 4.1 average/ yr by 2005			N/A		4.50		4.10		4.20	
Energy Resource	Renewable Portfolio Standard & Energy Efficiency	20% renewable energy by 2020			2.94%		2.16%		3.80%		6.00%	
		15% energy efficiency by 2020			5.50%		6.00%		6.70%		7.30%	
		100MW solar generation by 2020			0.24 MW		0.33 MW		0.85 MW		1.0 MW	

Financial Policies

With increasing competition in the electric utility industry due to regulatory and market changes, Austin Energy continues to maintain strong financial policies aimed at keeping financial integrity while allowing for flexibility should the market change. Some of the more significant financial policies adopted 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, ending balance may be budgeted to achieve structural balance.

- A fund named 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 operating cash.
  - Up to a maximum of 60 days additional operating cash set aside as a Contingency Reserve.
  - Any additional funds over the maximum 120 days of operating cash may be set aside in a Competitive 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 our customers. In the event any portion of the Contingency Reserve is used, the balance will be replenished to the targeted amount within two (2) years. The Competitive Reserve may be used to improve the strategic position of Austin Energy including, but not limited to, funding capital needs in lieu of debt issuance, reduction of outstanding debt, rate reductions, acquisitions of new products and services, and new technologies. Funding may be provided from net revenue available after meeting the General Fund Transfer (described below), 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. (Actual percentage has been 9.1% for the last 8 years, with the exception of 2002 at 8.9%.)

- 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. See "INVESTMENTS – Legal 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 (4) years prior to the expected plant closure.

A complete listing of Austin Energy's financial policies can be found at http://www.ci.austin.tx.us/budget/07-08/downloads/pb0708support.pdf

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.

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

Rate Regulation

The City's rates, except for wholesale transmission, are regulated by the City Council. Ratepayers can appeal rate changes to the PUCT under section 33.101 of the 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 limits. Texas 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

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 open access to the wholesale electric market in Texas 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 Texas legislature and signed into law in 1999 ("SB7"). The ISO's responsibilities as detailed in SB 7 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 are very active participants in the ERCOT stakeholder process.

SB 7 amended PURA to provide for retail deregulation of the electric utility industry in Texas. SB 7 opened retail competition for Investor Owned Utilities ("IOUs") beginning January 1, 2002. SB 7 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.

General Market Framework: Beginning on January 1, 2002, IOUs were required to unbundle their regulated (wires) operations from their competitive operations. There is a strong ISO established with responsibility over the operations and planning for the ERCOT bulk electric system. The PUCT has established comprehensive clear and enforceable market power protections: no utility can control more than 20% of ERCOT generation and wholesale market participants must follow a detailed code of conduct.

MOUs That Do Not Choose Retail Competition

- There is no retail choice for MOU customers. MOU cannot sell at retail outside its area.
- Current regulatory scheme continues.
- Continued MOU access to buy and sell power in the wholesale market.

MOUs Choosing Retail Competition On or After January 1, 2002
(City councils or governing boards make an affirmative choice to bring retail competition to their MOU)

- Retail competitors can sell "generation" to MOU customers. MOU provides "wires" access to its distribution system for Retail Electric Providers, other MOUs and Electric Cooperatives. MOU has an "obligation to connect" and provides wire services and local reliability. Wires are not subject to competition.
- MOU can sell at retail outside its service area, per prevailing market rules.

MOU Local Control Preserved

- Exclusive MOU jurisdiction to set local distribution and other rates. Local wires services and rates remain in exclusive jurisdiction of the MOU.
- Local determination of the stranded investment amount and recovery mechanism.
- MOUs are not required to unbundle (structurally separate functions).
- Local authorities determine and provide customer services and protections.
- Local control of MOU power resource acquisition.
- Customers in multi-certified areas cannot switch wires companies to avoid stranded investment charges.
- Securitization is available to MOUs.
- MOU retains metering.

Participation By MOU In Markets Outside Its Area After Choosing Retail Competition

- Limited PUCT jurisdiction over terms and conditions for access, not rates.
- Subject to market power limits and PUCT customer safeguard code of conduct.

Other Key MOU Provisions

- Existing contracts are preserved. Tax-exempt status is preserved. MOU "competitiveness provisions" were included in SB 7 to "level" the field for MOUs when preparing for competition including relaxation of open meetings/records and purchasing provisions. No mandated MOU rate reductions.
- The City has not yet made a decision whether to "opt in" for retail competition or not, and the City cannot predict the short term or long term impact on the Electric Utility System or its revenues resulting from a decision to "opt in" or not, or resulting from the deregulation process in general.

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 is 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 will allow Austin Energy to hedge congestion risk in the new market. For its generation resources in operation prior to September 1, 1999, Austin Energy will receive preassigned CRRs at a discount to the market price which are available prior to the auction of CRRs. The service territory of Austin Energy will be 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 will begin operation on January 1, 2009. In anticipation of the opening of the nodal market, Austin Energy employees are active participants in ERCOT's Transition Plan Task Force (TPTF), the joint ERCOT-stakeholder effort to assure ERCOT-wide readiness with the market change. Austin Energy's Energy and Market Operations staff, system planning and operations staff, and finance and accounting staff are actively taking steps to modify key systems and processes to assure Austin Energy's capability to participate fully in the ERCOT nodal market on schedule.

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. On April 24, 1996, the FERC issued a Final Rule (the "Final Rule") proposing significant changes regarding transmission service performed by electric utilities subject to the FERC's jurisdiction under sections 205 and 206 of the Federal Power Act. Among other things, the FERC requires utilities to submit open-access, mandatory transmission tariffs. The goal of the Final Rule, according to the FERC, is to deny to an owner of transmission facilities any unfair advantage over its competitors that exists by virtue of such owner's control of its transmission system.

On December 20, 1999, the FERC issued "Order No. 2000" (the "Order") related to the formation of voluntary Regional Transmission Organizations ("RTOs"). The Order required all utilities subject to the FERC's authority under section 205 (Rates and Charges; Schedules; Suspension of New Rates) and 206 (Fixing Rates and Charges; Determination of Cost of Production or Transportation) of the Federal Power Act to file by October 2000 a proposal to participate in an RTO or an alternative describing plans to participate in an RTO. The essential characteristics of an RTO are its independence from individual market participants, a regional scope, operational authority of transmission facilities under the RTO's control, and authority over short-term system reliability. The essential functions of an RTO are tariff administration, congestion management, parallel path flow, administering ancillary services, operating Open Access Scheduling Information System ("OASIS"), market monitoring, planning and expansion, and interregional coordination.

Austin Energy is not subject to the FERC's jurisdiction under section 205 and 206 of the Federal Power Act. Nevertheless, Austin Energy participates in a stakeholder organization established under Texas law that is similar to the RTOs envisioned in the Order and which predates the Order by several years. Since 1995, the PURA has required open access to the transmission network in ERCOT under comparable terms and conditions for all users of the transmission network. ERCOT is a stakeholder organization that includes stakeholders from all segments of the Texas electric market. The ISO formed by ERCOT in 1996 and mandated by State law in 1999 carries out many of the functions of the RTO discussed in the Order. On January 17, 2008, FERC approved an additional eight Critical Infrastructure Protection ("CIP") reliability standards to protect the nation's bulk power system against potential disruptions from cyber security breaches. 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 rules have been developed by the FERC. On July 20, 2006, the FERC certified the North American Electric Reliability Council ("NERC") as the nation's Electric Reliability Organization ("ERO"), which will be responsible for developing and enforcing mandatory electric reliability standards under the FERC's oversight. On April 19, 2007, FERC approved the Delegation Agreement between the NERC and ERCOT, which will govern the responsibilities of ERCOT 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 83 NERC reliability standards that apply to entities operating in the ERCOT region. An additional eight Critical Infrastructure Project standards as well as other reliability standards approved by NERC are awaiting formal approval from the FERC. 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.

Austin Energy Environmental Policy

Austin Energy, a community-owned utility, is dedicated to protecting and continually enhancing the quality of its surrounding environment while providing affordable, reliable energy to its customers. It has demonstrated this commitment as a recognized leader among electrical energy service providers in environmental stewardship and conservation and will uphold its leadership role within the energy industry and the Austin community.

Austin Energy will endlessly improve its environmental performance, scrutinized through the operation of its Environmental Care Program and evaluation of environmental objectives and targets. We will always seek opportunities for preventing pollution by implementing solutions that reflect the values of our customers while ensuring compliance with all applicable environmental laws, regulations and permit conditions

Environmental Regulation General

Austin Energy's operations are subject to environmental regulation by Federal, State and local authorities. Austin Energy has a formal environmental management system called the Environmental Care Program for assuring compliance with applicable environmental regulations and addressing environmental impacts associated from its operations. The Environmental Care and Protection (ECP) section within AE consists of a staff of environmental professionals from various educational backgrounds who are responsible for maintaining the Environmental Care Program. The Environmental Care and Protection section interprets existing Federal, State and local regulations and routinely track changes to regulations, which affect Austin Energy processes. Austin Energy has prepared documentation which details roles and responsibilities for environmental compliance throughout the organization. The Environmental Care and Protection section staff and facility personnel monitor conformance with the environmental requirements and report deficiencies to facility management. ECP coordinates with the Technical Support Section within Power Production to administer and conduct environmental training for the organization.

Environmental Regulation Related to Air Emissions

Congress enacted the Clean Air Act Amendments of 1990, which included permitting requirements for power production facilities. All of Austin Energy's large generating units have been issued Federal Operating Permits and Federal Acid Rain Permits for the individual units by the TCEQ (hereinafter defined) and the USEPA (hereinafter defined). References to the TCEQ in this Official Statement are intended to include agencies whose duties and responsibilities have been delegated to the TCEQ.

SB 7 Requirements for NOx Reductions

In 1999, as part of SB 7, defined above, the Texas Legislature imposed new environmental regulations on power plants constructed prior to 1971 (30 Texas Administration Code ("TAC") 116, Electric Generating Facility Permits, and 30 TAC 101.330, Emissions Banking and Trading of Allowances). All of Austin Energy's then operational units were "grandfathered" from State permitting requirements at the time of the passage of the Texas Clear Air Act in 1971. The SB 7 permitting program instituted a "cap and trade" program for NOx emissions. "Grandfathered" units were allocated allowances of NOx based on an emission rate of 0.14 lbs. of NOx per mmBtu times the 1997 heat input to the unit. Austin Energy's SB 7 permitted units must have enough SB 7 emission allowances available to cover the actual emissions from these units on a yearly basis. A total of 1,741 tons of NOx were allocated to the "grandfathered" units.

In addition to the NOx reductions made to comply with SB 7, Austin Energy has made voluntary commitments to cap the emissions of NOx from Decker, Holly Street and Sand Hill Energy Center to a total of 1,500 tons per year. This commitment was made in order to assist with the Early Action Compact or EAC made between the governmental bodies of the Austin Area and USEPA. Austin Energy's total NOx emissions were 1,178 tons for the latest compliance reporting year ending May 2007.

The TCEQ has also implemented further NOx reduction rules under 30 TAC 117. The TCEQ now requires that coal-fired units that were placed into service prior to December 31, 1995 and located in the east side of Texas (east of I-35) have a yearly average NOx emission rate of 0.165 lb/mmBtu or less. This rule also requires that gas-fired boilers and gas turbines in this same geographic region that were placed into service prior to December 31, 1995 have a yearly average NOx emission rate of 0.14 lb/mmBtu or less. Modifications made to the Decker and Holly Street units resulted in an average emission rate of approximately 0.10 lb/mmBtu for 2007. Modifications have been made to the Fayette Power Project Units 1 & 2 (which Austin Energy co-owns with the LCRA) and current emission rates are averaging approximately 0.10 lb/mmBtu. All of the Holly Street and Decker units will be in compliance with their emission limits. The Decker gas turbine units fall under an exemption from this rule due to their limited run times. The Holly St. Power Plant was closed as of October 1, 2007 and will be decommissioned.

FPP Flex Permit

AE and LCRA agreed to Flex Permit with EPA and TCEQ, which required the installation scrubbers for Fayette Power Project Units 1 & 2 by 2010. These scrubbers will reduce the emissions of SO2 from these units by at least 95%.

Clean Air Interstate Rule

On March 10, 2005, the EPA issued the Clean Air Interstate Rule (CAIR), requiring reductions in emissions of sulfur dioxide (SO2) and nitrogen oxides (NOx) from electricity generating units (EGUs) in 28 eastern states and the District of Columbia. The purpose of the CAIR rules was to address the interstate transport of pollutants. The CAIR rules will also reduce the interstate transportation of fine particles. The CAIR rules were adopted by the TCEQ in The CAIR basically establishes an EPA-administered cap-and-trade program for EGUs. The rules apply to stationary boilers and combustion turbines with nameplates of more than 25MWe. Initially, under Phase I, only NOx emissions will be capped. Phase I for NOx runs from 2009-2014. Phase II will begin 2015 and the cap will be set much lower than Phase I. Sulfur dioxide caps under Phase I will be from 2010-2014. Phase II for SO2 will commence in 2015. The Decker Units 1& 2 and the Decker Gas Turbines will be subject to the CAIR rules. The Decker units will start reporting emissions under the CAIR program starting in 2008.

Climate Change

The Mayor and City Council of Austin have created the Austin Climate Protection Plan which directs Austin Energy to cap its greenhouse gas emissions and develop a reduction strategy. The cap and reduction strategy is being developed along with current generation planning activities.

The U.S. Congress has proposed several climate change strategies and within the 2010 - 2015 timeframe, Austin Energy may be subject to a mandatory cap on greenhouse gas emissions.

AE is a member of the California Climate Action and submits annual inventories of its green house gas emissions each year. The inventories are certified by a third party auditor. AE has joined The Climate Registry as a Founding Reporter and will begin reporting annual green house emissions to TCR in 2009 for 2008 emissions.

Environmental Regulation Water

Wastewater discharges are regulated pursuant to the Clean Water Act National Pollution Discharge Elimination System ("NPDES"). Stormwater run-off is similarly regulated. The USEPA has granted the TCEQ authority to implement these programs in Texas as the Texas Pollution Discharge Elimination System ("TPDES"). Austin Energy's larger power generation facilities, Decker, Holly Street and Sand Hill Energy Center, have TPDES and Stormwater Permits, which require monitoring and limitations of discharges.

USEPA has suspended the final regulations for cooling water intake structures on existing facilities. These regulations would have affected Decker Power Plant and Sand Hill Energy Center. The TCEQ is currently accessing future plans for management of 316(b) issues.

Austin Energy maintains plans for preventing and responding to spills of oil and hazardous materials at its power plants and substations as required by the Clean Water Act Spill Prevention Control and Countermeasure and Facility Response Plan requirements. Austin Energy's spill response team responds to spills in less than one hour from the time the spills are reported.

Environmental Other

The Decker Creek Power Station was recognized as a Clean Texas Gold Level Leader for its environmental management system and commitments for reducing environmental impacts. Both the Kramer Lane Service Center and Austin Energy Laboratory are Clean Texas Bronze Level Leaders.

Since 2001, Austin Energy has funded a program for removing distribution electrical equipment at risk for having polychlorinated biphenyls ("PCBs") from its service area beyond what is ordinarily removed due to equipment failures or line improvements. Austin Energy crews inspect and test overhead transformers and remove equipment at risk for having PCBs. Austin Energy has increased the inspections of its underground distribution system and is replacing rusted pad-mounted transformers that pose a risk for spills. Furthermore, substation equipment and soils are routinely tested prior to construction activities in the event that there is contamination from historical activities.

The Holly St. Power Plant has ceased operations as of October 1, 2007 and will be decommissioned. After the removal of the plant structures and remediation of any contaminated areas, certain areas of the plant will be turned over for public use.

Austin Energy has assessed the types and quantities of waste resulting from all of its operations. A waste reduction plan will be prepared in FY2008 which will include strategies for waste minimization including recycling and source reduction.

Austin Energy will continue to make the necessary changes to assure future compliance with the evolving regulatory requirements. Non-compliance with environmental standards or deadlines could result in reduced operating levels. Further compliance with environmental standards or deadlines could increase capital and operating costs.

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. The Price-Anderson Act originally expired on August 1, 2002, but was renewed on August 8, 2005 as part of the National Energy Legislation. The new 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 $10.76 billion per unit per incident. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is $100.59 million per unit, subject to adjustment for inflation, for the number of operating nuclear units and for each licensed reactor, payable at $15 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.

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. The $2.75 billion of 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 Nuclear Electric Insurance Limited ("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 $26.8 million during any one-policy year.

Finally, the NRC maintains its regulations setting 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 was required to submit to the NRC a report indicating how reasonable assurance would be provided. The City provided the required report to the NRC which was based on the minimum amount for decommissioning 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 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 decommissioning through its rates since Fiscal Year 1989. The decommissioning account balance at January 31, 2008 was $132.3 million. For Fiscal Year 2007, Austin Energy estimates that it will continue to collect approximately $5 million for decommissioning expense. In current dollars (at August 31, 2006), the minimum amount for decommissioning is $342.4 million per unit. See "INVESTMENTS – Legal Investments".

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THE WATER AND WASTEWATER SYSTEM

Management

Name	Title	Length of Service with City*
Greg Meszaros	Director	4 Months
Perwez Moheet, CPA	Deputy Director	28 Years
David Anders	Assistant Director, Finance and Business Services	19 Years
Jane Burazer	Assistant Director, Treatment	14 Years
George Calhoun	Assistant Director, Pipeline Operations	18 Years
David Juarez, P.E.	Assistant Director, Water Resource Management	16 Years **
Daryl Slusher	Assistant Director, Environmental Affairs and Conservation	11 Years

* As of January 31, 2008.
**Length of service not continuous.

WATER SYSTEM

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 450 square miles. The City also has contracted to supply treated water on a wholesale basis to seven municipal utility districts ("MUDs"), one water control and improvement district (WCID), five water supply corporations, two private utilities, and the Cities of Manor, Rollingwood, and Sunset Valley.

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 districts. 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 3,000 surface acres; Mansfield Dam, the fifth largest masonry dam in the world, impounds Lake Travis, which covers 42,000 acres; Marble Falls 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, 2020. 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 is 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 Lake Austin, and Decker Dam on Decker Creek, a tributary of the Colorado River that joins the river downstream of Longhorn Dam. Town Lake, which has a capacity of approximately 3,500 acre-feet, is created by Longhorn Dam. Decker Dam creates Lake Walter E. Long, which has a capacity of approximately 34,000 acre-feet.

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

1981 – 1,626,000 Acre Feet	1990 – 692,300 Acre Feet	1999 – 803,240 Acre Feet
1982 – 1,356,000 Acre Feet	1991 – 829,700 Acre Feet	2000 – 627,370 Acre Feet
1983 – 587,000 Acre Feet	1992 – 5,419,000 Acre Feet	2001 – 1,371,435 Acre Feet
1984 – 764,000 Acre Feet	1993 – 978,000 Acre Feet	2002 – 1,674,985 Acre Feet
1985 – 751,000 Acre Feet	1994 – 708,200 Acre Feet	2003 – 1,017,294 Acre Feet
1986 – 886,500 Acre Feet	1995 – 896,700 Acre Feet	2004 – 928,065 Acre Feet
1987 – 3,399,000 Acre Feet	1996 – 758,300 Acre Feet	2005 – 1,077,031 Acre Feet
1988 – 834,000 Acre Feet	1997 – 3,013,512 Acre Feet	2006 – 528,785 Acre Feet
1989 – 667,900 Acre Feet	1998 – 1,313,831 Acre Feet	2007 – 2,155,974 Acre Feet

Using the last twenty-five years from 1983-2007, the average flow was 1,341,230 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 (46 billion gallons) by the City for the fiscal year ended September 30, 2007.

Water Rights. 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 Texas 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 Town 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 Town Lake for municipal purposes; the right to divert and circulate an unlimited amount of water per year from Town 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 hereinafter 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. 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 the proposed 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 Town Lake. Additionally, the First Amendment includes an option for the City to renew the Settlement Agreement through the year 2100, a full century of water supply. 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.

As a result of this amendment, the City will not have to pay any additional raw water costs to the LCRA until such time as the City begins diverting over 201,000 firm acre-feet per year. The City projects that water usage above 201,000 firm acre-feet will not occur until approximately the year 2021. The amendment also had numerous provisions that benefited the City. Also, a legal issue regarding the building of WTP No. 4 was settled. 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

The City's Water and Wastewater Utility has two primary 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. The City is currently decommissioning a third water treatment plant, the 80-year old Green Water Treatment Plant which has reached the end of its functional life.

The City's Water and Wastewater Utility includes a water distribution system having approximately 3,500 miles of water mains of varying diameters, distribution storage facilities with an effective storage capacity of 167 million gallons, 30,037 fire hydrants and 44 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, and raw water 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 new 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 has increased the rated capacity of the plant from 100 mgd to 167 mgd.

Within the five year period commencing October 1, 2006, the City anticipates initiating construction of a new water treatment plant. WTP No. 4 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 up to 50-75 mgd with an intake structure rated at 100 to 300 mgd. Funding for the construction of the additional capacity is expected to come partially from $141 million of bonds for WTP No. 4, the issuance of which was deferred in the late 1980's. Additional costs are anticipated to be funded with current revenue of the Water and Wastewater Utility or by issuing commercial paper.

Water Conservation Plan

The Water and Wastewater Utility developed a water conservation plan for emergency purposes in the early 1980's after experiencing an equipment failure in the distribution system during a high summer demand period. Although the problems were short lived, they had sufficient impact to cause the development of a plan for any potential future problems. The plan is designed to educate customers to use water effectively and to reduce the peak demands on the Water and Wastewater Utility. The contingency plan, which is in effect from May 1 to September 30 of each year, has three stages with progressively more restrictive water use provisions. The plan is presently designed to shift from voluntary to mandatory stages when daily pumpage exceeds a specific limit established by the City Manager which relates to treatment capacity. If higher levels of pumpage should occur, the plan would move to one of the more restrictive mandatory levels. Mandatory water restrictions were required during the extreme drought conditions of July through September 2000. Inclining block rates implemented April 1, 1994, are designed to promote water conservation by Single Family Residential Customers. Seasonal rates implemented in 2000 are also designed to promote water conservation.

Water Storage and Pumping Facilities

In addition to the water treatment plants, the Water and Wastewater 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
East Austin	12	33,300
Forest Ridge	3	5,000
Four Points (1) (ground)	7	n/a
Four Points (elevated)	1	3,600
Guilford Cove	0.275	600
Highland Park	2	1,000
Howard Lane	20	50,000
Jollyville	11	51,000
Martin Hill (1)	34	n/a
North Austin	10	39,800
Pond Springs (1)	3	n/a
Spicewood Springs	10	59,000
South System		
Capital of Texas Hwy (1)	0.5	n/a
Center Street	8	31,400
Davis Lane	20	29,500
La Crosse (1)	2	n/a
Leuthan Lane	3	13,170
Lookout Lane	0.3	3,000
Loop 360	0.439	3,200
Mt. Larson	0.1	100
Never Bend Cove	0.06	1,600
Pilot Knob (1)	10	n/a
Slaughter Lane	6	15,000
Thomas Springs (1)	1.25	n/a
Westlake Drive	0.010	500

(1) Storage only, no pumps.
Source: City's Water and Wastewater Utility.

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Historical Water Pumpage - TABLE EIGHT

The following table summarizes historical demand and maximum day water pumpage from fiscal years 1998 through 2007.

Fiscal Year	Total Pumpage (Millions of Gallons)	Percent Change	Maximum Day Pumpage (Million of Gallons)
1998	46,438	8.5	211
1999	46,422	(0.0)	216
2000	52,194	12.4	227
2001	50,140	(3.9)	243
2002	50,883	1.5	214
2003	51,111	.4	232
2004	48,469	(5.2)	197
2005	51,374	6.0	247
2006	56,603	10.1	217
2007	45,868	(19.0)	180

Source: City's Water and Wastewater Utility.

Projected Water Pumpage - TABLE NINE

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

Fiscal Year	Total Pumpage (Million of Gallons)	Maximum Day Pumpage (Million of Gallons)
2008	54,921	270
2009	55,972	275
2010	57,042	280
2011	58,109	285
2012	59,169	290
2013	60,264	295
2014	61,379	300
2015	62,514	306
2016	63,671	312
2017	64,498	318

Source: City's Water and Wastewater Utility.

Information Concerning Water Sales - TABLE TEN

	Fiscal Year Ended September 30									
	2003		2004		2005		2006		2007	
	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons
Thousand Gallons Pumped		51,110,847		48,468,963		51,373,925		56,602,592		45,867,627
Less: Sales to Other Water Utilities (1)		3,437,043		3,164,880		3,048,823		4,116,576		3,158,595
Thousand Gallons to System		47,673,804		45,304,083		48,325,102		52,486,016		42,709,032
Water Sales:										
Urban	169,839	35,644,803	173,445	34,228,582	177,431	36,138,345	182,417	41,300,660	186,888	34,867,508
Rural	13,512	2,302,234	12,787	2,029,242	12,535	2,263,397	12,142	2,763,320	11,504	1,981,852
	183,351	37,947,037	186,232	36,257,824	189,966	38,401,742	194,559	44,063,980	198,392	36,849,360
City Departments	387	553,582	388	669,551	435	972,462	483	1,290,559	491	1,001,517
Total Sales to Ultimate Consumer	183,737	38,500,619	186,620	36,927,375	190,401	39,374,204	195,042	45,354,539	198,883	37,850,877
Used by Water Utility		1,506,146		1,454,289		1,442,454		1,770,463		1,445,523
Other Unmetered Usage		3,460,215		3,281,351		2,745,350		1,664,116		1,348,508
Loss and Unaccounted For		4,206,824		3,641,068		4,763,094		3,696,898		2,064,124
Thousand Gallons to System		47,673,804		45,304,083		48,325,102		52,486,016		42,709,032
Maximum Daily Consumption		224,592		190,784		236,540		241,456		176,979
Average Daily Consumption in Thousands of Gallons		119,024		113,826		120,179		135,537		112,355

(1) Includes sales to all wholesale customers.

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Large Water Customers - TABLE ELEVEN

Water and Wastewater Utility
Large Water Customers
Five Year Comparative Data (2003 - 2007)

Fiscal Year Ended September 30
(Gallons and Dollars in Thousands) (2)

	2003		2004		2005		2006		2007	
	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue
Freescale, Inc. (1)	1,048,571	$ 2,654	1,003,329	$ 2,687	927,240	$ 2,694	848,429	$ 2,597	886,402	$ 2,909
University of Texas	962,813	2,563	909,593	2,577	893,173	3,337	936,929	3,203	855,424	4,799
Samsung	485,945	1,229	499,627	1,336	499,761	1,440	688,096	1,964	783,881	2,604
Water District 10	795,059	1,646	787,407	1,687	844,337	2,030	1,078,395	2,765	775,830	2,013
Spansion (formerly AMD)	792,393	2,009	652,030	1,870	635,518	1,853	613,290	1,931	552,661	1,687
Anderson Mill MUD	486,171	949	484,241	991	474,223	1,040	571,852	1,308	494,179	1,193
Wells Branch MUD	563,339	1,090	503,040	1,016	522,027	1,176	584,127	1,363	429,686	1,052
North Austin MUD	354,291	718	323,783	798	352,984	978	433,122	1,096	357,873	942
Lost Creek	304,709	654	276,227	617	286,023	701	346,036	900	251,273	667
Shady Hollow MUD	237,135	567	204,950	511	222,032	589	309,501	887	202,342	586
	4,981,856	$11,426	4,640,898	$11,403	4,730,078	$13,144	5,561,348	$15,417	4,703,149	$15,544

(1) Totals for Freescale, Inc. include their east Austin plant site and their west Austin plant sites.
(2) These columns may not add to the totals provided due to rounding.

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WASTEWATER SYSTEM

Service Area

The Water and Wastewater 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 six MUDs, one water control and improvement district, one private utility, and the Cities of Manor, Rollingwood, Sunset Valley and West Lake Hills to provide wastewater service.

Facilities

The Water and Wastewater Utility has two main wastewater treatment plants with a permitted capacity of 150 mgd, one biosolids treatment and disposal facility, over 2,520 miles of sanitary wastewater mains and lines, and 120 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 Plant. The Hornsby Bend Biosolids Treatment Plant operates as a sludge treatment and disposal facility and was placed in operation in 1956. In 2004, the City received from the TCEQ renewals of discharge permits (TPDES permits) for all its wastewater treatment plants. The permits are renewable again in 2009.

The Walnut Creek Wastewater Treatment Plant is permitted to discharge an average flow of 75 mgd. During 2007 average flow was 56 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 2007 average flow was 42 mgd. An interceptor transfers wastewater from the former Govalle plant to the South Austin Regional 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 prior to 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 is 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 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 Brazos River Authority ("BRA") have 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.

Similar to other municipal wastewater systems, the USEPA has 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. The City is in the process of constructing necessary infrastructure improvements and expects to complete all USEPA mandated corrective actions and infrastructure improvements by the June 30, 2009 date.

Stormwater is collected in an entirely separate gravity feed 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 Water and Wastewater Utility owns and operates the following major lift stations.

Name	Firm Capacity (Gallons per Minute)
Montopolis (1)	22,000
Boggy Creek East	16,400
Shoal Creek	9,000
Tracor	5,580
Canterbury (1)	3,475
Taylor Slough	3,400
Barton Creek	5,800
Lake Creek	4,200
Davis Springs	3,600
Springfield	2,400

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

Historical Wastewater Flows - TABLE TWELVE

The following table summarizes the historical wastewater flows to the City's wastewater treatment facilities from fiscal years 1998 through 2007.

Fiscal Year	Total Wastewater Flow (Millions of Gallons)	Percent Change
1998	31,609	(3.9)
1999	34,298	8.5
2000	30,684	(10.5)
2001	34,289	11.7
2002	33,361	(2.7)
2003	31,815	(4.6)
2004	31,316	(1.6)
2005	31,184	(0.4)
2006	28,399	(8.9)
2007	35,623	25.4

Projected Wastewater Flows - TABLE THIRTEEN

The following table summarizes the wastewater flows projected to be received at the City's wastewater treatment plants.

Fiscal Year	Total Wastewater Flow (Millions of Gallons)
2008	33,137
2009	33,797
2010	34,360
2011	34,909
2012	35,492
2013	36,085
2014	36,688
2015	37,301
2016	37,924
2017	38,728

Source: City's Water and Wastewater Utility. Such projections are based on actual operating experience.

To meet these projections, 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 current approved FY 2008-12 capital spending plan, it is anticipated that the Water and Wastewater System will require approximately $1,373.2 million for system improvements. 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 $1,114.5 million additional Parity Water/Wastewater Obligations and (2) the application of $228.7 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 extra-territorial 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.

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 between 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.

The City has previously entered into contractual commitments with fourteen municipal utility districts for the construction of improvements to and extensions of the City's Water and Wastewater System. The commitments for the financing of such improvements and extensions exist in the form in which the districts issue bonds and construct the improvements. The City generally becomes the owner of such improvements upon completion of construction. The City makes payments equal to its pro rata share of total debt service on the bonds from the City's user fees charged to customers using such improvements, surplus Net Revenues from the Water and Wastewater System and, if necessary, City ad valorem taxes. The districts pay their pro-rata share of the debt service due on bonds directly to the City.

Some of the contractual commitments of the City with the most recently approved districts vary from the process described above in that the issuance by the districts of bonds for such improvements and extensions creates a lien on and pledge of the Net Revenues of the Water and Wastewater System to cover the City's payments on the total debt service. The lien is known as a Separate Lien Obligation and is on parity with respect to the lien on and pledge of the Net Revenues of the Water and Wastewater System with the Prior Subordinate Lien Obligations and Parity Water/Wastewater Obligations already issued by the City or to be issued in the future. No pledge of the City's ad valorem taxes is made. The City will own, operate and maintain the facilities after completion of the project. In addition, the City may request that some of the districts finance improvements to the City's water and/or wastewater treatment facilities.

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 MUD's and thereby assumed their outstanding utility system debt.

The City previously consented to the creation of twelve MUDs inside the City's corporate limits, of which ten have been dissolved. Three of the twelve MUDs had their annexation status changed from full purpose to limited purpose. Moore's Crossing MUD also had its annexation status changed from full purpose to limited purpose and Northwest Austin MUD 1 is annexed for full purposes. The creation of the inside City districts was approved by the TCEQ. They receive retail water and wastewater services as well as other services from the City and will issue bonds and levy an ad valorem tax to finance internal water, wastewater and drainage facilities. Under existing law, the City will not have to assume any of the debt issued for these City districts, so long as they are not dissolved.

Water and Wastewater Rates

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.

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

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

Water Service Rates Effective November 1, 2007 – TABLE FOURTEEN

Monthly Customer Charges

Customer Account Charge	Equivalent Meter Charge			
	Customer Account Charge per Month	Meter Size	Retail Meter Charge per Month	Wholesale Meter Charge per Month
Retail Customer Account Charge ($/Month)	$3.70	5/8	$ 1.65	$ 1.65
		3/4	2.55	2.55
Wholesale Customer Account Charge ($/Month)	$3.70	1	3.81	3.81
		1 ¼	5.61	5.61
		1 ½	7.41	7.41
		2	11.01	11.01
		3	26.85	26.85
		4	44.85	44.85
		6	89.85	89.85
		8	134.85	134.85
		10	179.85	179.85
		12	206.85	206.85

Volume Unit Charge (1)

Unit Cost per 1,000 Gallons	Inside City	Outside City
Single-Family Residential (2)		
0 – 2,000 Gallons	$ .93	$ .93
2,001 – 9,000 Gallons	2.43	2.43
9,001 – 15,000 Gallons	4.18	4.18
15,001 – Over Gallons	7.63	7.63
Multifamily (3)		
Off Peak	$3.16	$3.18
Peak	3.47	3.49
Commercial (3)		
Off Peak	$3.78	$4.13
Peak	4.18	4.55
Large Volume/Industrial (3)		
Off Peak	$3.48	N/A
Peak	3.85	N/A
Golf Courses (3)		
Off Peak	$3.78	$4.13
Peak	4.18	4.55

(1) Wholesale unit charges vary between $2.35 and $6.11 for each 1,000 gallons.
(2) The City has approved an inclining block rate structure to promote water conservation for the 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).

Wastewater Service Rates Effective November 1, 2007 – TABLE FIFTEEN

Customer Account Charge

	Inside City	Outside City	Wholesale Customers
Customer Account Charge ($/month)	$7.10	$7.10	$7.10

Volume Unit Charge

	Unit Cost per 1,000 Gallons (1)	
	Inside City	Outside City
Retail Inside City:		
Single-Family		
0 - 2,000 Gallons	$3.18	$4.10
2,001 - Over Gallons	7.18	7.63
Multifamily	6.30	6.30
Commercial	6.93	6.93
Large Volume/Industrial	6.32	N/A
Golf Courses	6.93	6.93

Wholesale unit charges vary between $3.35 and $4.84 for each 1,000 gallons.

(1) Applied to average water consumption during December, January and February billing periods, or actual water consumption, whichever is lower.

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 Town 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				
Average Monthly Bill Per Customer - Water	2003	2004	2005	2006	2007
Inside City (Urban)					
Residential	$ 24.67	$ 22.23	$ 25.66	$ 31.16	$ 22.64
Multi-Family	314 22	321.61	366.72	410.58	403.61
Commercial	204.61	201.60	218.37	256.95	231.33
Industrial	93,761.88	95,841.88	97,646.05	101,314.54	114,819.11
City Departments	373.10	464.28	703.57	749.31	524.49
Outside City (Rural)					
Residential	29.72	25.74	30.66	38.01	27.51
Multi-Family	231.67	246.53	311.23	392.34	356.31
Commercial	184.58	206.87	369.57	440.01	266.96
Average Monthly Bill					
Above Customers	50.88	48.91	55.78	69.09	54.48
Sales to Other Water Utilities*	30,360.71	28,783.44	33,575.67	42,981.04	34,079.94
Average Monthly Bill					
All Customers	$ 54.18	$ 51.99	$ 59.30	$ 69.49	$ 57.91
Average Monthly Use in 1000 Gallons - Water					
Inside City (Urban)					
Residential	8.35	7.56	7.90	9.06	6.80
Multi-Family	130.78	128.36	133.34	140.50	130.24
Commercial	69.28	65.40	64.05	71.33	59.26
Industrial	37,231.67	35,890.31	33,892.48	32,226.37	35,148.39
City Departments	123.76	148.19	206.27	222.26	171.02
Outside City (Rural)					
Residential	9.50	8.35	8.81	10.34	7.77
Multi-Family	103.22	93.97	104.33	127.28	124.25
Commercial	68.94	67.59	109.38	115.99	73.32
Average Monthly Use					
Above Customers	18.12	17.01	17.59	19.31	15.91
Sales to Other Water Utilities*	14,858.34	13,597.73	14,049.02	17,127.23	13,239.38
Average Monthly Use					
All Customers	19.74	18.46	19.06	21.06	17.24
Average Revenue Per 1000 Gallons - Water					
Inside City (Urban)					
Residential	2.95	2.94	3.25	3.44	3.33
Multi-Family	2.40	2.51	2.75	2.92	3.10
Commercial	2.95	3.08	3.41	3.60	3.90
Industrial	2.52	2.67	2.88	3.14	3.27
City Departments	3.01	3.13	3.41	3.37	3.07
Outside City (Rural)					
Residential	3.13	3.08	3.48	3.68	3.54
Multi-Family	2.24	2.62	2.98	3.08	2.87
Commercial	2.68	3.06	3.38	3.79	3.64
Average Revenue					
Above Customers	2.81	2.88	3.17	3.37	3.42
Sales to Other Water Utilities*	2.04	2.12	2.39	2.51	2.57
Average Revenue					
All Customers	2.75	2.82	3.11	3.30	3.36

*Includes all wholesale customers.

Analysis of Wastewater Bills - TABLE SIXTEEN B

	Fiscal Year Ended September 30				
Average Monthly Bill Per Customer - Wastewater	2003	2004	2005	2006	2007
Inside City (Urban)					
Residential	$ 19.92	$ 21.47	$ 24.21	$ 26.43	$ 28.25
Multi-Family	405.13	432.29	502.41	540.34	601.92
Commercial	193.41	210.53	235.85	255.75	271.92
Industrial	112,135.81	112,779.87	116,270.85	119,912.89	130,895.01
City Departments	211.33	224.06	257.71	177.19	195.06
Outside City (Rural)					
Residential	25.67	26.76	29.82	32.73	35.78
Multi-Family	385.34	383.09	463.32	599.96	707.28
Commercial	436.55	405.92	475.17	575.54	552.38
Average Monthly Bill					
Above Customers	47.16	50.15	56.06	59.74	64.04
Sales to Other Utilities*	25,877.35	28,846.49	29,263.88	34,418.20	36,934.27
Average Monthly Bill					
All Customers	$ 48.53	$ 51.65	$ 57.55	$ 61.44	$ 66.03
Average Monthly Use in 1000 Gallons - Wastewater					
Inside City (Urban)					
Residential	4.67	4.69	4.61	4.68	4.51
Multi-Family	107.51	107.96	108.60	108.69	109.60
Commercial	46.32	47.01	46.02	46.76	45.19
Industrial	31,745.82	28,993.95	26,468.38	24,063.62	24,676.79
City Departments	62.78	57.44	56.58	35.48	30.04
Outside City (Rural)					
Residential	5.07	5.12	5.12	5.26	5.28
Multi-Family	102.51	96.08	99.67	120.67	129.58
Commercial	103.91	92.21	89.69	102.00	94.60
Average Monthly Use					
Above Customers	11.70	11.58	11.28	11.13	10.84
Sales to Other Wastewater Utilities*	8,847.72	9,362.28	9,112.44	9,455.98	9,649.13
Average Monthly Use					
All Customers	12.17	12.07	11.75	11.60	11.36
Average Revenue Per 1000 Gallons - Wastewater					
Inside City (Urban)					
Residential	4.26	4.58	5.25	5.65	6.26
Multi-Family	3.77	4.00	4.63	4.97	5.49
Commercial	4.18	4.48	5.12	5.47	6.02
Industrial	3.53	3.89	4.39	4.98	5.30
City Departments	3.37	3.90	4.55	4.99	6.49
Outside City (Rural)					
Residential	5.06	5.23	5.82	6.22	6.78
Multi-Family	3.76	3.99	4.65	4.97	5.46
Commercial	4.20	4.40	5.30	5.64	5.84
Average Revenue					
Above Customers	4.03	4.33	4.97	5.37	5.91
Sales to Other Utilities*	2.92	3.08	3.21	3.64	3.83
Average Revenue					
All Customers	3.99	4.28	4.90	5.30	5.81

*Includes all wholesale customers.

COMPARATIVE ANALYSIS OF ELECTRIC UTILITY SYSTEM AND WATER AND WASTEWATER SYSTEM OPERATIONS OCTOBER 1, 2002 TO SEPTEMBER 30, 2007

(in thousands rounded)

	Fiscal Year Ended September 30					
	Unaudited 2007	2006	2005	2004	2003	2002
INCOME						
Revenue	$1,393,345	$1,412,853	$1,260,401	$1,076,511	$1,189,672	$1,022,988
Operating Expense	(846,005)	(824,870)	(730,697)	(626,412)	(663,651)	(513,780)
Balance Available for Debt Service	547,340	587,983	529,704	450,099	526,021	509,208
Depreciation and Amortization Expense	(190,203)	(193,517)	(167,150)	(149,578)	(141,633)	(145,601)
Earnings Before Interest Expense	357,137	394,466	362,554	300,521	384,388	363,607
Interest Incurred on Debt	(180,957)	(169,818)	(173,391)	(181,570)	(183,697)	(172,111)
Other	(16,530)	(9,840)	(10,640)	(51)	(17,508)	(5,885)
INCOME (LOSS) BEFORE OPERATING TRANSFERS (a) (b) (c) (d)	$ 159,650	$ 214,808	$ 178,523	$ 118,900	$ 183,183	$ 185,611
PERCENTAGES						
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Operating Expense	60.72%	(58.38%)	(57.97%)	(58.19%)	(55.78%)	(50.22%)
Balance Available for Debt Service	39.28%	41.62%	42.03%	41.81%	44.22%	49.78%
Depreciation and Amortization Expense	13.65%	(13.70%)	(13.26%)	(13.89%)	(11.90%)	(14.23%)
Earnings Before Interest Expense	25.63%	27.92%	28.76%	27.92%	32.32%	35.55%
Interest Incurred on Debt	(12.99%)	(12.02%)	(13.76%)	(16.87%)	(15.44%)	(16.82%)
Other	(1.19%)	(0.70%)	(0.84%)	0.00%	(1.47%)	(0.58%)
INCOME BEFORE EXTRAORDINARY GAIN (LOSS)	11.46%	15.20%	14.16%	11.04%	15.41%	18.15%

(a) Income before transfers to the General Fund and Other Funds, for 12 months ended September 30, 2007, which are as follows (in thousands rounded):

Transfer to General Fund	$106,471
Transfers to Other Funds	3,520

(b) Excludes Combined Utility Funds' deferred costs recovered in future years of ($6,597) for twelve months ended September 30, 2007.
(c) There was no extraordinary gain or loss during each respective twelve month period.
(d) Excludes capital contributions of $21,121 for twelve months ended September 30, 2007.

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

	Fiscal Year Ended September 30					
	Unaudited 2007	2006	2005	2004	2003	2002
REVENUE						
ELECTRIC UTILITY						
Domestic and Rural Residential	$ 351,207	$ 379,728	$ 345,623	$ 296,099	$ 338,040	$ 268,495
Commercial General	537,180	531,440	479,816	422,794	468,918	375,821
City Utility Departments	15,280	17,168	15,214	13,407	15,123	12,557
Public Street Lighting	6,056	6,023	5,556	5,703	7,840	5,514
City General Government Departments	7,691	8,363	8,694	7,595	8,268	6,357
Sales to Other Utilities	19,314	23,041	21,655	11,812	14,378	5,568
Transmission	57,237	46,864	40,063	36,230	36,790	36,057
Rent from Electric Property	2,405	2,472	1,656	1,805	1,455	2,002
Customers' Forfeited Discounts and Penalties	4,771	4,951	4,161	3,823	3,893	4,738
Miscellaneous	55,347	50,556	50,408	29,750	26,944	27,986
Total Electric Utility	$1,056,488	$ 1,070,606	$ 972,846	$ 829,018	$ 921,649	$ 745,095
WATER UTILITY						
Urban	$ 120,766	$ 141,267	$ 120,864	$ 103,547	$ 111,689	$ 104,547
Rural	6,967	9,854	8,606	6,436	7,293	6,837
Sales to Other Water Utilities	7,755	10,387	8,202	6,889	7,697	7,164
Water Connections	474	493	458	420	403	300
Customers' Forfeited Discounts and Penalties	752	787	611	578	623	784
Miscellaneous	1,636	1,773	1,615	1,383	2,719	2,403
Total Water Utility	$ 138,350	$ 164,561	$ 140,356	$ 119,253	$ 130,424	$ 122,035
WASTEWATER UTILITY						
Urban	$ 137,243	$ 125,349	$ 114,764	$ 100,604	$ 97,495	$ 92,793
Rural	4,723	4,549	4,058	3,566	3,971	3,311
Service to Other Utilities	4,582	3,831	3,172	3,142	2,966	2,983
Wastewater Connections	435	452	420	385	369	275
Customers' Forfeited Discounts and Penalties	867	787	649	593	598	733
Industrial Waste Surcharge	3,662	3,728	3,657	3,607	3,846	3,662
Miscellaneous	2,606	2,980	2,594	2,814	2,696	3,742
Total Wastewater Utility	$ 154,118	$ 141,676	$ 129,314	$ 114,711	$ 111,941	$ 107,499
Interest	$ 44,388	$ 36,010	$ 17,885	$ 13,529	$ 25,658	$ 48,359
TOTAL REVENUE	$1,393,344	$1,412,853	$1,260,401	$1,076,511	$1,189,672	$1,022,988

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

	Fiscal Year Ended September 30					
EXPENSE	Unaudited 2007	2006	2005	2004	2003	2002
ELECTRIC UTILITY						
Production	$316,182	$340,316	$297,727	$207,783	$264,962	$128,386
Joint Facility Production	142,194	133,493	119,462	116,996	117,888	108,929
System Control	11,628	9,912	8,177	6,470	6,164	5,431
Transmission and Distribution	84,713	75,798	69,090	68,406	63,775	61,797
Jobbing and Contract Work	56	594	(761)	17	(240)	172
Customer Accounting and Collection	15,988	14,506	14,744	16,062	16,523	17,566
Customer Services	19,214	17,134	15,543	10,949	7,638	9,759
Administrative and General	121,206	103,518	90,237	90,174	77,525	69,399
Total Electric Utility	$711,181	$695,271	$614,219	$516,857	$554,235	$401,439
WATER UTILITY						
Purification	$ 20,951	$ 26,463	$ 18,257	$ 17,217	$ 16,834	$ 16,702
Distribution	23,971	23,607	19,859	19,590	20,796	20,897
Customers' Accounting and Collection	6,272	6,315	6,096	6,035	6,035	6,378
Jobbing and Contract Work	3	24	21	(9)	(118)	(78)
Design Engineering	1,764	1,671	1,137	823	708	800
Administrative and General	20,594	17,425	17,204	15,592	14,754	15,296
Total Water Utility	$ 73,555	$ 75,505	$ 62,574	$ 59,248	$ 59,009	$ 59,995
WASTEWATER UTILITY						
Wastewater Lines	$ 8,436	$ 7,484	$ 5,788	$ 5,788	$ 5,609	$ 6,299
Sewage Treatment Plant	26,041	23,902	22,787	21,239	20,913	21,405
Customers' Accounting and Collection	3,074	3,160	3,236	2,911	2,911	3,017
Jobbing and Contract Work	0	8	1	3	11	24
Design Engineering	10,312	9,674	8,434	7,925	7,396	7,437
Administrative and General	13,406	9,866	13,658	12,441	13,567	14,164
Total Wastewater Utility	$ 61,269	$ 54,094	$ 53,904	$ 50,307	$ 50,407	$ 52,346
TOTAL EXPENSE (1)	$846,005	$824,870	$730,697	$626,412	$663,651	$513,780
NET REVENUE AVAILABLE FOR DEBT SERVICE	$547,339	$587,983	$529,704	$450,099	$526,021	$509,208
Electric Customers	392,143	380,698	372,735	365,874	359,526	353,072
Water Customers	199,671	197,511	192,511	187,551	184,659	182,977
Wastewater Customers	186,675	184,022	178,574	174,593	169,330	168,159

(1) Interest expense, depreciation, amortization and other non-operating items are not included in total expense.

DISCUSSION OF OPERATING STATEMENT

Austin Energy Revenues

Variations in total Austin Energy revenues for the fiscal years ("FY") ended September 30, 2002 through September 30, 2006 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 FY02 through FY06, were largely attributable to weather and system rate changes.

Austin Energy Expenses

Changes in Austin Energy expenses for the period FY02 through FY06 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 FY02 through FY06 were primarily attributable to inflationary increases in the cost of power and chemicals, along with system growth.

GASB 34

In June 1999, the Governmental Accounting Standards Board issued Statement No. 34 ("GASB 34"), Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments. Subsequently, the GASB issued related Statement Nos. 37, 38 and 39. The objective of these Statements is to enhance the clarity and usefulness of the general-purpose external financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors. The Statements require a new reporting model for financial statements for governments, with a focus on the entity as a whole.

The City implemented GASB 34 and the related statements for the fiscal year ended September 30, 2002, in compliance with GASB 34 timelines. While adoption of this Statement altered the presentation of the City's financial information, the adoption of GASB 34 did not have any material adverse impact on the City's financial position, results of operation, or cash flows. Consistent with GASB 34, the City has not presented restated fiscal year data for fiscal years prior to the fiscal year ended September 30, 2002 and thereafter for the purpose of providing comparative data.

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

	Fiscal Year Ended September 30					
	Unaudited 2007	2006	2005	2004	2003	2002
Plant Cost						
Utility Systems						
Electric	$3,843,739	$3,730,305	$3,618,416	$3,547,908	$3,399,284	$3,231,331
Water	1,529,445	1,468,913	1,419,403	1,346,938	1,275,501	1,220,643
Wastewater	1,673,671	1,573,490	1,463,061	1,328,064	1,214,498	1,123,646
Total Cost	$7,046,855	$6,772,708	$6,550,880	$6,222,910	$5,889,283	$5,575,620
Allowance for Depreciation:						
Electric	$1,614,321	$1,553,865	$1,444,715	$1,374,273	$1,288,675	$1,203,986
Water	415,920	381,364	350,376	323,568	299,550	278,757
Wastewater	473,751	437,373	413,175	383,687	358,634	337,795
Total Depreciation	2,503,992	2,372,602	2,208,266	2,081,528	1,946,859	1,820,538
Cost after Depreciation	$4,542,863	$4,400,106	$4,292,614	$4,141,382	$3,942,424	$3,755,082
Equity in Utility Systems						
Utility Systems	$7,046,855	$6,772,708	$6,550,880	$6,222,910	$5,889,283	$5,575,620
Plus: Inventories, Materials and Supplies (1)	44,409	41,358	38,298	35,813	32,349	32,980
Net Construction Assets and Unamortized Bond Issue Cost	43,015	62,412	16,913	12,640	28,922	125,858
	$7,134,279	$6,876,478	$6,556,091	$6,271,363	5,950,554	5,734,458
Less:						
Allowance for Depreciation	$2,503,992	$2,372,602	$2,208,266	$2,081,528	$1,946,859	$1,820,538
Construction Contract Payable	0	0	0	0	0	0
Total	$2,503,992	2,372,602	2,208,266	2,081,528	1,946,859	1,820,538
Utility Systems, Net	4,630,287	4,503,876	4,347,825	4,189,835	4,003,695	3,913,920
Revenue Bonds and Other Debt Outstanding (2)	2,976,746	2,912,616	2,853,419	2,763,009	2,798,156	2,796,408
Less: Bond Retirement and Reserve Funds	0	0	0	0	144,410	147,637
Net Debt	2,976,746	2,912,616	2,853,419	2,763,009	2,653,746	2,648,771
Equity in Utility Systems	$1,643,541	$1,591,260	$1,494,406	$1,426,826	$1,349,949	$1,265,149
Percentage of Equity in Utility Systems	35.50%	35.33%	34.37%	34.05%	33.72%	32.32%

(1) Does not include fuel oil or coal inventories of approximately $25.064 million at September 30, 2007. Consists primarily of spare parts inventory at Fayette Plant and South Texas Project.

(2) Includes Revenue Bonds and Tax and Revenue Bonds of $2.649 billion (net of discounts, unamortized gains and losses on refundings, and inclusive of premiums); Contract Revenue Bonds of $2.423 million (net of discounts); Capital Lease Obligations of $2.569 million; Commercial Paper of $309.003 million (net of discounts); General Obligation Bonds of $3.964 million; and Contractual Obligations of $9.41 million.

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 matters described below) will not have a material effect on the City's financial condition or the financial condition of the Electric Utility System and/or the Water and Wastewater System.

Electric Utility System Litigation

The City is in litigation with the owner of a block of land in downtown Austin where, 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 service 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 on its affirmative defense. The City has appealed. The City is unable to predict the outcome of the appeal.

Water and Wastewater Utility System Litigation

The City is in litigation with the Archer Western Contractors, Ltd. ("Archer Western"), the contractor for the expansion of the City of Austin's Ullrich Water Treatment Plant from 100 million gallons per day to 165 million gallons per day project. The water treatment plant is one of three currently providing treated water to the City of Austin.

On June 14, 2007, Archer Western filed suit against the City in the 201st Judicial District Court of Travis County, Texas, under Cause No. D-1-GN-07-001790, *Archer Western Contractors, Ltd. v. City of Austin, Texas*, for $19,666,890.00. Archer Western alleges that the City breached the construction contract for the project and, as a consequence, it incurred additional costs. The alleged additional costs include additional general conditions costs, additional supervision costs, additional costs due to project acceleration and lost productivity, additional costs due to additional work directed by the City, additional costs due to design deficiencies, and additional costs due to obstruction and extension of the base contract work. Archer Western also alleges that it performed change order work without compensation and that the City is withholding liquidated damages without cause.

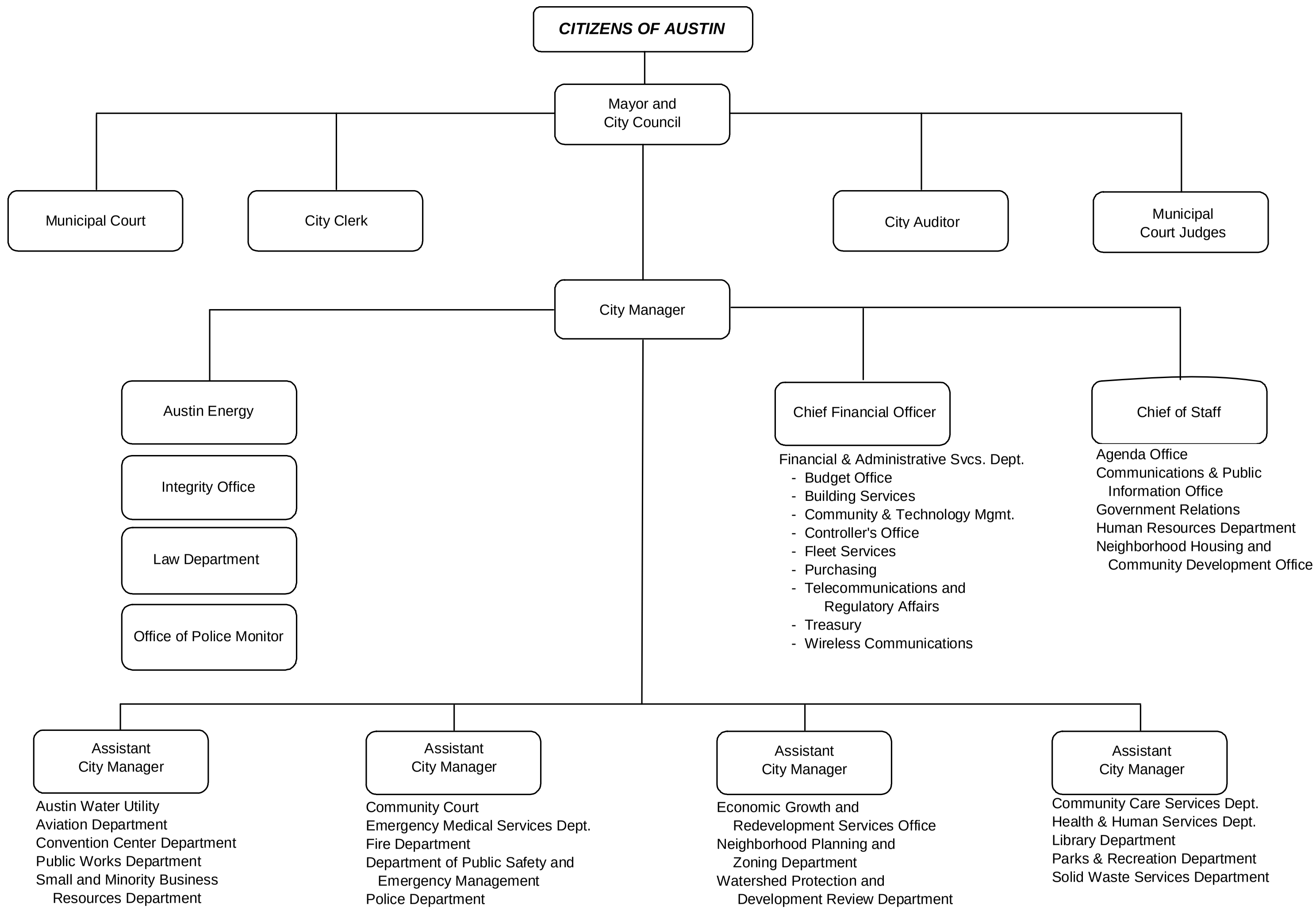
The City is currently analyzing its damages and expects to be ready to file a counter-claim against Archer Western in the near future in a substantial amount. The City's position is that it has been damaged by Archer Western due to its failure to timely complete the Project and due to defective work discovered during the course of construction, only some of which has been remedied.

The case is currently in the discovery process, which will take a number of months for document production, expert reports and depositions. The City is unable to predict the outcome of the trial.

The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2007.

CITY OF AUSTIN, TEXAS

Organization Chart



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 Ott

Mr. Ott earned his bachelor's degree in management with a concentration in economics from Michigan's Oakland University and a master's 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. Mr. Ott was selected City Manager in January 2008 by the Austin City Council. Mr. Ott previously served as Assistant City Manager for the City of Fort Worth. Prior to his position in Fort Worth, Mr. Ott was City Administrator for the City of Rochester Hills, Michigan.

Chief Financial Officer – Leslie Browder, CPA

Ms. Leslie Browder received her B.B.A. in Accounting from The University of Texas at Austin. Her career with the City spans more than 15 years. Ms Browder assumed the position of Chief Financial Officer in September 2007. Prior to her appointment as Chief Financial Officer, she served as the City's Deputy Chief Financial Officer. During her tenure at the City of Austin, she has also served in other financial capacities, including the Chief Financial Officer for the airport. Ms. Browder has also been employed in Chief Financial Officer roles for Austin's public transportation authority, San Diego County's public pension system and the City of Encinitas, California.

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 not approved collective bargaining for either firemen or policemen. 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.

Annexation Program

The City annexes territory on a regular basis. Chapter 43 of the Texas Local Government Code regulates annexation of territory by the City. Prior to 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 Texas law, there are basically 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, for this particular annexation, 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. Depending on the type of petition, a court may order the City to comply with the service plan or to disannex the area. The City may not reannex for ten years any area that was disannexed for failure to provide services.

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. Texas 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 10,200 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, thereby minimizing the fiscal impact to the City due to annexation.

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The following table sets forth (in acres) the annual results of the City's annexations since 1997.

Calendar Year	Full Purpose Acres (1)	Limited Purpose Acres
1997 (2)	15,083	0
1998	2,660	1,698
1999	90	588
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

(1) Includes acres converted from limited purpose to full purpose status.
(2) The 1997 annexation program included ten area municipal utility districts.

Legislative action required the City to convert the Harris Branch and Moore's Crossing MUDs from full purpose to limited purpose status in 1995. In 1998, the full purpose reannexation of the Harris Branch MUDs is reflected in the table above.

Recent Annexation

The Year 2007 saw the conversion of Watersedge, Ribelin Ranch, and approximately one-half of Goodnight Ranch from limited purposes to full purposes. 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 ETJ were annexed. In total, 2,466 full purpose acres and $22 million in taxable property value 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 of Austin's MAP in 2003 and includes two Del Valle Independent School District sites. Approximately $83 million in taxable assessed value ("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 taxable assessed value ("TAV") and 375 acres to the City of Austin. 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. The Onion Creek area, annexed for full purposes in 2003, added over 1,200 acres, 3,000 residents and $190 million in TAV to the City. Total estimated TAV annexed in 2003 equaled over $375 million.

Approximately $37 million in TAV and over 2,100 new residents were added to the City as a result of the 2002 annexation of the Canterbury Trails subdivision in southwest Austin. Other 2002 annexations included right-of-way tracts, additional tracts in the Avery Ranch subdivision, and other undeveloped tracts. The Wildhorse Area near Decker Lake was annexed for limited purposes in February 2002.

Future Annexation

In the next few years a number of areas previously annexed for limited purposes will be converted to full purpose status. MUD's covered by strategic partnership agreements ("SPAs") are planned to be annexed as well as areas included in the City's MAP. The most significant of the identified future annexation areas are shown below:

- Grand Avenue Parkway – full purpose annexation of commercial frontage along IH 35 is scheduled for February 2008;
- Anderson Mill MUD– annexation of northwest Austin area is scheduled December 2008 per terms of the amended SPA;
- Commercial area adjacent to Anderson Mill MUD located at the intersection of RM 620 and Anderson Mill Road
- Lost Creek MUD– west Austin area was included in 2005 MAP. Annexation, originally scheduled for December 2008, is expected to be postponed. After mediation and arbitration over the terms of a SPA, the MUD voted to appeal the arbitrator's August 2007 ruling which upheld the City's proposal for a SPA with a two-phased annexation;
- North Acres area – northeast Austin area was included in 2005 MAP with full purpose annexation scheduled for December 2008;
- Peninsula area – properties near Lake Austin were included in 2005 MAP with full purpose annexation scheduled for December 2008;
- Wildhorse – remaining, unplatted portions will be annexed for full purposes in December 2009 as provided in the limited purpose regulatory plan
- Springwoods MUD– annexation was postponed until December 2010 per terms of the amended SPA (includes assumption of debt for drainage improvements and completion/maintenance of drainage projects); and
- Springwoods Non-MUD area – northwest Austin area added to the MAP in 2007 with full purpose annexation scheduled for December 2010.

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.

The Police Officers contribute 13.0% and the City contributes 18% of payroll. The Municipal employees and the City each contribute 8.0%. The Firefighters (who are not members of the Social Security System) contribute 15.7% of payroll, the City contributes 18.05%.

The contributions to the pension funds are designed to fund current service costs and to amortize the unfunded actuarial accrued liability of the Police Officer's Fund over 29.7 years and the Firefighter's Fund over 115.9 years.

The actuarial accrued liability for the Municipal Employees Fund as of December 31, 2006, was $1,974,010,618. The actuarial accrued liability for the Police Officers' Fund as of December 31, 2006, was $576,125,324. The actuarial accrued liability for the Firefighters' Pension Fund as of December 31, 2006, was $580,053,954. Actuarial studies were performed for the Municipal Employees Fund and the Police Officer's Fund as of December 31, 2006 and for the Firefighter's Pension Fund as of December 31, 2005.

As reported in the actuarial valuation of the Municipal Employees Fund prepared for the period ending December 31, 2006, due to significant asset losses that occurred in 2000-2002, current contributions to the Municipal Employees Fund are not sufficient to amortize the unfunded liability of the fund. Accordingly, as of December 31, 2005, the Municipal Employees Fund had an infinite funding period and, in the absence of significant actuarial gains, then current contribution rates were not sufficient to support the current benefit structure of the Municipal Employees Fund. However, in 2005 the City implemented a Supplemental Funding Plan which is expected to gradually increase the City's contribution rate to the Municipal Employees Fund to 12.0%. The additional contribution provided pursuant to the SFP is intended to remain in place until the funding period of the Municipal Employees Fund is reduced to below 30 years. Once this occurs the City, at its discretion, may reduce the additional contribution rate provided pursuant to the SFP to a rate that produces a 30-year funding period. Based on current projections and in the absence of significant actuarial losses, the City expects the SFP to enable the Municipal Employees Fund to reduce its funding period to 30 years by the time of the valuation for the period ending December 31, 2014.

See Note 8 to the City's Financial Statements for additional information on the Pension Plans.

Other Post-Employment Benefits

In addition to providing pension benefits, the City provides certain health care and insurance benefits to its retirees. 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, 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. The estimated cost of providing these benefits for 2,682 retirees was $15.5 million in 2006 and $13.3 million in 2005 for 2,554 retirees.

GASB released the Statement of General Accounting Standards No. 45 ("GASB 45"), Accounting by Employers for Other Post-employment Benefits ("OPEB"), in June 2004. The City will be required to implement GASB 45, for the fiscal year beginning October 1, 2007. GASB 45 sets forth standards for the measurement, recognition, and display of post-employment benefits, other than pensions, such as health and life insurance for current and future retirees. Those subject to this pronouncement are required to: (i) measure the cost of benefits, and recognize other post-employment benefits expense, on the accrual basis of accounting over the working lifetime of the employees; (ii) provide information about the actuarial liabilities for promised benefits associated with past services and whether, or to what extent, the future costs of those benefits have been funded; and provide information useful in assessing potential demands on the employer's future cash flows. The employer's contributions to OPEB costs that are less than an actuarially determined Annual Required Contribution (ARC) will result in a net OPEB cost, which under GASB 45 will be required to be recorded as a liability in the employer's financial statements. The ARC is the amount that must be provided each year to pay for the cost of future retirees and to amortize the initial OPEB liability over a period of 30 years. There are no requirements to fund the initial OPEB liability or to fund the ARC – they simply must be reported. The City is assessing the legal and accounting implications of GASB 45, if any, which will be applicable to its financial statements beginning with the financial statements for the Fiscal Year 2008.

To date, an actuarial valuation has been completed by an outside consultant regarding the City's OPEB obligations. The valuation estimates an OPEB liability in the range of $556 million to $1 billion, depending upon the City's ability to fund the ARC. There is still a lot of information the City will gather to determine its approach to implementing GASB 45. The City has been working 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 the City's OPEB liability and related ARC. As described in the following paragraph the City also plans to continue evaluating the delivery of its current health plans, as well as implementation of a Medicare Advantage program, to identify potential cost savings for the future. The City will also assess the strategies that other jurisdictions are planning in their implementation of GASB 45.

Insurance

The Liability Reserve Fund is the insurance fund of the City for settled claims, expenses, and reserves relating to fifth 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 $5.6 million for claims and damages at the end of fiscal year 2007. 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 Texas Law and in accordance with investment policies approved by the City Council. Both State law and the City's investment policies are subject to change.

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 are guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, the "PFIA") that are issued by or through an institution that either has its main office or a branch in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share; (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent; and (13) local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Act) as amended, whose assets consist exclusively of the obligations that are described above. A public funds investment pool must be continuously ranked no lower than "AAA", "AAA-m" or at an equivalent rating by at least one nationally recognized rating service. The City may also invest bond proceeds in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

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

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

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

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

Investment Policies

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

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

Additional Provisions

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

Current Investments

As of February 1, 2008, the City's investable funds were invested in the following categories:

Type of Investment	Percentage
U.S. Treasuries	10%
U.S. Agencies	49%
Money Market Funds	2%
Local Government Investment Pools	39%

The dollar weighted average maturity for the combined City investment portfolios is 441 days. The City prices the portfolios weekly utilizing a market pricing service.

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS RELATING TO THE BONDS

The following is a general summary of the United States federal income tax consequences of the purchase and ownership of the 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 herein. 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 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, brokers-dealers, and persons who have hedged the risk of owning the Bonds). The summary is therefore limited to certain issues relating to initial investors who will hold the Bonds as "capital assets" within the meaning of section 1221 of the Internal Revenue Code of 1986, as amended (the "Code"), and acquire such 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 Internal Revenue Service (the "IRS") with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the Service 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 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 Bonds…The stated interest paid on the 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 Bonds are 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 Bonds 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 Bonds at maturity over its Issue Price, and the amount of the original issue discount on the Bonds will be amortized over the life of the 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 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 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 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 Bonds will increase the adjusted tax basis of the Bonds in the hands of such beneficial owner.

Disposition of Bonds and Market Discount…A beneficial owner of Bonds will generally recognize gain or loss on the redemption, sale or exchange of a Taxable 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 Bonds. Generally, the beneficial owner's adjusted tax basis in the 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 Bonds.

Under current law, a purchaser of a Bonds who did not purchase the Bonds in the initial public offering (a "subsequent purchaser") generally will be required, on the disposition of the 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 Bonds by a subsequent purchaser is less than the sum of Issue Price and the amount of original issue discount previously accrued on the Bonds. The Code also limits the deductibility of interest incurred by a subsequent purchaser on funds borrowed to acquire a 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 a Bonds could have a material effect on the market value of the Bonds.

*Backup Withholding…*Under section 3406 of the Code, a beneficial owner of the Bonds who is a United States person, as defined in section 7701(a)(3) of the Code, may, under certain circumstances, be subject to "backup withholding" on payments of current or accrued interest on the Bonds. This withholding applies if such beneficial owner of 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 Bonds. Beneficial owners of the 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 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 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 Bonds pursuant to a loan agreement entered into in the ordinary course of the bank's trade or business.

Assuming payments on the 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 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 Bonds for U.S. federal income tax purposes.

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the Systems of the general type included in the main text of the Official Statement within the numbered tables only and in APPENDIX B. The City will update and provide this information as of the end of each fiscal year within six months after the end of each fiscal year. The City will provide in accordance with prescribed procedures the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the United States Securities and Exchange Commission (the "SEC").

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the City will provide 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 each NRMSIR and the SID of the change.

Material Event Notices

The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of Holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIRs and SID

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

The Municipal Advisory Council of Texas (the "MAC") has been designated by the State of Texas as a SID. The address of the MAC is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512 476-6947.

Any filing required as specified above may be made solely by transmitting such filing to the MAC as provided at http://www.disclosureusa.org unless the SEC has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

Limitations and Amendments

The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell 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 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 Systems, if the agreement, as amended, would have permitted an underwriter to purchase or sell the Bonds in the offering described herein in compliance with the Rule and either the Holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Undertakings

During the last five (5) years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule. On October 24, 2007, the City filed its audited financial statements for the fiscal year ended September 30, 2006 with the NRMSIRs or the SID. Prior to this date the City had filed unaudited financial statements with the NRMSIRs and the SID, in accordance with its continuing disclosure agreements, and will file the audited financial statements promptly upon the receipt thereof.

OTHER RELEVANT INFORMATION

Ratings

The Bonds have received unenhanced ratings of "A1" by Moody's, "A+" by S&P and "AA-" by Fitch. The Bonds will be rated "Aaa" by Moody's, "AAA" by S&P and "AAA" by Fitch as a result of the municipal bond insurance policy issued by Assured Guaranty. See "BOND INSURANCE." 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 (hereinafter defined) 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, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; 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

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the

Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the PFIA, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency. See "OTHER RELEVANT INFORMATION – Ratings" herein. 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 capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the 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 Eighth 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 Eighth Supplement and the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be included in gross income for federal income tax purposes. See "CERTAIN FEDERAL INCOME TAX CONSIDERATIONS RELATING TO THE BONDS." The form of Bond Counsel's opinion is attached hereto as APPENDIX E.

Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in their capacity as Bond Counsel, such firm has reviewed the information in the Official Statement under the captions, "PLAN OF FINANCING", "SECURITY FOR THE BONDS," "DESCRIPTION OF THE BONDS", "CERTAIN FEDERAL INCOME TAX CONSIDERATIONS RELATING TO THE 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 Eighth Supplement and the Bond Ordinance 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 occurring. The opinion of Bond Counsel will accompany the global certificate deposited with DTC in connection with the use of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, Andrews Kurth LLP.

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 therein. 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

The PFM Group ("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

Banc of America Securities LLC, as representative of the Underwriters, has agreed, subject to certain customary conditions to delivery, to purchase the Bonds from the City at a price equal to the initial offering prices shown on the inside cover page of this Official Statement, less an underwriting discount of $278,649.02. The Underwriters will be obligated to purchase all the Bonds if any Bonds are purchased. The 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, its 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.

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

Miscellaneous Information

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

The Eighth 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/ Will Wynn
Mayor
City of Austin, Texas

ATTEST:

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

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

The following information has been presented for informational purposes only.

AUSTIN'S GOVERNMENT, ECONOMY AND OUTLOOK

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

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

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

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

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

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

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

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

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

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

Total passenger traffic for the City's airport increased by 7.5 percent in calendar year 2006 compared to the previous year. Over 8.2 million passengers traveled through Austin-Bergstrom International Airport in 2006, both a milestone and a record year for the facility. In 2005, JetBlue Airways announced its plans to provide service to Central Texas, making Austin the only city in the state to offer air service by JetBlue. Beginning in January 2006, the discount airline began operating out of Austin, with nonstop service to New York's John F. Kennedy International Airport and Boston Logan International Airport. Aeromexico, Mexico's largest airline began offering the only international non-stop service from Austin with flights to Mexico City starting in December 2006, providing Central Texas access to all of Mexico's great destinations. Other positive indicators in 2006 included an increase of 24.9 percent in hotel occupancy taxes compared to fiscal year 2005 and an increase of 16.8 percent in vehicle rental taxes earned in fiscal year 2006.

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

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

MAJOR INITIATIVES AND ACHIEVEMENTS

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

General Obligation Bond Election

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

This past year, staff worked hard to support Council's appointed Bond Election Advisory Committee (BEAC) to review and make recommendations on proposed bond projects. The BEAC presented its recommendations in February 2006. In May, two public hearings provided an opportunity for the City Council to receive feedback about the upcoming Bond Election. Councilmembers used the BEAC recommendations, staff briefings, and public input to determine the bond program that voters would be asked to consider in November.

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

Additionally, the City Council's inclusive approach of involving community leaders in the bond election process, combined with staff's consistent support and management of the process, have paid off, providing the City with the funding to help meet the capital needs of Austin for the next seven years. As the Austin Chronicle noted in its retrospective of the top ten local stories in 2006: "The least controversial, yet most likely to improve the common quality of life, were the seven municipal bond propositions passed overwhelmingly in November, underwriting everything from basic infrastructure to affordable housing to open space, central library to film studio. As triumphant as the bonds themselves, was the public winnowing process – a nearly two-year progress involving a broad cross section of the entire city. Kudos to everybody!"

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

Economic Growth and Planning Initiatives

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

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

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

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

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

Environment and Quality of Life

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

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

Preserving and protecting Austin's environment contributes to the quality of life that the City's residents value. In November 2005, the City Council voted unanimously to ban the sale and use of pollution-causing coal tar containing pavement sealants, a first in the nation response to this environmental risk. The proposed ban is based on two years of research by City biologists and other environmental scientists and became effective in January 2006. Pavement sealants are protective surface finishes typically used for parking lots and driveways. The Watershed Protection and

Development Review Department has also begun developing technical criteria to enable the development community to receive credit for innovative water quality controls, such as biofiltration and rainwater harvesting, as well as completing a number of in-house erosion designs that protect threatened property while enhancing the natural creek setting around the properties. The Solid Waste Services Department has began to address the long-range solid waste planning needs of Central Texas in conjunction with the Long-Range Solid Waste Planning Task Force which represents a broad spectrum of multi-stakeholder interests and complements the work undertaken by the City of Austin Solid Waste Advisory Commission and other central Texas solid waste planning efforts.

Other initiatives, such as the adoption of affordable housing goals in the University Neighborhood Overlay and creating strategies to help mitigate gentrification under the Community Preservation and Revitalization program, add to the quality of life. In April 2005, on the 5th Anniversary of the City's S.M.A.R.T. Housing™ policy, the International City/County Managers' Association named it a best practice. Five years ago, the City of Austin established the S.M.A.R.T.Housing™ (Safe, Mixed Income, Accessible, Reasonably Priced, and Transit Oriented) initiative to stimulate the creation of reasonably priced homes within the city limits of Austin. This initiative provides development fee waivers and other benefits for projects that meet all S.M.A.R.T. Housing™ standards, including at least 10 percent of the units meeting the "reasonably priced" standard by serving families at or below 80 percent of the Austin area median family income. In 2006, the Housing Smarts housing counseling program was established and offered free, three-part homebuyer education courses to City of Austin residents. The course teaches about the basics of money management, mortgages, realtors, and preventing foreclosure.

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

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

Utility Projects and Initiatives

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

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

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

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

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

Status of City Services

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

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

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

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

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

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

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

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

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

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Employment by Industry in the Austin Metropolitan Area (a)

Employment Characteristics

Industrial Classification	1990	% of Total	2000	% of Total	2005	% of Total	2006	% of Total	December 2007	% of Total
Manufacturing	48,200	12.2%	84,000	12.3%	57,500	8.4%	57,400	7.9%	60,600	7.9%
Government	112,700	28.5%	137,100	20.1%	146,800	21.5%	156,600	21.5%	158,400	20.8%
Trade, transportation & utilities	60,400	15.3%	116,000	17.0%	118,600	17.3%	151,400	20.8%	159,800	21.0%
Services and miscellaneous	136,100	34.4%	267,100	39.1%	281,300	41.1%	275,800	37.9%	290,100	38.0%
Finance, insurance and real estate	24,700	6.2%	35,400	5.2%	40,200	5.9%	42,500	5.8%	45,200	5.9%
Natural resources, mining & construction	13,600	3.4%	42,700	6.3%	39,800	5.8%	44,600	6.1%	49,200	6.4%
Total	395,700	100.0%	682,300	100.0%	684,200	100.0%	728,300	100.0%	763,300	100.0%

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

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

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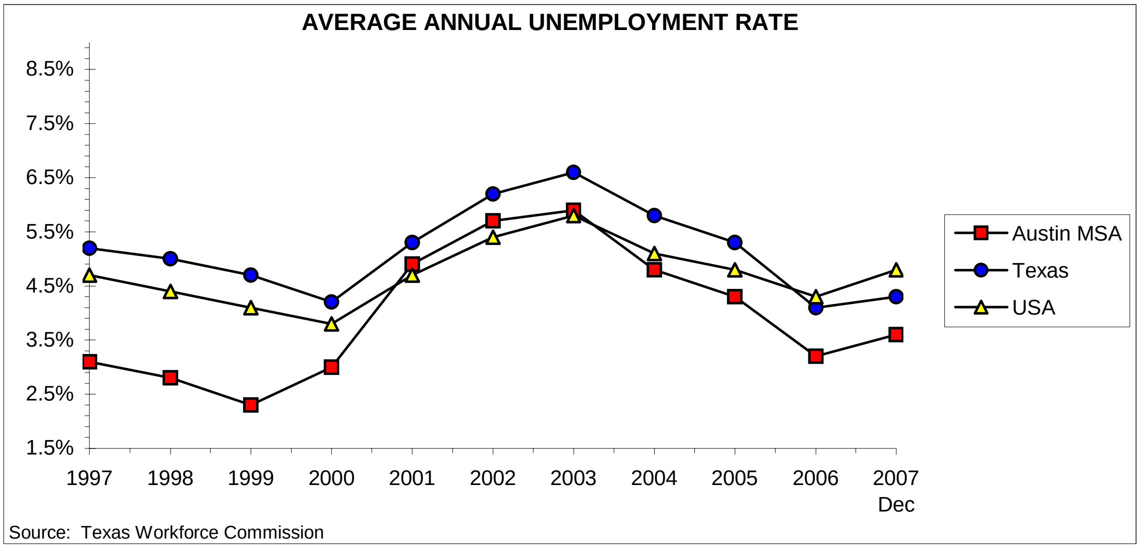
Average Annual Unemployment Rate



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

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

City Sales Tax Collections (In Millions)

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

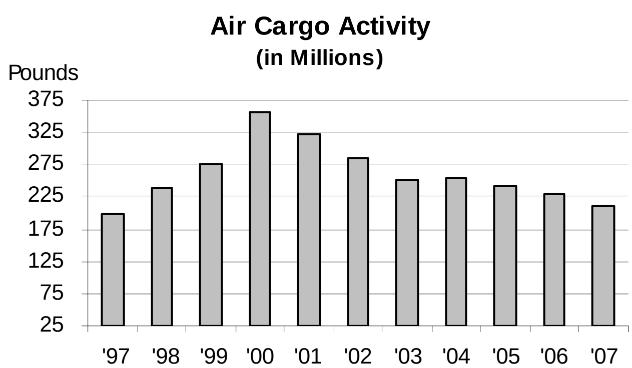
Source: City of Austin, Budget Office.

Ten Largest Employers (As of September 30, 2006)

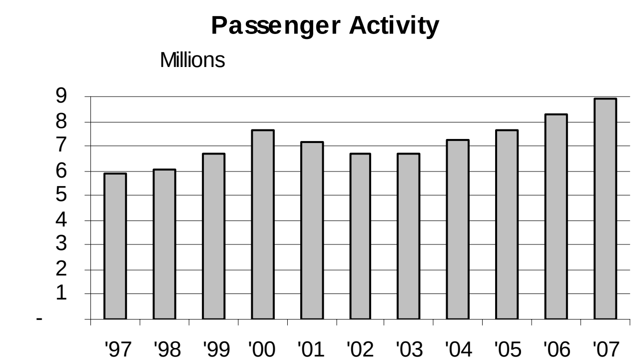
Employer	Product or Service	Employees
State Government	State Government	36,216
The University of Texas at Austin	Education	22,450
Dell Computer Corporation	Computers	17,000
City of Austin	City Government	11,425
Federal Government	Federal Government	10,624
Austin Independent School District	Education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

Source: 2006 Comprehensive Annual Financial Report.

Transportation



Source: COA Aviation Department. 2007 activity through December - Calendar Year basis.



Source: COA Aviation Department. 2007 Activity through December - Calendar Year basis.

Austin-Bergstrom International Airport

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

The City of Austin's Austin-Bergstrom International Airport, which opened for passenger service on May 23, 1999, is served by 12 major airlines with scheduled air service: Aeromexico, American, Continental, Delta, ExpressJet, Frontier, JetBlue, Midwest, Northwest, Southwest, United, and US Airways. Non-stop service is available to 44 U.S. destinations and 1 international destination.

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.

Wealth Indicators

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

Demographic and Economic Statistics
Last Ten Fiscal Years

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

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

Growth Indicators

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

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Connections and Permits

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

Source: 2006 Comprehensive Annual Financial Report.

Housing Units

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

Residential Sales Data

Year	Number of Sales	Total Volume	Average Price
1996	12,597	1,672,441,903	132,765
1997	12,439	1,762,198,574	141,667
1998	15,583	2,334,200,698	149,791
1999	18,135	2,963,915,274	163,436
2000	18,621	3,561,039,919	191,238
2001	18,392	3,556,546,121	193,375
2002	18,716	3,695,947,381	197,475
2003	19,793	3,899,018,519	196,990
2004	22,567	4,487,464,528	198,851
2005	26,905	5,660,934,916	210,405
2006	30,278	6,960,536,304	229,888
2007 December	27,974	6,891,539,248	246,355

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

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City-Wide Austin Office Occupancy Rate

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

Source: Oxford Commercial

Education

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

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

Source: Austin Independent School District. (Data for the third six weeks, as of 12-21-07.)

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

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

Tourism

The impact of tourism on the Austin economy is significant. Total travel expenditures in the Austin-Round Rock MSA were $3.377 billion in 2005. There are more than 253 hotels available within the Austin Metropolitan Area, as of the first quarter of 2007, with a hotel occupancy rate of nearly 73 percent.

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

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APPENDIX B

EXCERPTS FROM THE ANNUAL FINANCIAL REPORT

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

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Austin, Texas ("City"), as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U. S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 19, 2007 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 14, the General Fund Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Budget Basis on pages 102 through 103 and the Retirement Plans Trend Information on page 104 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

Austin, Texas
October 19, 2007

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The Management's Discussion and Analysis (MD&A) section of the City of Austin's (the City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information furnished in our letter of transmittal.

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

FINANCIAL HIGHLIGHTS

Government-wide financial statements

The assets of the City exceeded its liabilities at the end of the fiscal year 2006, resulting in $4.1 billion of net assets. Net assets associated with governmental activities are approximately $1.6 billion, or 38% of the total net assets of the City. Net assets associated with business-type activities are approximately $2.5 billion, or 62% of the total net assets of the City. The largest portion of net assets consists of investment in capital assets, net of related debt, which is $2.9 billion, or 71% of total net assets.

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

a -- Government-wide financial statements

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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

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

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

b -- Fund financial statements

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in governmental funds. These funds focus on current sources and uses of liquid resources and on the balances of available resources at the end of the fiscal year. This information may be useful in determining what financial resources are available in the near term to finance the City's future obligations. Other governmental funds are referred to as nonmajor governmental funds and are presented as aggregated data.

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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

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

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

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

Fund Types / Other	Government-wide	Fund Financials
General Fund	Governmental	Governmental - Major
Special revenue funds	Governmental	Governmental - Nonmajor
Debt service funds	Governmental	Governmental - Nonmajor
Capital project funds	Governmental	Governmental - Nonmajor
Permanent funds	Governmental	Governmental - Nonmajor
Internal service funds	Governmental	Proprietary
Governmental capital assets, including infrastructure assets	Governmental	Excluded
Governmental liabilities not expected to be liquidated with available expendable financial resources	Governmental	Excluded
Electric	Business-type	Proprietary - Major
Water and wastewater	Business-type	Proprietary - Major
Airport	Business-type	Proprietary - Major
Convention	Business-type	Proprietary - Nonmajor
Environmental and health services	Business-type	Proprietary - Nonmajor
Public recreation	Business-type	Proprietary - Nonmajor
Urban growth management	Business-type	Proprietary - Nonmajor
Fiduciary funds	Excluded	Fiduciary

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

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

d – Other information
The section, Required Supplementary Information (RSI), immediately follows the basic financial statements and related notes section of this report. The City adopts an annual appropriated budget for the General Fund. The RSI provides a comparison of revenues, expenditures and other financing sources and uses to budget and demonstrates budgetary compliance. In addition, trend information related to the City's retirement plans is presented in RSI. Following the RSI are other statements and schedules, including the combining statements for nonmajor governmental and enterprise funds, internal service funds, and fiduciary funds.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

a -- Net assets

The following table reflects a summary of net assets compared to prior year (in thousands):

Net Assets
as of September 30
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current assets	$ 547,513	509,638	1,276,240	1,050,684	1,823,753	1,560,322
Capital assets	2,099,504	2,047,541	5,426,068	5,294,494	7,525,572	7,342,035
Other noncurrent assets	3,639	3,636	585,186	644,206	588,825	647,842
Total assets	2,650,656	2,560,815	7,287,494	6,989,384	9,938,150	9,550,199
Current liabilities	220,389	206,878	419,196	419,022	639,585	625,900
Noncurrent liabilities	869,169	859,019	4,308,650	4,217,019	5,177,819	5,076,038
Total liabilities	1,089,558	1,065,897	4,727,846	4,636,041	5,817,404	5,701,938
Net assets:						
Invested in capital assets, net of related debt	1,399,316	1,360,509	1,538,572	1,563,831	2,937,888	2,924,340
Restricted	84,218	68,848	469,238	410,975	553,456	479,823
Unrestricted	77,564	65,561	551,838	378,537	629,402	444,098
Total net assets	$ 1,561,098	1,494,918	2,559,648	2,353,343	4,120,746	3,848,261

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

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

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

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by $4.1 billion at the end of the current fiscal year. However, the largest portion of the City's net assets are invested in capital assets, net of related debt (e.g. land, building, and equipment), which are $2.9 billion, or 71% of the total amount of the City's net assets. The City uses these capital assets to provide services to citizens. Capital assets are generally not highly liquid; consequently, they are not considered future available resources. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion, $553.5 million of the City's net assets, represents resources that are subject to external restrictions on how they may be used in the future. The remaining balance, $629.4 million of unrestricted net assets, may be used to meet the government's future obligations. Unrestricted net assets increased $185.3 million in the current fiscal year.

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

b -- Changes in net assets

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

Changes in Net Assets
September 30
(in thousands)

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

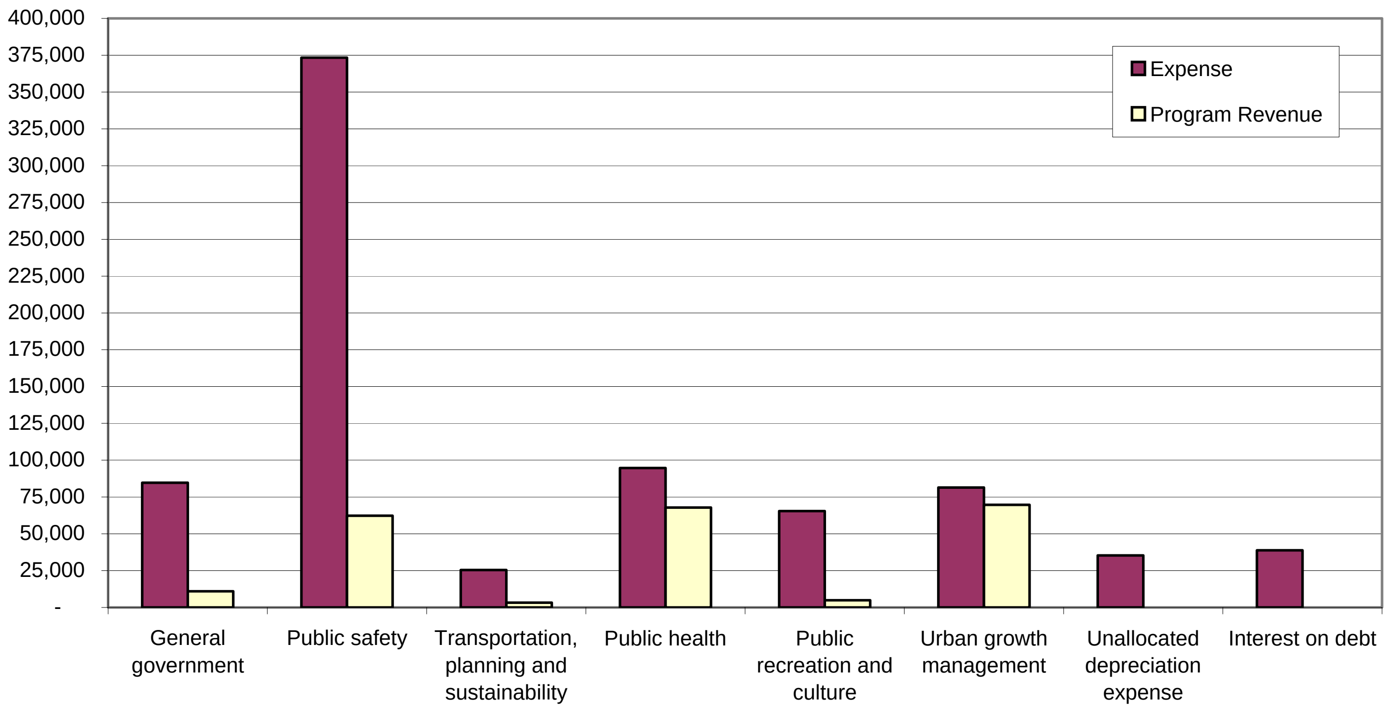
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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

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

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

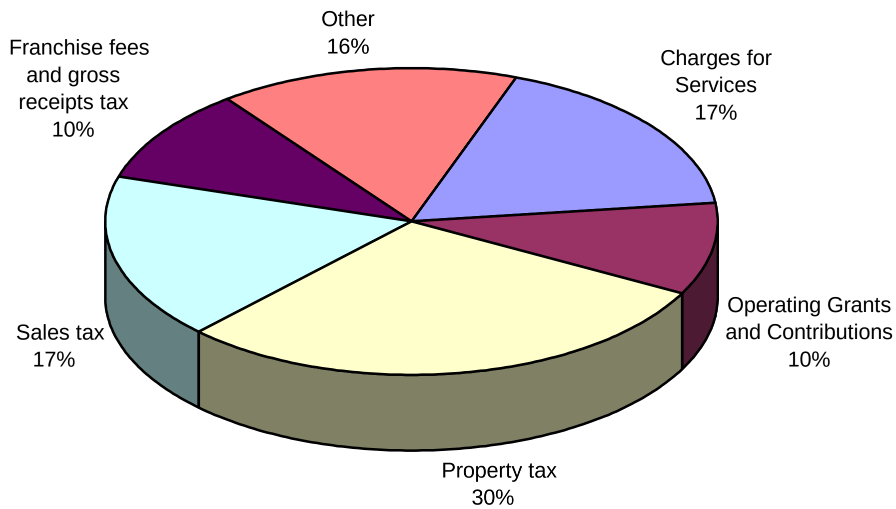
Government-wide Program Expenses and Revenues – Governmental Activities
(in thousands)



FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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

Government-wide Revenues by Source -- Governmental Activities



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

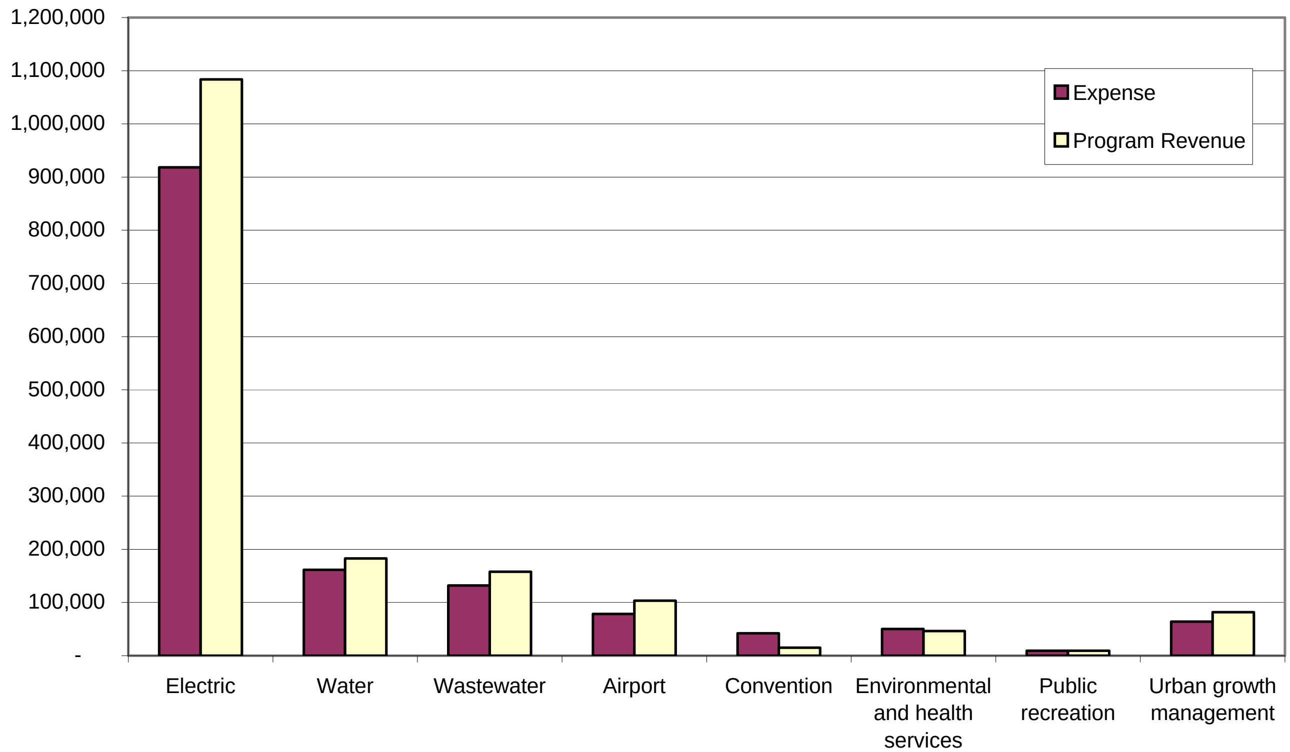
Business-type activities increased the City's net assets by approximately $206.3 million, accounting for a 5.4% increase in the City's total net assets. Key factors include:

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

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

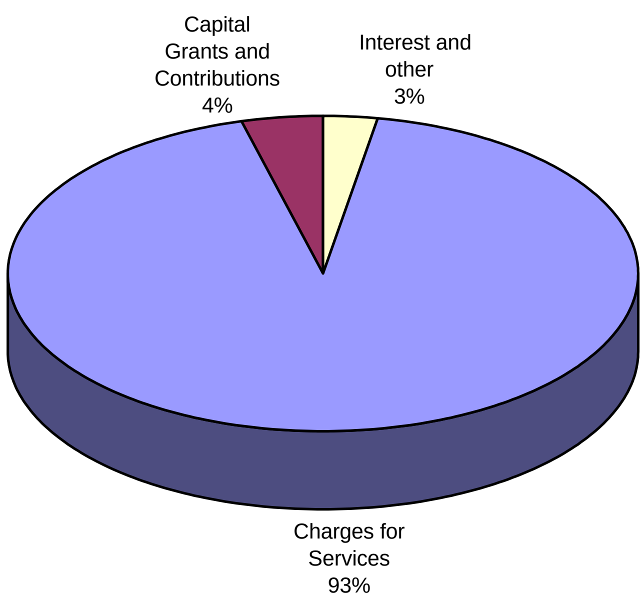
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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



For all business-type activities, charges for services provide the largest percentage of revenues (93%), followed by capital grants and contributions (4%) and interest and other revenues (3%).

Government-wide Revenue by Source – Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND LEVEL STATEMENTS

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

a -- Governmental funds

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

At the end of the fiscal year, the City of Austin's governmental funds reported combined ending fund balances of $349.5 million, an increase of $40 million from the previous year. Approximately $260 million represents unreserved ending balance, which is available for future use. The remainder of fund balance is reserved and only available for commitments for the purchase of goods and services, receivables, property held for resale, legally restricted permanent fund resources, and certain debt service amounts. Reserved fund balance increased $8 million in comparison to the prior year, primarily due to an increase in the reservation for encumbrances of $4.9 million.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was $105 million, while total fund balance was $111.8 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 22% of total General Fund expenditures of $480.9 million, and total fund balance represents 23% of expenditures. The City adopted a new financial policy in the current fiscal year which provides that surplus fund balance, previously reported as unreserved and undesignated, will continue to be reported as unreserved but will be designated for budget stabilization. The fund balance designated for budget stabilization was $58.3 million. The balance designated for budget stabilization may be appropriated to fund capital or other one-time expenditures in the subsequent fiscal year, but such appropriation will not normally exceed one-third of the total designated amount, with the other two-thirds designated for budget stabilization in future years. The unreserved and undesignated fund balance of the General Fund was $53.7 million for the previous fiscal year.

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

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

b -- Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Overall, net assets of the City's enterprise funds, including consolidation of the internal service funds activities, increased by $206.3 million.

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

OTHER INFORMATION

a -- General Fund budgetary highlights

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

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

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

b -- Capital assets

The City's capital assets for governmental and business-type activities as of September 30, 2006, total $7.5 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, equipment, vehicles, infrastructure, assets not classified, construction in progress, nuclear, fuel and plant held for future use. The total increase in the City's capital assets for the current fiscal year was $184 million (2.5%), with an increase of 2.5% for governmental activities and an increase of 2.5% for business-type activities. Additional information on capital assets can be found in Note 7. Capital asset balances are as follows:

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

	Governmental Activities		Business-Type Activities		Total	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Land and improvements	$ 240	243	295	287	535	530
Other assets not depreciated	19	18	1	1	20	19
Building and improvements	412	319	1,385	1,373	1,797	1,692
Equipment	80	53	2,813	2,644	2,893	2,697
Vehicles	28	27	45	42	73	69
Infrastructure	1,140	1,047	--	--	1,140	1,047
Completed assets not classified	--	13	--	37	--	50
Construction in progress	181	328	830	856	1,011	1,184
Nuclear fuel, net of amortization	--	--	29	23	29	23
Plant held for future use	--	--	28	31	28	31
Total net assets	$ 2,100	2,048	5,426	5,294	7,526	7,342

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

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

OTHER INFORMATION, continued

c -- Debt administration

At the end of the current fiscal year, the City reported $4.4 billion in outstanding debt. The table below reflects the outstanding debt at September 30. Additional information can be found in Note 10.

Outstanding Debt
General Obligation and Revenue Debt
(in millions)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
General obligation bonds and other tax supported debt, net	$ 847	841	111	106	958	947
Commercial paper notes, net	--	--	240	357	240	357
Revenue notes	--	--	28	28	28	28
Revenue bonds, net	--	--	3,201	3,038	3,201	3,038
Capital lease obligations	1	1	6	9	7	10
Total	$ 848	842	3,586	3,538	4,434	4,380

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

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

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

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

(1) No underlying rating

OTHER INFORMATION, continued

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

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

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

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

e -- Requests for Information

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

(In thousands)

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

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

(Continued)

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

(In thousands) (Continued)

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

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

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

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

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

(1) Excludes direct depreciation expense for the various programs

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

(In thousands)

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

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

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2006
(In thousands)

Total fund balances - Governmental funds	$ 349,541
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,046,502
Other long-term assets are not available as current-period resources and are not reported in the funds.	10,156
Long-term liabilities are not payable in the current period and are not reported in the funds.	(923,380)
Internal service funds are used by management to charge the costs of capital project management, combined emergency communication center, employee benefits, fleet maintenance, information systems, liability reserve, support services, wireless communication, and workers' compensation to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	78,279
Total net assets - Governmental activities	$ 1,561,098

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

Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended September 30, 2006
(In thousands)

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

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

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities **Exhibit B-2.1**

For the year ended September 30, 2006

(In thousands)

Net change in fund balances - Governmental funds	$	39,983
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		6,019
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		23,918
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(10,106)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.		(11,728)
The net revenue of certain activities of internal service funds is reported with governmental activities.		18,094
Change in net assets - Governmental activities	$	66,180

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

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

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

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

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

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

(Continued)

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

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

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

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

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

Proprietary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the year ended September 30, 2006
(In thousands)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(In thousands)

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

a -- Reporting Entity

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

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

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

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

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

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

All of these entities are separate from the operating activities of the City. Related organizations are not included in the City's reporting entity.

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

b -- Government-wide and Fund Financial Statements

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

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

The accounts of the City are organized on the basis of funds. The fund level statements focus on the governmental, proprietary, and fiduciary funds. Each fund was established to account for specific activities in accordance with applicable regulations, restrictions, or limitations. Major funds are determined by criteria specified by GASB Statement 34; the City has not elected to present additional major funds that do not meet the minimum criteria. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All other funds are aggregated into governmental or enterprise nonmajor fund groupings.

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

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

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

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

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

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

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

The City reports the following major governmental fund:

General Fund: The primary operating fund of the City. It is used to account for all financial resources that are not required to be accounted for in another fund. It includes the following activities: general government; public safety; transportation, planning and sustainability; public health; public recreation and culture; and urban growth management.

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

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

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

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

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

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

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

Enterprise Funds: Account for operations that are financed and operated in a manner similar to private business enterprises. Costs are financed or recovered primarily through user charges. The City has elected to follow GASB statements issued after November 30, 1989, rather than statements issued by the Financial Accounting Standards Board (FASB), in accordance with GASB Statement No. 20

The City reports the following major enterprise funds:

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

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

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

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

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

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

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

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

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

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

d -- Budget

The City Manager is required by the City Charter to present a proposed operating and capital budget to the City Council no later than thirty days before the beginning of the new fiscal year. The final budget shall be adopted no later than the twenty-seventh day of the last month of the preceding fiscal year. During the final adoption process, the City Council passes an appropriation ordinance and a tax-levying ordinance.

Annual budgets are legally adopted for the General Fund, certain special revenue funds, and debt service funds. Additional information related to special revenue funds with legally adopted budgets can be found in Exhibit E-13. Annual budgets are also adopted for enterprise and internal service funds, although they are not legally required. Multi-year budgets are adopted for capital projects and grant funds, where appropriations remain authorized for the life of the project, irrespective of fiscal year. Expenditures are appropriated on a modified accrual basis, except that commitments related to purchase orders are treated as expenditures in the year of commitment. Certain charges to ending fund balance are budgeted as nondepartmental expenditures.

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

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

e -- Financial Statement Elements

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

Investments -- Certain investments are required to be reported at fair value, based on quoted market prices. Realized gains or losses resulting from the sale of investments are determined by the specific cost of the securities sold. The City carries all of its investments in U.S. government and agency debt securities and money market mutual funds at fair value as of September 30, 2006. Investments in local government investment pools are carried at amortized cost, which approximates fair value.

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

Accounts Receivable -- Balances of accounts receivable, reported on the government-wide statement of net assets, are aggregations of different components such as charges for services, fines, and balances due from taxpayers or other governments. In order to assist the reader, the following information has been provided regarding significant components of receivable balances as of September 30, 2006 (in thousands):

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

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

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

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

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

Interfund Receivables and Payables -- During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the fund-level statements when they are expected to be liquidated within one year. If receivables or payables are not expected to be liquidated within one year, they are classified as “advances to other funds” or “advances from other funds.”

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

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

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

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

Restricted assets -- Restricted assets are assets whose use is subject to constraints that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Governmental assets include restricted pooled investments and cash of $11.9 million and interest receivable of $241,000 as a result of the issuance of $12.0 million of Mueller Local Government Corporation Contract Revenue Bonds, Series 2006. Since the Electric Fund and Water and Wastewater Fund report in accordance with FASB Statement No. 71, enabling legislation also includes restrictions on asset use established by its governing board which is the City Council.

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

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

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

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

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

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

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

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

(1) Includes internal service funds

Depreciation of assets is classified by functional component. The City considers land, arts and treasures, and library collections to be inexhaustible; therefore, these assets are reported as nondepreciable. The true value of arts, treasures and library collections is expected to be maintained over time and, thus, is not depreciated. Unallocated depreciation reported in the government-wide statement of activities consists of depreciation of infrastructure and other citywide assets ($35.4 million).

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

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

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

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

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

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

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

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

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

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

The City defers and amortizes gains or losses realized by proprietary funds on refundings of debt and for governmental activities in the government-wide financial statements, and reports both the new debt liability and the related deferred amount on the funds' statement of net assets. Austin Energy and Austin Water recognize gains or losses on debt defeasance in accordance with FASB Statement No. 71.

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

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

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

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

Electric, water, and wastewater revenue is recorded when earned. Customers' electric and water meters are read and bills are rendered on a cycle basis by billing district. Electric rate schedules include fuel cost adjustment clauses that permit recovery of fuel costs in the month incurred. The City reported fuel costs on the same basis as it recognized revenue in 2006 and prior years. Unbilled revenue was recorded in the Electric Fund by estimating the daily power generation and allocating by each billing district meter read dates as of September 30, 2006. The amount of unbilled revenue recorded, as of September 30, 2006, for the Electric Fund was $37.7 million. The Water and Wastewater Fund recorded unbilled revenue as earned based upon the percentage of October's billing that represented water usage through September 30, 2006. The amount of unbilled revenue recorded as of September 30, 2006 was $11.3 million for water and $9 million for wastewater.

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

Interfund Revenues, Expenses, and Transfers -- Transactions between funds that would be treated as revenues, expenditures, or expenses if they involved organizations external to the governmental unit are accounted for as revenues, expenditures, or expenses in the funds involved, such as billing for utility services. Transactions between funds that constitute reimbursements for expenditures or expenses are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditure or expense in the fund that is reimbursed. Transfers between funds are reported in the operations of governmental and proprietary funds. The effect of interfund activity has been eliminated in the government-wide statements. However, if interfund services are provided, and used, such as billing for utility services, the costs and related revenue are not eliminated.

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

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

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

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

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

Cash and Cash Equivalents -- For purposes of the statement of cash flows, the City considers cash and cash equivalents to be currency on hand, cash held by trustee, demand deposits with banks, and all amounts included in pooled investments and cash accounts. The City considers the investment pool to be highly liquid, similar to a mutual fund.

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

Risk Management -- The City is exposed to employee-related risks for health benefits and workers' compensation, as well as to various risks of loss related to torts; theft of, damage to, or destruction of assets; fraud; and natural disasters. The City is self-insured for legal liabilities, workers' compensation claims, and a portion of employee health benefits.

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

Austin Energy has established an energy risk management program. This program was authorized by City Council and led by the risk oversight committee. Under this program, Austin Energy enters into futures contracts, options, and swaps to reduce exposure to natural gas and energy price fluctuations. For additional details see Note 14.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
f -- Comparative Data

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

g -- Use of Estimates

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

2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

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

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

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

3 – DEFICITS IN FUND BALANCES AND NET ASSETS

At September 30, 2006, the following funds reported deficits in fund balances or net assets. Management intends to recover these deficits through future operating revenues, transfers or debt issues.

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

4 – POOLED INVESTMENTS AND CASH

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

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

5 – INVESTMENTS AND DEPOSITS
a -- Investments

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

5 – INVESTMENTS AND DEPOSITS, continued
a -- Investments, continued

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

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

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

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

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

The City invests in TexPool and TexasDAILY to provide its liquidity needs. TexPool and TexasDAILY are local government investment pools that were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. TexPool and TexasDAILY are 2(a)7- like funds, meaning that they are structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of $1.00, although this cannot be fully guaranteed. TexPool and TexasDAILY are rated AAAm and must maintain a dollar weighted average maturity not to exceed a 60-day limit. At September 30, 2006, TexPool and TexasDAILY had a weighted average maturity of 51 days and 51 days, respectively. The City considers the holdings in these funds to have a weighted average maturity of one day, due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

5 – INVESTMENTS AND DEPOSITS, continued
a -- Investments, continued

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

All city investments are insured, registered, or held by an agent in the City's name; therefore, the City is not exposed to custodial credit risk.

The following table includes the portfolio balances of all non-pooled and pooled investment types of the City at September 30, 2006 (in thousands):

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

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

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

b -- Investment categories

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

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

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

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

Operating Funds (excluding special project fund)
As of September 30, 2006, the city operating funds (excluding the special project fund) had the following investments:

	Fair Value (in thousands)				
Investment Type	**Governmental Activities**	**Business-type Activities**	**Fiduciary Funds**	**Total**	**Weighted Average Maturity (days)**
Local Government Invest Pools (LGIPs)	$ 80,175	148,794	1,000	229,969	1
US Treasury Notes	15,564	28,886	194	44,644	332
US Agency Bonds	234,346	434,837	3,001	672,184	420
US Agency Bonds-Step	863	1,602	11	2,476	299
Total	$ 330,948	614,119	4,206	949,273	314

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

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

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

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

At September 30, 2006, nearly a quarter of the Investment Pool was invested in AAAm rated LGIPs (2(a) 7-like pools), with the remainder invested in short-to-medium term US Agency and Treasury obligations. Term limits on individual maturities did not exceed three years from the purchase date. The dollar weighted average maturity for all securities was 314 days, which was less than the threshold of 365 days.

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

Debt Service Funds
As of September 30, 2006, the City's debt service funds had the following investments:

	Fair Value (in thousands) Governmental Activities	Fair Value (in thousands) Business-type Activities	Final Maturity
General Obligation Debt Service			
TexPool (LGIPs)	$ 15,119	--	N/A
Enterprise-Utility (1)			
TexPool (LGIPs)	--	140,607	N/A
US Treasury	--	336	11/15/2006
Enterprise-Airport			
TexPool (LGIPs)	--	10,938	N/A
Nonmajor Enterprise-Convention Center			
TexPool (LGIPs)	--	3,502	N/A
Total	$ 15,119	155,383	

(1) Includes combined pledge debt service

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

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

At September 30, 2006, portfolios in this category held investments in AAAm rated LGIPs or direct obligations of the US Treasury.

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

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

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

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

At September 30, 2006, the portfolios held investments in an AAAm rated LGIP and US Agencies with maturities that will meet anticipated cash flow requirements.

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

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

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

Credit Risk
At September 30, 2006, the Electric Utility Department Strategic Reserve Fund held an investment in TexPool, an LGIP rated AAAm by Standard and Poor's, with the remainder invested in short-to-medium term US Agency and Treasury obligations. Standard and Poor's rated the US Agency Bonds AAA. The remaining securities are direct obligations of the US government.

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

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

At September 30, 2006, the portfolios held investments in TexPool (AAAm rated LGIP), US Treasuries, and US Agencies with maturities that will meet anticipated cash flow requirements and an overall dollar weighted average maturity of 466 days (1.28 years).

Austin Energy Nuclear Decommissioning Trust Funds
As of September 30, 2006, the Austin Energy's Special Purpose Fund (Nuclear Decommissioning Trust Funds, NDTF) had the following investments:

Business-type Activities	Fair Value (in thousands)	Weighted Average Maturity (years)
US Treasuries	$ 19,544	1.39
US Agencies	85,461	3.61
US Agencies-Step	1,997	2.58
Total	$ 107,002	3.18

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

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

Interest Rate Risk
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy for the Decommissioning Trust Fund portfolios requires that the dollar weighted average maturity, using final stated maturity dates, shall not exceed seven years, although the portfolio's weighted average maturity may be substantially shorter if market conditions so dictate. At September 30, 2006, the dollar weighted average maturity was 3.22 years.

5 – INVESTMENTS AND DEPOSITS, continued

c – Investments and Deposits

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

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

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

Deposits

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

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

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

6 – PROPERTY TAXES

The City's property tax is levied each October 1 on the assessed value listed as of January 1 for all real and personal property located in the City. The adjusted assessed value for the roll as of January 1, 2005, upon which the 2006 levy was based, was $52,349,642,297.

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

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

6 – PROPERTY TAXES, continued

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

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

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

The tax rate to finance general governmental functions, other than the payment of principal and interest on general obligation long-term debt, for the year ended September 30, 2006, was $.2841 per $100 assessed valuation. The City has a tax margin for general governmental purposes of $.7159 per $100 assessed valuation, and could levy approximately $374,771,089 in additional taxes from the assessed valuation of $52,349,642,297 before the legislative limit is reached.

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE

The City has recorded capitalized interest for fiscal year 2006 in the following funds related to the construction of various enterprise fund capital improvement projects (in thousands):

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

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

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

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Governmental Activities

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

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

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

(2) Decreases include (in thousands):

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

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

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Electric Fund

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

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

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Water and Wastewater Fund

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

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

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

(2) Decreases include (in thousands):

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

(3) Components of accumulated depreciation increases:

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Airport Fund

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

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

(1) Decreases include (in thousands):

Reallocation of accumulated depreciation for completed assets not classified	$ 54
Accumulated depreciation retired with related assets	32
Total decreases in accumulated depreciation for completed assets not classified	$ 86

(2) Components of accumulated depreciation increases:

Current year depreciation	$ 17,129
Reallocation of accumulated depreciation for completed assets not classified	54
Transferred accumulated depreciation	1
Total increases in accumulated depreciation	$ 17,184

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Nonmajor Enterprise Funds

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

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

(1) Decreases include (in thousands):

Reallocation of accumulated depreciation for completed assets not classified	$ 13
Accumulated depreciation retired with related assets	50
Total decreases in accumulated depreciation for completed assets not classified	$ 63

(2) Components of accumulated depreciation increases:

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities

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

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

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

(2) Decreases include (in thousands):

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

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

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

8 – RETIREMENT PLANS

a -- Description

The City participates in funding three contributory, defined benefit retirement plans: City of Austin Employees' Retirement and Pension Fund, City of Austin Police Officers' Retirement and Pension Fund, and Fire Fighters' Relief and Retirement Fund of Austin, Texas. An independent board of trustees administers each plan. These plans are citywide single employer funded plans that cover substantially all full-time employees. The fiscal year of each pension fund ends December 31. The most recently available financial statements of the pension funds are for the year ended December 31, 2005. Membership in the plans at December 31, 2005, is as follows:

	City Employees	Police Officers	Fire Fighters	Total
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	3,967	397	421	4,785
Current employees	7,638	1,427	1,003	10,068
Total	11,605	1,824	1,424	14,853

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

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

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

8 – RETIREMENT PLANS, continued

b -- Funding Policy

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

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

While the contribution requirements are not actuarially determined, state law requires that a qualified actuary approve each plan of benefits adopted. The actuary for the Police Officers plan has certified that the contribution commitment by the participants and the City provides an adequate financing arrangement. Contributions for fiscal year ended September 30, 2006, are as follows (in thousands):

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

c -- Annual Pension Cost and Net Pension Obligation

The City’s annual pension cost of $70,552,000 for fiscal year ended September 30, 2006, was $13,909,000 more than the City’s actual contributions. Three-year trend information is as follows (in thousands):

	City Employees	Police Officers	Fire Fighters	Total
City's Annual Pension Cost (APC):				
2004	$ 31,174	14,358	9,835	55,367
2005	32,438	15,451	10,746	58,635
2006	40,988	16,588	12,976	70,552
Percentage of APC contributed:				
2004	81%	100%	100%	N/A
2005	82%	100%	100%	N/A
2006	73%	100%	92%	N/A
Net Pension Obligation:				
2004	$ 5,906	--	--	5,906
2005	11,761	--	--	11,761
2006	24,061	--	1,609	25,670

8 – RETIREMENT PLANS, continued
c -- Annual Pension Cost and Net Pension Obligation, continued

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

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

The latest actuarial valuations were completed as of December 31, 2005. The actuarial cost method and significant assumptions underlying the actuarial calculations are as follows:

	City Employees	Police Officers	Fire Fighters
Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method
Asset Valuation Basis	5-year smoothed market	5-year smoothed market	5-year smoothed market
Inflation Rate	3.5%	4%	3.15%
Projected Annual Salary Increases	4% to 14%	6.8% average	8.0%
Post retirement benefit increase	None	None	1%
Assumed Rate of Return on Investments	7.75%	8%	7.75%
Amortization method	Level percent of projected pay, open	Level percent of projected pay, open	Level percent of projected pay, open
Remaining Amortization Period	30 years	30 years	30 years

9 – SELECTED REVENUES
a -- Major Enterprise Funds

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

Under a bill passed by the Texas Legislature in 1999, municipally-owned electric utilities such as the City's utility system have the option of offering retail competition after January 1, 2002. As of September 30, city management has elected not to enter the retail market, as allowed by State law.

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

Airport
The City has entered into certain lease agreements as lessor for concessions at the Airport. These lease agreements qualify as operating leases for accounting purposes. In fiscal year 2006, the Airport Fund revenues included minimum concession guarantees of $9,529,063.

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

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

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

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

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

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

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

Payments on bonds for governmental activities will be made in the general obligation debt service funds. Accrued compensated absences that pertain to governmental activities will be liquidated by the General Fund, special revenue funds, and internal service funds. Claims payable will be liquidated by internal service funds. Deferred revenue and other liabilities that pertain to governmental activities will be liquidated by the General Fund, special revenue funds, general governmental capital improvement projects funds, and internal service funds.

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

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for them are included in governmental activities.

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

The following is a summary of changes in long-term obligations. Certain long-term obligations provide financing to both governmental and business-type activities. Balances at September 30, 2006 (in thousands):

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

Business-type activities (continued):

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

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

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

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

The following table summarizes significant facts about general obligation bonds, certificates of obligation, contractual obligations, and assumed municipal utility district (MUD) bonds outstanding at September 30, 2006, including those reported in certain proprietary funds (in thousands):

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

(1) Interest is paid semiannually on March 1 and September 1.
(2) Interest is paid semiannually on May 1 and November 1.
(3) Interest is paid semiannually on May 15 and November 15.
(4) Includes Water and Wastewater Fund principal of $8,450 and interest of 3,037.
(5) Included with contractual obligations are Mueller Local Government Corporation contract revenue bonds.

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

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

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

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

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

General obligation bonds authorized and unissued amounted to $74,935,000 at September 30, 2006. Bond ratings at September 30, 2006, were Aa1 (Moody's Investor Services, Inc.), AA+ (Standard & Poor's) and AA+ (Fitch).

c -- Business-Type Activities Long-Term Liabilities

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

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

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

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

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

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

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

Combined Utility Systems Debt -- Bonds Issued and Outstanding - The following schedule shows the original and refunding revenue bonds outstanding at September 30, 2006 (in thousands):

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

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

Combined Utility Systems Debt -- Commercial Paper Notes - The City is authorized by ordinance to issue commercial paper notes in an aggregate principal amount not to exceed $350,000,000 outstanding at any one time. Proceeds from the notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2006, were P-1 (Moody's Investor Services, Inc.), A-1+ (Standard & Poor's), and F1+ (Fitch). The notes are in denominations of $100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the notes are payable from the combined net revenues of the City's Electric Fund and Water and Wastewater Fund.

At September 30, 2006, the Electric Fund had outstanding commercial paper notes of $26,415,000 and the Water and Wastewater Fund had $185,632,000 of commercial paper notes outstanding. Interest rates on the notes range from 2.4% to 3.75%, which are adjusted daily. Subsequent issues cannot exceed the maximum rate of 15%. The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.

Combined Utility Systems Debt -- Taxable Commercial Paper Notes - The City is authorized by ordinance to issue taxable commercial paper notes (the "taxable notes") in an aggregate principal amount not to exceed $50,000,000 outstanding at any time. Proceeds from the taxable notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2006 were P-1 (Moody's Investor Services, Inc.) A-1+ (Standard & Poor's) and F1+ (Fitch).

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

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

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

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

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

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

Electric Utility System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all electric system original and refunding revenue bonds outstanding at September 30, 2006 (in thousands):

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

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

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

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

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

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

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

Water and Wastewater System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all water and wastewater system original and refunding revenue bonds outstanding at September 30, 2006 (in thousands):

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

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

Airport -- Revenue Bonds - The City's Airport Fund issues airport system revenue bonds to fund Airport Fund capital projects. Principal and interest on these bonds are payable solely from the net revenues of the Airport Fund. At September 30, 2006, the total airport system obligation for prior lien bonds is $355,100,000 exclusive of discounts, premiums and loss on refundings. Aggregate interest requirements for all prior lien bonds are $151,825,832 at September 30, 2006. Revenue bonds authorized and unissued amount to $735,795,000.

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

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

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

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

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

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

Airport Debt -- Variable Rate Revenue Notes - The City is authorized to issue airport system variable rate revenue notes, pursuant to Ordinance No. 950817B, as amended and restated by Ordinance 980205A, adopted by the City Council on February 5, 1998. At September 30, 2006, the airport system had outstanding variable rate revenue notes of $28,000,000. The debt service fund required by the bond ordinance held assets of $9,903,980, including accrued interest, at September 30, 2006 and was restricted within the airport system. During fiscal year 2006, interest rates on the notes ranged from 2.66% to 4.05%, adjusted weekly at market rates; subsequent rate changes cannot exceed the maximum rate of 15%. Principal and interest on the notes are payable from the net revenues of the airport system.

The bond rating at September 30, 2006, for the airport variable rate notes was P-1 (Moody's Investor Services, Inc.).

Nonmajor fund:
Convention Center -- Prior and Subordinate Lien Revenue Bonds - The City's Convention Center Fund issues convention center revenue bonds and hotel occupancy tax revenue bonds to fund Convention Center Fund capital projects. Principal and interest on these bonds are payable solely from pledged hotel occupancy tax revenues and the special motor vehicle rental tax revenues. At September 30, 2006, the total convention center obligation for prior and subordinate lien bonds is $235,660,000, exclusive of discounts, premiums and loss on refundings. Aggregate interest requirements for all prior and subordinate lien bonds are $133,630,779 at September 30, 2006. Revenue bonds authorized and unissued amount to $760,000 at September 30, 2006.

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

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

d – Debt Service Requirements

Governmental Activities (in thousands)

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

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

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

Electric Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Contractual Obligations Principal	Contractual Obligations Interest	Commercial Paper Notes (1) Principal	Commercial Paper Notes (1) Interest
2007	$ 53	61	202	19	54,568	249
2008	12	58	140	14	--	--
2009	18	57	146	11	--	--
2010	53	56	152	6	--	--
2011	63	54	79	2	--	--
2012-2016	608	197	--	--	--	--
2017-2021	403	43	--	--	--	--
	1,210	526	719	52	54,568	249
Less: Unamortized bond discount	(4)	--	--	--	(242)	--
Add: Unamortized bond premium	87	--	--	--	--	--
Net debt service requirements	1,293	526	719	52	54,326	249

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

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

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

Water and Wastewater Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Contractual Obligations Principal	Contractual Obligations Interest	Tax Supported Debt Principal	Tax Supported Debt Interest
2007	$ 1,143	291	1,537	303	642	430
2008	739	232	1,668	305	594	401
2009	471	194	1,633	250	532	374
2010	589	170	1,550	196	564	348
2011	562	138	1,557	141	596	319
2012-2016	1,617	305	2,525	133	4,031	1,057
2017-2021	454	60	--	--	1,491	108
2022-2026	14	2	--	--	--	--
	5,589	1,392	10,470	1,328	8,450	3,037
Less: Unamortized bond discounts	(25)	--	--	--	(45)	--
Unamortized gain(loss) on bond refundings	(2,036)	--	--	--	--	--
Add: Unamortized bond premiums	282	--	--	--	--	--
Net debt service requirements	3,810	1,392	10,470	1,328	8,405	3,037

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

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

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

Water and Wastewater Business-Type Activities
(in thousands)

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

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

Airport Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Contractual Obligations Principal	Contractual Obligations Interest	Revenue Notes (1) Principal	Revenue Notes (1) Interest
2007	$ 49	19	12	--	--	1,067
2008	23	16	--	--	--	1,067
2009	16	15	--	--	--	1,067
2010	23	14	--	--	--	1,067
2011	26	13	--	--	--	1,067
2012-2016	148	41	--	--	--	5,335
2017-2021	78	9	--	--	28,000	1,602
2022-2026	2	--	--	--	--	--
	365	127	12	--	28,000	12,272
Less: Unamortized bond discounts	(1)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	1	--	--	--	--	--
Add: Unamortized bond premiums	21	--	--	--	--	--
Net debt service requirements	386	127	12	--	28,000	12,272

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

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

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

Nonmajor Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ 995	680	2,258	2,252	2,720	661
2008	1,221	632	2,372	2,165	3,504	678
2009	1,064	570	2,497	2,073	3,658	562
2010	1,604	515	2,204	1,975	3,411	435
2011	1,450	434	2,305	1,891	3,141	318
2012-2016	5,462	1,195	14,643	7,654	5,876	309
2017-2021	1,746	201	16,015	3,930	--	--
2022-2026	4	--	6,483	583	--	--
	13,546	4,227	48,777	22,523	22,310	2,963
Less: Unamortized bond discounts	(48)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(1,003)	--	--	--	--	--
Add: Unamortized bond premiums	812	--	983	--	3	--
Net debt service requirements	13,307	4,227	49,760	22,523	22,313	2,963

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

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

Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ 2,240	1,051	2,258	2,252	4,471	983
2008	1,995	938	2,372	2,165	5,312	997
2009	1,569	836	2,497	2,073	5,437	823
2010	2,269	755	2,204	1,975	5,113	637
2011	2,101	639	2,305	1,891	4,777	461
2012-2016	7,835	1,738	14,643	7,654	8,401	442
2017-2021	2,681	313	16,015	3,930	--	--
2022-2026	20	2	6,483	583	--	--
	20,710	6,272	48,777	22,523	33,511	4,343
Less: Unamortized bond discounts	(78)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(3,038)	--	--	--	--	--
Add: Unamortized bond premiums	1,202	--	983	--	3	--
Net debt service requirements	18,796	6,272	49,760	22,523	33,514	4,343

Fiscal Year Ended September 30	Tax Supported Debt		Commercial Paper Notes (1)		Revenue Notes (2)	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	642	430	240,200	959	--	1,067
2008	594	401	--	--	--	1,067
2009	532	374	--	--	--	1,067
2010	564	348	--	--	--	1,067
2011	596	319	--	--	--	1,067
2012-2016	4,031	1,057	--	--	--	5,335
2017-2021	1,491	108	--	--	28,000	1,602
	8,450	3,037	240,200	959	28,000	12,272
Less: Unamortized bond discounts	(45)	--	(242)	--	--	--
Unamortized gain(loss) on bond refundings	--	--	--	--	--	--
Add: Unamortized bond premiums	--	--	--	--	--	--
Net debt service requirements	$ 8,405	3,037	239,958	959	28,000	12,272

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

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

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

Business-Type Activities
(in thousands)

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

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

11 – CONDUIT DEBT

The City has issued several series of housing and industrial development revenue bonds to provide for low cost housing and for acquisition and construction of industrial and commercial facilities. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Prior to September 30, 1997, the City issued several series of bonds; the aggregate principal amount payable of these bonds could not be determined; however, their original issue amounts totaled $310.2 million. The City has $83 million in bonds of various series outstanding as of September 30, 2006 that had an original issue value of $84.4 million.

Revenue bonds have been issued by various related entities to provide for facilities located at the international airport and convention center. These bonds are special limited obligations payable solely from and secured by a pledge of revenue to be received from agreements between the entities and various third parties. In 2006, $260.2 of refunding bonds was issued to retire $252.3 million of the previously outstanding convention center facility revenue bonds. The refunding and remaining original issues total $375.3 million, with $363.8 million outstanding at September 30, 2006.

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

12 – INTERFUND BALANCES AND TRANSFERS

Interfund receivables and payables at September 30, 2006, are as follows (in thousands):

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

Interfund receivables and payables reflect loans between funds. Of the above current amount, $18.0 million is an interfund loan from the Fiscal Surety Fund, a special revenue fund, to other special revenue funds (primarily grant funds) to cover deficit pooled investments and cash. The above current amount also includes $16.0 million in interfund loans between capital project funds to cover deficit pooled investments and cash.

12 – INTERFUND BALANCES AND TRANSFERS, continued

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

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

Interfund transfers are authorized through City Council approval. Significant transfers include the electric and water and wastewater transfers to the General Fund, which are comparable to a return on investment to owners.

13 – LITIGATION

A number of claims against the City are pending with respect to various matters arising in the normal course of the City's operations. Legal counsel and city management are of the opinion that settlement of these claims and pending litigation will not have a material effect on the City's financial statements. The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2006. These liabilities include amounts for lawsuits settled subsequent to year-end, which are reported in the government-wide statement of net assets.

14 – COMMITMENTS AND CONTINGENCIES
a -- Fayette Power Project

Austin Energy's coal-fired electric generating units are located at the Fayette Power Project (FPP) and operate pursuant to a participation agreement with the Lower Colorado River Authority (LCRA, Project Manager). Austin Energy has an undivided 50 percent interest in Units 1 and 2, and LCRA wholly owns Unit 3. Austin Energy's investment is financed with city funds, and its pro-rata share of operations is recorded as if wholly owned. Austin Energy's equity in FPP was $42 million as of September 30, 2006. The equity interest in the FPP is calculated pursuant to the participation agreement and is reported in various asset and liability accounts within the City's financial statements.

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

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

b -- South Texas Project

Austin Energy is one of three participants in the South Texas Project (STP), which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the STP are Texas Genco LP, formerly known as Reliant Energy, and City Public Service of San Antonio. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. Austin Energy's 16 percent ownership in the STP represents 400 megawatts of plant capacity. At September 30, 2006, Austin Energy's investment in the STP was approximately $530 million, net of accumulated depreciation.

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

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

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

c -- South Texas Project Decommissioning

The South Texas Project (STP) is subject to regulation by the Nuclear Regulatory Commission (NRC). The NRC requires that each holder of a nuclear plant-operating license submit information to the NRC indicating the minimum funding required for plant decommissioning. In addition, reasonable assurance must be demonstrated that sufficient funds are being accumulated to provide the minimum requirement for decommissioning. This amount must be adjusted annually as required by the NRC. At September 30, 2006, Austin Energy funded its share of the estimated decommissioning liability as follows:

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

Austin Energy and other STP participants have provided the required information to the NRC and have been collecting decommissioning funds through rates since 1989. Austin Energy has established an external irrevocable trust for collecting sufficient funds for its share of the estimated decommissioning costs. For fiscal year 2006, Austin Energy collected $4,957,967 for decommissioning requirements.

d -- Energy Risk Management Program

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

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

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

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

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

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

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

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

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

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

e -- Derivative Instruments

Swap for the Water & Wastewater System

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

Terms, fair values, and credit risk. The City's swap agreement contains scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2004 Bonds were issued on August 27, 2004, with a principal amount of $132,475,000. The swap was structured to match the principal amortization structure and dates of the Series 2004 Bonds.

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

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

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Fair Value
Water & Wastewater Variable Rate Revenue Refunding Bonds, Series 2004	May 15, 2024	JP Morgan	Aa2/AA-/AA-	68% of 1-month LIBOR	3.657%	$ (1,516,296)

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

Fair value. The swap had a fair value as of September 30, 2006, of $(1,516,296). This fair value takes into consideration the prevailing interest rate, the specific terms and conditions of a given transaction, and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the London InterBank Offered Rate (LIBOR) swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swap.

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

The swap agreement contains a collateral agreement with the counterparty. Collateralization of the fair value of the swap is required should the counterparty's credit rating fall below the applicable thresholds in the agreement. The City purchased insurance to mitigate the need to post collateral as long as the insurer, Financial Security Assurance, maintains a credit rating above A2 (Moody's Investor Service, Inc.) and A (Standard and Poor's).

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

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

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

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

Swap payments and associated debt. As of September 30, 2006, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows (as rates vary, variable-rate bond interest payments and net swap payments will vary):

Fiscal Year Ended September 30	Water and Wastewater Variable-Rate Bonds (in thousands) Principal	Interest	Interest Rate Swaps, Net	Total
2007	$ 7,000	4,511	(147)	4,364
2008	1,200	4,391	(143)	4,248
2009	--	4,361	(142)	4,219
2010	--	4,361	(142)	4,219
2011	830	4,351	(142)	4,209
2012-2016	70,940	17,414	(567)	16,847
2017-2021	19,830	6,653	(216)	6,437
2022-2026	23,775	1,449	(47)	1,402
Total	$ 123,575	47,491	(1,546)	45,945

Swap for the Airport System

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

Terms, fair values, and credit risk. The City's swap agreement contains scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2005 Bonds were issued on August 17, 2005, with a principal amount of $306,225,000. The swap was structured to match the likely principal amortization structure and dates of the Series 2005 Bonds. The counterparty to the swap is Morgan Stanley Capital Services, Inc ("Morgan Stanley") with a guarantee from Morgan Stanley. A summary of the terms and fair value of the swap, as of September 30, 2006, is as follows:

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Fair Value
Airport System Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2005	Nov 15, 2025	Morgan Stanley	Aa3/A+/AA-	71% of 1-month LIBOR	4.051%	$ (9,332,035)

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

Fair value. The swap had a fair value as of September 30, 2006, of $(9,332,035). This fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. The method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates.

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

The payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swap.

Credit risk. As of September 30, 2006, the City was not exposed to credit risk on its outstanding swap since the swap had a negative fair value. However, should interest rates change and the fair values of the swap become positive, the City's exposure is the amount of the swap's positive fair value. This amount may become positive if interest rates increase in the future. The current credit ratings of Morgan Stanley are Aa3 (Moody's Investor Services, Inc.) A+ (Standard & Poor's) and AA- (Fitch). The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

The swap agreement contains a collateral agreement with the counterparty. The swap requires collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds in the agreement. The City purchased swap insurance to mitigate the need to post collateral as long as the insurer, Financial Security Assurance, maintains a credit rating above A2 (Moody's Investor Services, Inc.) and A (Standard & Poor's).

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

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

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

Swap payments and associated debt. As of September 30, 2006, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows (as rates vary, variable-rate bond interest payments and net swap payments will vary):

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

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

Swaps for the Hotel Occupancy Tax

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

Terms, fair values, and credit risk. The City's swap agreement contains scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2005 Bonds were issued on August 17, 2005, with a principal amount of $119,290,000. The swaps were structured to match the likely principal amortization structure and dates of the Series 2005 VRRB.

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

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

The combination of variable rate bonds and a floating-to-fixed swap creates synthetic fixed-rate debt for the City. The transactions allowed the City to create a synthetic fixed rate on the Bonds in advance of issuance, protecting the City against potential increases in long-term interest rates, and eliminating basis risk during the escrow period of the refunded bonds.

Fair value. The swaps had a fair value as of September 30, 2006, of $1,060,434. The fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. The payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

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

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

The swap agreements contain collateral agreements with the counterparties. The swap requires collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds in the agreement. The City purchased swap insurance to mitigate the need to post collateral as long as the insurer, CIFG, maintains a credit rating above A3 (Moody's Investor Services, Inc.) and A- (Standard & Poor's).

Basis risk. Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The City bears no basis risk until November 15, 2009. Afterward, the swap has basis risk since the City receives a percentage of LIBOR to offset the actual variable bond rate the City pays on its bonds. The City may be exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the City pays on the bonds. The magnitude and duration of any basis risk shortfall will determine the extent of basis risk incurred.

Tax risk. Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the City's underlying variable-rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g. a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. Tax risk exists only after November 15, 2009. The City is receiving 67% of LIBOR (a taxable index) on the swap and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

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

Swap payments and associated debt. As of September 30, 2006, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows (as rates vary, variable-rate bond interest payments and net swap payments will vary):

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

f -- Certificates of Participation

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

$ 23,060,000	Electric Utility Office Project, Series 1987
$ 14,000,000	Water and Wastewater Utility Office Project, Series 1987

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

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

The following table presents information regarding these certificates:

Description	Electric Fund Office Project (1)	Water and Wastewater Fund Office Project (1)
Date issued	February 1987	August 1987
Amount issued	$ 23,060,000	$ 14,000,000
Interest rates	4.00% - 7.00%	5.25% - 8.00%
Interest payable on	March 15 and	May 15 and
	September 15	November 15
Maturity dates	September 15	November 15
	1988 – 2007	1989 - 2007
Present value of lease payments	$ 1,987,716	$ 2,631,885
Reserve Fund (2)	$ 2,000,000	$ 1,250,000

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

g -- Federal and State Financial Assistance Programs

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

h -- Arbitrage Rebate Payable

The City's financial advisor has determined that the City has earned interest revenue on unused bond proceeds in excess of amounts allowed by applicable Federal regulations. The City will be required to rebate the excess amounts to the federal government. The estimated amounts payable at September 30, 2006, are as follows (in thousands):

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

i -- Capital Improvement Plan

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

The key projects in progress include improvements to and development of the transportation infrastructure, electric system, water and wastewater systems, airport, and urban growth management activities as shown below (in thousands). Remaining commitments represent current unspent budget and future costs required to complete projects.

Project	Spent-to-Date	Remaining Commitment
Governmental activities:		
General government	$ 105,747	16,388
Public safety	5,969	6,000
Transportation	209,222	32,102
Public health	4,652	400
Public recreation and culture	130,446	8,646
Urban growth management	54,233	7,326
Business-type activities:		
Electric	2,879,124	248,060
Water	817,844	837,202
Wastewater	645,811	538,086
Airport	93,623	118,127
Convention	21,805	4,100
Environmental and health services	29,282	21,741
Urban growth management	133,839	528,961
Total	$ 5,131,597	2,367,139

j -- Landfill Closure and Postclosure Liability

State and federal regulations require the City to place a final cover on the City of Austin landfill site (located on FM 812) when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, a portion of these future closure and postclosure care costs are reported as an operating expense in each period as incurred in the Solid Waste Services Fund, a nonmajor enterprise fund. The amount of costs reported is based on landfill capacity as of the City's fiscal year-end. The $8.4 million reported as accrued landfill closure and postclosure costs at September 30, 2006, represents the cumulative amount reported to date based on the use of 85.3% of the estimated capacity of the landfill. The Solid Waste Services Fund will recognize the remaining estimated cost of closure and postclosure care of $1.4 million as the remaining estimated capacity is filled over the next seven years. The total estimated costs of $9.8 million include costs of closure in 2013 of $2.5 million and postclosure costs over the subsequent thirty years of $7.3 million. These amounts are based on current cost estimates to perform closure and postclosure care in 2006. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. State and federal laws require owners to demonstrate financial assurance for closure, postclosure, and/or corrective action. The City complies with the financial and public notice components of the local government financial test and government-guarantee of the test.

14 – COMMITMENTS AND CONTINGENCIES, continued

k -- Risk-Related Contingencies

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

Fund name	Description
Employee Benefits	City employees and retirees may choose a self-insured PPO or an HMO for health coverage. Approximately 30% of city employees and 50% of retirees use the HMO option; approximately 70% of city employees and 50% of retirees use the PPO. Costs are charged to city funds through a charge per employee per pay period.
Liability Reserve	This self-insured program includes losses and claims related to liability for bodily injury, property damage, professional liability and certain employment liability. Premiums are charged to other city funds each year based on historical costs.
Workers' Compensation	Premium charges for this self-insured program are assessed to other funds each year based on historical costs.

The City purchases stop-loss insurance for the City's PPO. This stop-loss insurance covers individual claims that exceed $500,000 per calendar year, up to a maximum of $1 million. During fiscal year 2006, no claim exceeded the stop-loss limit of $500,000; during fiscal year 2005, two claims exceeded the stop-loss limit of $500,000; and during fiscal year 2004, no claim exceeded the stop-loss limit of $500,000. City coverage is limited to $1 million in lifetime benefits. The City does not purchase stop-loss insurance for workers' compensation claims.

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

Liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The City utilizes actuarial information and historical claim settlement trends to determine the claim liabilities for the Employee Benefits Fund and Workers' Compensation Fund. Claims liabilities for the Liability Reserve Fund are calculated based on an estimate of outstanding claims, which may differ from the actual amounts paid. The amount to be paid out ultimately may vary from the amount accrued at September 30, 2006. Possible losses are estimated to range from $21.2 to $35.9 million. The City contributes amounts to an internal service fund based on an estimate of anticipated costs for claims each year.

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

	Employee Benefits		**Liability Reserve**		**Workers' Compensation**	
	2006	2005	2006	2005	2006	2005
Liability balances, beginning of year	$ 4,940	4,940	13,919	13,158	9,959	9,342
Claims and changes in estimates	2,786	3,252	(3,126)	6,091	3,113	4,295
Claim payments	(3,344)	(3,252)	(3,931)	(5,330)	(3,107)	(3,678)
Liability balances, end of year	$ 4,382	4,940	6,862	13,919	9,965	9,959

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

14 – COMMITMENTS AND CONTINGENCIES, continued
l -- Environmental Remediation Contingencies

The Electric Fund may incur costs for environmental remediation of certain sites including the Holly and Seaholm Power Plants. The financial statements include a liability of approximately $16 million at September 30, 2006. This amount includes the cost of penalties associated with an Environmental Protection Agency (EPA) PCB inspection and estimated remaining costs for the remediation of the contaminated sites. The Electric Fund anticipates payment of these costs in 2007 and future years. In addition, the Electric Fund anticipates an additional amount up to $3.6 million, for environmental remediation of the Seaholm site. This amount has not been recorded in the financial statements of the Electric Fund, as a type 2 subsequent event.

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

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

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

m -- Redevelopment of Robert Mueller Municipal Airport

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

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

n -- Other Commitments and Contingencies
i -- Leases
The City is committed under various leases for building and office space, tracts of land and rights-of-way, and certain equipment. These leases are considered operating leases for accounting purposes. Lease expense for the year ended September 30, 2006, was $18.1 million. The City expects these leases to be replaced with similar leases in the ordinary course of business. Future minimum lease payments for these leases will remain approximately the same.

The City has entered into certain lease agreements to finance personal computers and other equipment for both governmental and business-type activities. As mentioned in a preceding section of this note, certificates of participation have been issued by the Electric Fund and Water and Wastewater Fund for financing certain office buildings. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of the future minimum lease payments at their inception date. Refer to Note 10 for the debt service requirements on these leases.

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

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

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

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

15 – OTHER POST-EMPLOYMENT BENEFITS

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

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

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

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

Years of Service	Retiree only	Dependent only
Less than 5 years	16% - 17%	11% - 12%
5 to 9 years	24% - 26%	17%
10 to 14 years	41% - 43%	28% - 29%
15 to 20 years	57% - 60%	39% - 41%
Greater than 20 years	81% - 85%	56% - 58%

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

15 – OTHER POST-EMPLOYMENT BENEFITS, continued

Other post-employment benefits are expensed and funded on a pay-as-you-go basis. The City recognizes the cost of providing these benefits as an expense and corresponding revenue in the Employee Benefits Fund. Medical, dental and life insurance claims and premiums are reported in the Employee Benefits Fund. The estimated cost of providing these benefits for 2,682 retirees was $15.7 million in 2006 and $13.3 million in 2005 for 2,554 retirees.

As more fully described in Note 14, the City is a participant in the South Texas Project Nuclear Operating Company (STPNOC) and as such is liable for certain post-employment benefits for STPNOC employees. At December 31, 2005, the City's portion of this obligation, $9.9 million, is not reflected in the financial statements of the Electric Fund.

16 – SUBSEQUENT EVENTS
a -- Bond Election

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

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

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

b -- Electric System Revenue Bond Refunding Issue

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

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

c -- Water and Wastewater System Revenue Bond Refunding Issue

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

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

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

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

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

e – Convention Center Investigation

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

General Fund **City of Austin, Texas**
Schedule of Revenues, Expenditures, and Changes in **RSI-1**
Fund Balances--Budget and Actual-Budget Basis
For the year ended September 30, 2006
(In thousands)

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

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

1 – BUDGET BASIS REPORTING

a -- General

The City of Austin prepares its annual operating budget based on the modified accrual basis. Encumbrances constitute the equivalent of expenditures for budgetary purposes. In order to provide a meaningful comparison of actual results to the budget, the Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual-Budget Basis for the General Fund presents the actual and actual-budget basis amounts in comparison with original and final budgets.

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

b -- Reconciliation of GAAP Basis and Budget Basis Amounts

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

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

c -- Budget Amendments

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

RETIREMENT PLANS

Trend Information

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

Valuation Date, December 31st	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
City Employees						
1997	856,423	832,140	(24,283)	102.9%	219,208	(11.1%)
1999	1,105,100	1,044,500	(60,600)	105.8%	244,500	(24.8%)
2001	1,311,288	1,360,270	48,982	96.4%	316,793	15.5%
2002	1,250,851	1,440,199	189,348	86.9%	322,008	58.8%
2003	1,348,800	1,551,800	203,000	86.9%	312,800	64.9%
2004	1,356,800	1,678,200	321,400	80.8%	326,600	98.4%
2005	1,398,800	1,794,200	395,400	78.0%	348,600	113.4%
Police Officers						
1997	168,602	222,703	54,101	75.7%	47,189	114.6%
1999	226,913	257,850	30,937	88.0%	54,695	56.6%
2001	284,761	347,548	62,787	81.9%	69,707	90.1%
2002	298,782	384,992	86,210	77.6%	79,236	108.8%
2003	320,354	413,965	93,611	77.4%	80,959	115.6%
2004	343,447	451,580	108,133	76.1%	86,674	124.8%
2005	371,505	494,641	123,136	75.1%	93,429	131.8%
Fire Fighters (2)						
1997	268,241	279,472	11,231	96.0%	35,130	32.0%
1999	341,593	317,223	(24,370)	107.7%	38,690	(63.0%)
2001	395,371	406,266	10,895	97.3%	49,726	21.9%
2003	421,136	452,669	31,533	93.0%	55,939	56.4%
2005	493,567	580,054	86,487	85.1%	65,885	131.3%

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

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

APPENDIX C

SUMMARY OF CERTAIN MASTER ORDINANCE PROVISIONS

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ORDINANCE NO. 010118-

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 1986A", dated April 15, 1986, (iii) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1986C", dated November 15, 1986, (iv) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1987", dated May 15, 1987, (v) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1989", dated July 15, 1989, (vi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990A", dated February 1, 1990, (vii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990B", dated February 1, 1990, (viii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1991-A", dated June 1, 1991, (ix) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992", dated March 1, 1992, (x) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992A", dated May 15, 1992, (xi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993", dated January 15, 1993, (xii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993A", dated June 1, 1993, (xiii) "City of Austin, Texas, Combined Utility Systems Revenue

Refunding Bonds, Series 1994", dated September 1, 1994, (xiv) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1995", dated June 1, 1995, (xv) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996A", dated August 1, 1996, (xvi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996B", dated August 1, 1996, (xvii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1997", dated August 1, 1997, (xviii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998", dated July 1, 1996, and (xix) "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 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

ATTEST:

KIRK WATSON
Mayor

SHIRLEY A. BROWN
City Clerk

APPROVED:

(City Seal)

ANDREW MARTIN
City Attorney

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, 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-__ 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 to 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.

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 purchasers 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.

<u>Obligations of Inferior Lien and Pledge</u>. 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.

<u>Maintenance and Operation-Insurance</u>. 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.

<u>Sale, Lease or Disposal of System Property</u>. 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.

<u>Records and Accounts</u>. 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.

APPENDIX E

FORM OF BOND COUNSEL'S OPINION

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FULBRIGHT & JAWORSKI L.L.P.
A REGISTERED LIMITED LIABILITY PARTNERSHIP
2200 ROSS AVENUE, SUITE 2800
DALLAS, TEXAS 75201-2784
WWW.FULBRIGHT.COM

TELEPHONE: (214) 855-8000 FACSIMILE: (214) 855-8200

IN REGARD to the authorization and issuance of the "City of Austin, Texas, Electric Utility System Revenue Refunding Bonds, Taxable Series 2007" (the "Bonds"), dated November 1, 2007, in the principal amount of $50,000,000, 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 ordinance (the "Ordinance") authorizing the issuance of the Bonds, 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 Ordinance.

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 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"); 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, 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 outstanding Previously Issued Electric Utility Obligations and 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.

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APPENDIX F

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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Assured Guaranty Corp.
1325 Avenue of the Americas
New York, NY 10019
t. 212.974.0100
www.assuredguaranty.com

Financial Guaranty Insurance Policy

Issuer:	**Policy No.:**
Obligations:	**Premium:**
	Effective Date:

Assured Guaranty Corp., a Maryland corporation ("**Assured Guaranty**"), in consideration of the payment of the Premium and on the terms and subject to the conditions of this Policy (which includes each endorsement hereto), hereby unconditionally and irrevocably agrees to pay to the trustee (the "**Trustee**") or the paying agent (the "**Paying Agent**") for the Obligations (as set forth in the documentation providing for the issuance of and securing the Obligations) for the benefit of the Holders, that portion of the Insured Payments which shall become Due for Payment but shall be unpaid by reason of Nonpayment.

Assured Guaranty will make such Insured Payments to the Trustee or the Paying Agent on the later to occur of (i) the date applicable principal or interest becomes Due for Payment, or (ii) the Business Day next following the day on which Assured Guaranty shall have Received a completed Notice of Nonpayment. If a Notice of Nonpayment by Assured Guaranty is incomplete or does not in any instance conform to the terms and conditions of this Policy, it shall be deemed not Received, and Assured Guaranty shall promptly give notice to the Trustee or the Paying Agent. Upon receipt of such notice, the Trustee or the Paying Agent may submit an amended Notice of Nonpayment. The Trustee or the Paying Agent will disburse the Insured Payments to the Holders only upon receipt by the Trustee or the Paying Agent, in form reasonably satisfactory to it of (i) evidence of the Holder's right to receive such payments, and (ii) evidence, including without limitation any appropriate instruments of assignment, that all of the Holder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Assured Guaranty. Upon and to the extent of such disbursement, Assured Guaranty shall become the Holder of the Obligations, any appurtenant coupon thereto and right to receipt of payment of principal thereof or interest thereon, and shall be fully subrogated to all of the Holder's right, title and interest thereunder, including without limitation the right to receive payments in respect of the Obligations. Payment by Assured Guaranty to the Trustee or the Paying Agent for the benefit of the Holders shall discharge the obligation of Assured Guaranty under this Policy to the extent of such payment.

This Policy is non-cancelable by Assured Guaranty for any reason. The Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment premium or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Assured Guaranty, nor against any risk other than Nonpayment.

Except to the extent expressly modified by any endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "**Avoided Payment**" means any amount previously distributed to a Holder in respect of any Insured Payment by or on behalf of the Issuer, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. "**Business Day**" means any day other than (i) a Saturday or Sunday, (ii) any day on which the offices of the Trustee, the Paying Agent or Assured Guaranty are closed, or (iii) any day on which banking institutions are authorized or required by law, executive order or governmental decree to be closed in the City of New York or in the State of Maryland. "**Due for Payment**" means (i) when referring to the principal of an Obligation, the stated maturity date thereof, or the date on which such Obligation shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and (ii) when referring to interest on an Obligation, the stated date for payment of such interest. "**Holder**" means, in respect of any Obligation, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Obligation to payment of principal or interest thereunder, except that Holder shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Obligations. "**Insured Payments**" means that portion of the principal of and interest on the Obligations that shall become Due for Payment but shall be unpaid by reason of Nonpayment. Insured Payments shall not include any additional amounts owing by the Issuer solely as a result of the failure by the Trustee or the Paying Agent to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee or the Paying Agent by reason of such failure. "**Nonpayment**" means, in respect of an Obligation, the failure of the Issuer to have provided sufficient funds to the Trustee or the Paying Agent for payment in full of all principal and interest Due for Payment on such Obligation. It is further understood that the term "Nonpayment" in respect of an Obligation includes any Avoided Payment. "**Receipt**" or "**Received**" means actual receipt or notice of or, if notice is given by overnight or other delivery service, or by certified or registered United States mail, by a delivery receipt signed by a person authorized to accept delivery on behalf of the person to whom the notice was given. Notices to Assured Guaranty may be mailed by registered mail or personally delivered or telecopied to it at 1325 Avenue of the Americas, New York, New York 10019, Telephone Number: (212) 974-0100, Facsimile Number: (212) 581-3268, Attention: Risk Management Department – Public Finance Surveillance, with a copy to the General Counsel, or to such other address as shall be specified by Assured Guaranty to the Trustee or the Paying Agent in writing. A Notice of Nonpayment will be deemed to be Received by Assured Guaranty on a given Business Day if it is Received prior to 12:00 noon (New York City time) on such Business Day; otherwise it will be deemed Received on the next Business Day. "**Term**" means the period from and including the Effective Date until the earlier of (i) the maturity date for the Obligations, or (ii) the date on which the Issuer has made all payments required to be made on the Obligations.

At any time during the Term of this Policy, Assured Guaranty may appoint a fiscal agent (the "**Fiscal Agent**") for purposes of this Policy by written notice to the Trustee or the Paying Agent, specifying the name and notice address of such Fiscal Agent. From and after the date of Receipt of such notice by the Trustee or the Paying Agent, copies of all notices and documents required to be delivered to Assured Guaranty pursuant to this Policy shall be delivered simultaneously to the Fiscal Agent and to Assured Guaranty. All payments required to be made by Assured Guaranty under this Policy may be made directly by Assured Guaranty or by the Fiscal Agent on behalf of Assured Guaranty. The Fiscal Agent is the agent of Assured Guaranty only, and the Fiscal Agent shall in no event be liable to the Trustee or the Paying Agent for any acts of the Fiscal Agent or any failure of Assured Guaranty to deposit, or cause to be deposited, sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Assured Guaranty hereby waives, in each case for the benefit of the Holders only, all rights and defenses of any kind (including, without limitation, the defense of fraud in the inducement or in fact or any other circumstance that would have the effect of discharging a surety, guarantor or any other person in law or in equity) that may be available to Assured Guaranty to deny or avoid payment of its obligations under this Policy in accordance with the express provisions hereof. Nothing in this paragraph will be construed (i) to waive, limit or otherwise impair, and Assured Guaranty expressly reserves, Assured Guaranty's rights and remedies, including, without limitation: its right to assert any claim or to pursue recoveries (based on contractual rights, securities law violations, fraud or other causes of action) against any person or entity, in each case, whether directly or acquired as a subrogee, assignee or otherwise, subsequent to making any payment to the Trustee or the Paying Agent, in accordance with the express provisions hereof, and/or (ii) to require payment by Assured Guaranty of any amounts that have been previously paid or that are not otherwise due in accordance with the express provisions of this Policy.

This Policy (which includes each endorsement hereto) sets forth in full the undertaking of Assured Guaranty with respect to the subject matter hereof, and may not be modified, altered or affected by any other agreement or instrument, including, without limitation, any modification thereto or amendment thereof. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. This Policy will be governed by, and shall be construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, Assured Guaranty has caused this Policy to be affixed with its corporate seal, to be signed by its duly authorized officer, and to become effective and binding upon Assured Guaranty by virtue of such signature.

ASSURED GUARANTY CORP.

(SEAL)

By:__________________________________
[Insert Authorized Signatory Name]
[Insert Authorized Signatory Title]

Signature attested to by:

____
Counsel