Ratings: Moody's: "Aaa" Standard & Poor's: "AAA" Fitch: "AAA"

(See "OTHER RELEVANT INFORMATION - Ratings")

#### NEW ISSUE - Book-Entry-Only

On the opinion of Bond Counsel interest on the Series 2012A Bonds is excludable from gross income for federal income tax purposes under existing law and is not includable in the alternative minimum taxable income of individuals. See "TAX MATTERS FOR SERIES 2012A BONDS, CERTIFICATES AND CONTRACTUAL OBLIGATIONS" for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.

## \$74,280,000 CITY OF AUSTIN, TEXAS

(Travis, Williamson and Hays Counties) Public Improvement Bonds, Series 2012A

Dated: September 1, 2012 Due: September 1, as shown below

Interest on the \$74,280,000 City of Austin, Texas Public Improvement Bonds, Series 2012A (the "Series 2012A Bonds"), will accrue from the dated date shown above, will be payable March 1, 2013, and each September 1 and March 1 thereafter until maturity or prior redemption, and will be calculated on the basis of a 360–day year consisting of twelve 30–day months. The City of Austin, Texas (the "City") intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on the behalf of DTC to discontinue such system. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer of the Series 2012A Bonds (see "OBLIGATION INFORMATION – Book-Entry-Only System").

The Series 2012A Bonds are direct obligations of the City, payable from an ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City, as provided in the ordinance authorizing the issuance of the Series 2012A Bonds (see "OBLIGATION INFORMATION – Security").

Proceeds from the sale of the Series 2012A Bonds will be used to finance various capital improvements (see "OBLIGATION INFORMATION – Authority for Issuance"), and to pay certain costs of issuance of the Series 2012A Bonds.

#### **MATURITY SCHEDULE**

Base CUSIP No. 052396 (1)

Maturity	Principal	Interest	Initial	CUSIP	Maturity	Principal	Interest	Initial	CUSIP
(September 1)	<u>Amount</u>	Rate	<u>Yield</u>	Suffix	(September 1)	<u>Amount</u>	Rate	<u>Yield</u>	<u>Suffix</u>
2013	\$ 3,335,000	3.000%	0.200%	M39	2028	\$4,895,000	4.000%	2.710%	M88
2023	9,175,000	3.000%	2.190%	M47	2029	5,110,000	3.000%	3.080%	M96
2024	11,210,000	3.000%	2.360%	M54	2030	5,250,000	4.000%	2.830%	N20
2025	11,205,000	5.000%	2.330%	M62	2031	7,935,000	3.000%	3.180%	N38
2026	9,445,000	4.000%	2.570%	M70	2032	6,720,000	3.100%	3.200%	N46

<sup>(1)</sup> CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. CUSIP numbers are provided for convenience of reference only. Neither the City, nor the Financial Advisor, nor the Purchasers take any responsibility for the accuracy of such numbers.

The City reserves the right, at its option, to redeem the Series 2012A Bonds having stated maturities on or after September 1, 2023, in whole or in part in the principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2022, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see "OBLIGATION INFORMATION – Optional Redemption of the Bonds and the Certificates").

The Series 2012A Bonds are offered for delivery when, as and if issued, subject to the approving opinions of the Attorney General of the State of Texas and of Andrews Kurth LLP, Austin, Texas, Bond Counsel (see APPENDIX C – "Forms of Bond Counsel's Opinions").

It is expected that the Series 2012A Bonds will be delivered through the facilities of DTC on or about October 4, 2012.

Ratings: Moody's: "Aaa" Standard & Poor's: "AAA" Fitch: "AAA"

(See "OTHER RELEVANT INFORMATION - Ratings")

#### NEW ISSUE - Book-Entry-Only

Interest on the Series 2012B Bonds is not excludable from gross income. See "TAX MATTERS FOR SERIES 2012B BONDS".

## \$6,640,000 CITY OF AUSTIN, TEXAS

(Travis, Williamson and Hays Counties)
Public Improvement Bonds, Taxable Series 2012B

Dated: September 1, 2012 Due: September 1, as shown below

Interest on the \$6,640,000 City of Austin, Texas Public Improvement Bonds, Taxable Series 2012B (the "Series 2012B Bonds"), will accrue from the dated date shown above, will be payable March 1, 2013, and each September 1 and March 1 thereafter until maturity or prior redemption, and will be calculated on the basis of a 360–day year consisting of twelve 30–day months. The City of Austin, Texas (the "City") intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on the behalf of DTC to discontinue such system. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer of the Series 2012B Bonds (see "OBLIGATION INFORMATION – Book-Entry-Only System").

The Series 2012B Bonds are direct obligations of the City, payable from an ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City, as provided in the ordinance authorizing the issuance of the Series 2012B Bonds (see "OBLIGATION INFORMATION – Security").

Proceeds from the sale of the Series 2012B Bonds will be used to finance various capital improvements and to pay certain costs of issuance of the Series 2012B Bonds (see "OBLIGATION INFORMATION – Authority for Issuance").

#### MATURITY SCHEDULE Base CUSIP No. 052396 (1)

Maturity (September 1)	Principal Amount	Interest Rate	Initial <u>Yield</u>	CUSIP Suffix	Maturity (September 1)	Principal <u>Amount</u>	Interest <u>Rate</u>	Initial <u>Yield</u>	CUSIP Suffix
2013	\$880,000	2.000%	0.420%	Q35	2022	\$305,000	2.500%	2.400%	R34
2015	250,000	2.000%	0.700%	Q43	2023	350,000	2.550%	2.550%	R42
2016	245,000	2.000%	0.900%	Q50	2024	355,000	2.700%	2.700%	R59
2017	235,000	2.000%	1.150%	Q68	2025	365,000	2.850%	2.850%	R67
2018	230,000	2.000%	1.400%	Q76	2026	380,000	3.000%	3.000%	R75
2019	225,000	2.000%	1.700%	Q84	2028	410,000	3.200%	3.200%	R83
2020	320,000	2.500%	2.000%	Q92	2029	425,000	3.300%	3.300%	R91
2021	315,000	2.500%	2.200%	R26					

\$1,350,000 3.500% Term Bonds due September 1, 2032, Initial Yield 3.500%, CUSIP 052396S25

The City reserves the right, at its option, to redeem the Series 2012B Bonds having stated maturities on or after September 1, 2023, in whole or in part in the principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2022, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see "REDEMPTION – Optional Redemption of the Bonds and the Certificates").

The Series 2012B Bonds are offered for delivery when, as and if issued, subject to the approving opinions of the Attorney General of the State of Texas and of Andrews Kurth LLP, Austin, Texas, Bond Counsel (see APPENDIX C – "Forms of Bond Counsel's Opinions").

It is expected that the Series 2012B Bonds will be delivered through the facilities of DTC on or about October 4, 2012.

<sup>(1)</sup> CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. CUSIP numbers are provided for convenience of reference only. Neither the City, nor the Financial Advisor, nor the Purchasers take any responsibility for the accuracy of such numbers.

Ratings: Moody's: "Aaa" Standard & Poor's: "AAA" Fitch: "AAA"

(See "OTHER RELEVANT INFORMATION – Ratings")

#### NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel interest on the Certificates is excludable from gross income for federal income tax purposes under existing law and is not includable in the alternative minimum taxable income of individuals. See "TAX MATTERS FOR SERIES 2012A BONDS, CERTIFICATES AND CONTRACTUAL OBLIGATIONS" for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.

## \$24,645,000 CITY OF AUSTIN, TEXAS (Travis, Williamson and Hays Counties) Certificates of Obligation, Series 2012

Dated: September 1, 2012 Due: September 1, as shown below

Interest on the \$24,645,000 City of Austin, Texas Certificates of Obligation, Series 2012 (the "Certificates"), will accrue from the dated date as shown above, will be payable March 1, 2013, and each September 1 and March 1 thereafter until maturity or prior redemption, and will be calculated on the basis of a 360–day year consisting of twelve 30–day months. The City of Austin, Texas (the "City") intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on the behalf of DTC to discontinue such system. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer of the Certificates (see "OBLIGATION INFORMATION – Book-Entry-Only System").

The Certificates are direct obligations of the City, payable from an ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City and are additionally payable from and secured by a limited pledge of surplus revenues (not to exceed \$1,000) of the City's solid waste disposal system, as provided in the ordinance authorizing the issuance of the Certificates (see "OBLIGATION INFORMATION – Security").

Proceeds from the sale of the Certificates will be used to finance various capital improvements and to pay certain costs of issuance of the Certificates (see "OBLIGATION INFORMATION – Authority for Issuance").

#### MATURITY SCHEDULE Base CUSIP No. 052396 (1)

Maturity	Principal	Interest	Initial	CUSIP	Maturity	Principal	Interest	Initial	CUSIP
(September 1)	<u>Amount</u>	Rate	<u>Yield</u>	Suffix	(September 1)	<u>Amount</u>	Rate	<u>Yield</u>	Suffix
2013	\$ 725,000	2.000%	0.200%	S33	2025	\$1,270,000	4.000%	2.500%	T73
2014	630,000	2.000%	0.340%	S41	2026	1,310,000	3.000%	2.900%	T81
2015	915,000	2.000%	0.450%	S58	2027	1,345,000	3.000%	2.950%	T99
2016	930,000	3.000%	0.590%	S66	2028	1,385,000	3.000%	3.000%	U22
2017	960,000	3.000%	0.850%	S74	2029	1,425,000	3.000%	3.050%	U30
2018	985,000	4.000%	1.150%	S82	2030	1,455,000	3.000%	3.090%	U48
2019	1,020,000	4.000%	1.450%	S90	2031	1,495,000	3.000%	3.150%	U55
2020	1,055,000	4.000%	1.710%	T24	2032	1,535,000	3.000%	3.210%	U63
2021	1,095,000	4.000%	1.920%	T32	2033	305,000	3.125%	3.280%	U71
2022	1,135,000	4.000%	2.030%	T40	2034	310,000	3.125%	3.350%	U89
2023	1,180,000	4.000%	2.240%	T57	2035	315,000	3.250%	3.420%	U97
2024	1,220,000	4.000%	2.370%	T65					

 $$645,000\ 3.375\%$  Term Certificates due September 1, 2037, Initial Yield 3.510%, CUSIP 052396V21

The City reserves the right, at its option, to redeem Certificates having stated maturities on and after September 1, 2023, in whole or in part in the principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2022, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see "OBLIGATION INFORMATION – Optional Redemption of the Bonds and the Certificates").

The Certificates are offered for delivery when, as and if issued, subject to the approving opinions of the Attorney General of the State of Texas and of Andrews Kurth LLP, Austin, Texas, Bond Counsel (see APPENDIX C – "Forms of Bond Counsel's Opinions").

It is expected that the Certificates will be delivered through the facilities of DTC on or about October 4, 2012.

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Ratings: Moody's: "Aaa" Standard & Poor's: "AAA" Fitch: "AAA"

(See "OTHER RELEVANT INFORMATION - Ratings")

#### NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel interest on the Contractual Obligations is excludable from gross income for federal income tax purposes under existing law and is not includable in the alternative minimum taxable income of individuals. See "TAX MATTERS FOR SERIES 2012A BONDS, CERTIFICATES AND CONTRACTUAL OBLIGATIONS" for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.

## \$27,135,000 CITY OF AUSTIN, TEXAS

# (Travis, Williamson and Hays Counties) Public Property Finance Contractual Obligations, Series 2012

Dated: September 1, 2012 Due: May 1 and November 1, as shown below

Interest on the \$27,135,000 City of Austin, Texas Public Property Finance Contractual Obligations, Series 2012 (the "Contractual Obligations"), will accrue from the dated date as shown above, will be payable May 1, 2013, and on each November 1 and May 1 thereafter until maturity, and will be calculated on the basis of a 360–day year consisting of twelve 30–day months. The City of Austin, Texas (the "City") intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on the behalf of DTC to discontinue such system. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer of the Contractual Obligations (see "OBLIGATION INFORMATION – Book-Entry-Only System").

The Contractual Obligations are direct obligations of the City, payable from an ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City, as provided in the ordinance authorizing the issuance of the Contractual Obligations (see "OBLIGATION INFORMATION – Security").

Proceeds from the sale of the Contractual Obligations will be used to purchase certain equipment and other personal property for use by various City departments and to pay costs of issuance of the Contractual Obligations (see "OBLIGATION INFORMATION – Authority for Issuance").

#### MATURITY SCHEDULE Base CUSIP No. 052396 (1)

Maturity	Principal	Interest	Initial	CUSIP	Maturity	Principal	Interest	Initial	CUSIP
(May 1)	<u>Amount</u>	Rate	<u>Yield</u>	<u>Suffix</u>	(November 1)	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Suffix</u>
2013	\$1,690,000	1.000%	0.200%	N53	2013	\$1,805,000	2.000%	0.250%	N61
2014	1,800,000	2.000%	0.310%	N79	2014	1,845,000	3.000%	0.360%	N87
2015	1,845,000	3.000%	0.430%	N95	2015	1,900,000	4.000%	0.480%	P28
2016	1,905,000	3.000%	0.590%	P36	2016	1,975,000	4.000%	0.640%	P44
2017	1,970,000	3.000%	0.820%	P51	2017	2,040,000	4.000%	0.870%	P69
2018	2,040,000	3.000%	1.120%	P77	2018	2,115,000	4.000%	1.170%	P85
2019	2,110,000	3.000%	1.400%	P93	2019	2,095,000	4.000%	1.450%	Q27

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The Contractual Obligations are not subject to redemption prior to their stated maturities.

The Contractual Obligations are offered for delivery when, as and if issued, subject to the approving opinions of the Attorney General of the State of Texas and of Andrews Kurth LLP, Austin, Texas, Bond Counsel (see APPENDIX C – "Forms of Bond Counsel's Opinions").

It is expected that the Contractual Obligations will be delivered through the facilities of DTC on or about October 4, 2012.

The Series 2012A Bonds, the Series 2012B Bonds, the Certificates, and the Contractual Obligations (collectively referred to herein as the "Obligations") are offered by the City under a common Official Statement. The Series 2012A Bonds, the Series 2012B Bonds, the Certificates, and the Contractual Obligations are separate and distinct securities offerings being issued and sold independently, except for the common Official Statement; and, while the Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, the federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations and other features.

No dealer, broker, salesman or other person has been authorized by the City or by the purchasers in the initial offering of all or any of the Obligations (collectively referred to herein as the "Purchasers") to give any information or to make any representations, other than as contained in this Official Statement, and if given or made such other information or representations must not be relied upon as having been authorized by the City or the Purchasers. 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, the Obligations, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

This Official Statement is submitted in connection with the sale of securities referred to herein and may not be reproduced or used for any other purpose. In no instance may this Official Statement be reproduced or used in part.

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

The information set forth herein has been furnished by the City and includes information obtained from other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Purchasers. The information and expressions of the 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 or the other matters described herein since the date hereof. CUSIP numbers have been assigned to this issue by the CUSIP Global Services for the convenience of the owners of the Obligations.

This Official Statement includes descriptions and summaries of certain events, matters, and documents. Such descriptions and summaries do not purport to be complete and all such descriptions, summaries and references thereto are qualified in their entirety by reference to this Official Statement in its entirety and to each such document, copies of which may be obtained from the City or from Public Financial Management, Inc., the Financial Advisor to the City. Any statements made in this Official Statement or the Appendices hereto involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2012A BONDS, THE SERIES 2012B BONDS, THE CERTIFICATES, AND THE CONTRACTUAL OBLIGATIONS, THE PURCHASERS OF ANY OR ALL OF SUCH OBLIGATIONS MAY OVER ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE OBLIGATIONS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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#### **CITY OF AUSTIN**

#### **Elected Officials**

	Term Expires June 15
Lee LeffingwellMayor	2015
Chris Riley	2014
Mike Martinez	2015
Kathryne B. TovoCouncilmember Place 3	2014
Laura Morrison	2014
William SpelmanCouncilmember Place 5	2015
Sheryl Cole, Mayor Pro TemCouncilmember Place 6	2015

## **Appointed Officials**

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

#### **BOND COUNSEL**

Andrews Kurth LLP Austin, Texas

## DISCLOSURE COUNSEL TO THE CITY

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

#### FINANCIAL ADVISOR

Public Financial Management, Inc. Austin, Texas

#### INDEPENDENT AUDITORS

Deloitte & Touche LLP Austin, Texas

For additional information regarding the City, please contact:

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Treasurer

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#### SELECTED DATA FROM THE OFFICIAL STATEMENT

The selected data on this page is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Series 2012A Bonds, the Series 2012B Bonds, the Certificates and the Contractual Obligations (referred herein collectively as the "Obligations") to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this page from this Official Statement or to otherwise use it without the entire Official Statement.

Statement or to otherwise use it without the entire Official Statement.				
The Issuer	The City of Austin, Texas (the "City"), is a political subdivision located in Travis, Williamson and Hays Counties, operating as a home—rule city under the laws of the State of Texas and a charter approved by the voters in 1953, as amended. The City operates under the Council/Manager form of government where the mayor and six councilmembers are elected for staggered three-year terms. The City Council formulates operating policy for the City while the City Manager is the chief administrative officer.			
	The City is approximately 308 square miles in area (see APPENDIX A – "General Information Regarding the City").			
The Series2012A Bonds	The Series 2012A Bonds are being issued in the principal amount of \$74,280,000, pursuant to the general laws of the State of Texas, particularly Chapter 1331, Texas Government Code, elections held by the City (see "DEBT INFORMATION – Authorized General Obligation Bonds"), and an ordinance passed by the City Council of the City (see "OBLIGATION INFORMATION – Authority for Issuance").			
The Series2012B Bonds	The Series 2012B Bonds are being issued in the principal amount of \$6,640,000, pursuant to the general laws of the State of Texas, particularly Chapter 1331, Texas Government Code, elections held by the City (see "DEBT INFORMATION – Authorized General Obligation Bonds"), and an ordinance passed by the City Council of the City (see "OBLIGATION INFORMATION – Authority for Issuance").			
The Certificates	The Certificates are being issued in the principal amount of \$24,645,000 pursuant to the general laws of the State of Texas, particularly Subchapter C, Chapter 271, Texas Local Government Code (the "Certificate of Obligation Act") and an ordinance passed by the City Council of the City (see "OBLIGATION INFORMATION – Authority for Issuance").			
The Contractual Obligations	The Contractual Obligations are being issued in the principal amount of \$27,135,000 pursuant to the general laws of the State of Texas, particularly Subchapter A, Chapter 271, Texas Local Government Code (the "Public Property Finance Act") and an ordinance passed by the City Council of the City (see "OBLIGATION INFORMATION – Authority for Issuance").			
Security	Each series of the Obligations constitutes a direct obligation of the City, payable from a continuing ad valorem tax levied, within the limits prescribed by law, on taxable property within the City in an amount sufficient to provide for payment of principal of and interest on all ad valorem tax debt. The Certificates are additionally secured by and payable from a limited pledge of the surplus revenues (not to exceed \$1,000) of the City's solid waste disposal system (see "OBLIGATION INFORMATION - Security").			

Redemption of.....

**Obligations** 

The City reserves the right, at its option, to redeem the Series 2012A Bonds, the Series

2012B Bonds and the Certificates having stated maturities on and after September 1, 2023, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2022, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see "OBLIGATION INFORMATION – Optional Redemption of the Bonds and the Certificates"). The Series 2012B Bonds maturing September 1, 2032 are subject to

mandatory sinking fund redemption prior to their scheduled maturity (see "OBLIGATION INFORMATION – Mandatory Sinking Fund Redemption of the Series 2012B Bonds"). The Certificates maturing on September 1, 2037 are subject to mandatory sinking fund redemption prior to their scheduled maturity (see "OBLIGATION INFORMATION – Mandatory Sinking Fund Redemption of the Certificates"). The Contractual Obligations are not subject to redemption prior to their stated maturities.

Tax Exemption .....

In the opinion of Bond Counsel, the interest on the Series 2012A Bonds, the Certificates and the Contractual Obligations is excludable from gross income for federal income tax purposes under existing law and is not includable in the alternative minimum taxable income of individuals. See "TAX MATTERS FOR SERIES 2012A BONDS, CERTIFICATES AND CONTRACTUAL OBLIGATIONS" for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.

Interest on the Series 2012B Bonds is <u>not</u> excludable from gross income. See "TAX MATTERS FOR SERIES 2012B BONDS".

Payment Record.....

The City has not defaulted since 1900 when all bonds were refunded at par with a voluntary reduction in interest rates.

## **Selected Issuer Indices**

						Ratio of Net	
Fiscal			Per Capita			Funded Tax	
Year	Estimated		Taxable	(000's)	Per Capita	Debt to	% of
Ended	City	Taxable Assessed	Assessed	Net Funded	Net Funded	Taxable	Tax
<u>9-30</u>	Population (1)	<u>Valuation</u>	<u>Valuation</u>	Tax Debt (2)	Tax Debt	<u>Valuation</u>	Collections
2004	683,551	\$48,964,275,008	\$ 71,632.22	\$ 955,156	\$1,397.34	1.95%	99.71%
2005	695,881	49,702,906,522	71,424.43	933,180	1,341.01	1.88%	99.45%
2006	714,237	52,349,642,297	73,294.50	943,312	1,320.73	1.80%	99.87%
2007	732,381	60,512,328,889	82,624.11	869,974	1,187.87	1.44%	99.88%
2008	746,105	68,736,790,926	92,127.50	907,667	1,216.54	1.32%	99.73%
2009	770,296	76,752,007,737	99,639.63	1,065,565	1,383.32	1.39%	99.55%
2010	778,560	80,960,540,976	103,987.54	1,002,186	1,287.23	1.24%	99.98%
2011	805,662	77,619,349,384	96,342.32	1,049,751	1,302.97	1.35%	99.13%
2012	811,746	80,089,291,854	98,663.00	965,977	1,189.99	1.21%	99.24% (3)
2013	824,097	83,578,526,899 (4)	101,418.31	1,006,985(5)	1,221.93(5)	1.20% (5)	N/A

<sup>(1)</sup> Source: City of Austin Department of Planning and Development based on full purpose area as of September 30.

<sup>(2)</sup> Excludes general obligation debt issued for enterprise funds and general fund departments which transfer-in from Operating Budget.

<sup>(3)</sup> Estimated Collections as of June 30, 2012 based on the July 2011 Certified Tax Roll tax levy.

<sup>(4)</sup> Certified taxable value for the 2012 tax year.

<sup>(5)</sup> Includes the Obligations.



#### OFFICIAL STATEMENT

Relating to

## \$74,280,000 CITY OF AUSTIN, TEXAS

Public Improvement Bonds, Series 2012A

\$6,640,000 CITY OF AUSTIN, TEXAS Public Improvement Bonds, Taxable Series 2012B

> \$24,645,000 CITY OF AUSTIN, TEXAS Certificates of Obligation, Series 2012

## \$27,135,000 CITY OF AUSTIN, TEXAS

Public Property Finance Contractual Obligations, Series 2012

#### INTRODUCTION

This Official Statement, which includes the cover pages, the summary statement and the appendices hereto, provides certain information regarding the issuance by the City of Austin, Texas (the "City") of its \$74,280,000 Public Improvement Bonds, Series 2012A (the "Series 2012A Bonds"), its \$6,640,000 Public Improvement Bonds, Taxable Series 2012B (the "Series 2012B Bonds"), its \$24,645,000 Certificates of Obligation, Series 2012 (the "Certificates") and its \$27,135,000 Public Property Finance Contractual Obligations, Series 2012 (the "Contractual Obligations"). The Series 2012A Bonds and the Series 2012B Bonds are collectively referred to herein as the "Bonds". The Bonds, the Certificates, and the Contractual Obligations are collectively referred to herein as the "Obligations". The Series 2012B Bonds are sometimes referred to herein as the "Taxable Bonds". The Bonds, the Certificates, and the Contractual Obligations are being offered separately by the City, and delivery of each issue is not contingent upon the delivery of the other issues. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the respective ordinances authorizing the issuance of each series of the Bonds (collectively, the "Bond Ordinance"), the ordinance authorizing the issuance of the Certificates (the "Certificate Ordinance"), except as otherwise indicated herein. The Bond Ordinance, the Certificate Ordinance, and the Contractual Obligation Ordinance are collectively referred to herein as the "Ordinances".

There follows in this Official Statement descriptions of the Obligations and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document.

### **OBLIGATION INFORMATION**

#### Authority for Issuance

The capital improvements to be financed with the proceeds of the Bonds were authorized at elections held on various dates, and passed by a majority of the participating voters in the City (see "DEBT INFORMATION – Authorized General Obligation Bonds"). The City is authorized to issue the Bonds by voter authorization pursuant to Chapter 1331, Texas Government Code and by the Bond Ordinance, the adoption of which is pursuant to the City Charter adopted by voters on January 31, 1953, as amended. Proceeds from the sale of the Bonds will be used to finance various capital improvements.

The Certificates are being issued pursuant to the general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code (the "Certificate of Obligation Act"), and the Certificate Ordinance passed by the

City Council. Proceeds from the sale of the Certificates will be used to finance various capital improvements and to pay certain costs of issuance of the Certificates.

The Contractual Obligations are being issued pursuant to the general laws of the State of Texas, particularly Subchapter A of Chapter 271, Texas Local Government Code (the "Public Property Finance Act"), and the Contractual Obligation Ordinance passed by the City Council. Proceeds from the sale of the Contractual Obligations will be used to purchase certain equipment and other personal property for use by various City departments and to pay costs of issuance of the Contractual Obligations.

#### General

Each series of Obligations is dated as of the Dated Date and shall bear interest on the unpaid principal amounts from such date, at the per annum rates shown on the respective cover pages for each series of Obligations described herein. Interest on the Obligations will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Interest on the Bonds and the Certificates will be payable on March 1, 2013, and on each September 1 and March 1 thereafter until maturity or prior redemption. Interest on the Contractual Obligations will be payable on May 1, 2013, and on each November 1 and May 1 thereafter until maturity. Principal is payable, upon presentation thereof, at the Designated Payment/Transfer Office of the Paying Agent/Registrar (see "Paying Agent/Registrar" herein). Interest thereon is payable by the Paying Agent/Registrar to the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined) and shall be paid by the Paying Agent/Registrar by check mailed by United States mail, first class postage prepaid, to the address of such person as it appears on the registration books of the Paying Agent/Registrar on or before each interest payment date or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the bondholder. The Obligations are issued only as fully registered obligations in denominations of \$5,000 or any integral multiple thereof within a maturity. Notwithstanding the foregoing, so long as records of ownership of the Obligations are maintained through the book-entry-only system described under "- Book-Entry-Only System", all payments of principal of, redemption premium, if any, and interest on the Obligations will be made in accordance with the procedures described in "- Book-Entry-Only System".

The record date (the "Record Date") for the interest payable on any interest payment date is the 15th day of the month next preceding such interest payment date, as specified in the Ordinances. In the event of a nonpayment of interest on a scheduled interest payment date, and for 30 days thereafter, a new record date for such interest payment (the "Special Record Date") will be established by the Paying Agent/Registrar, in accordance with the provisions of the Ordinances, if and 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, which shall be at least 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 Obligations appearing on the registration 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.

#### Security

The Obligations constitute direct obligations of the City, payable from a continuing ad valorem tax levied, within the limits prescribed by law, on taxable property located within the City in an amount sufficient to pay the principal of and interest on all ad valorem tax debt. The Certificates are additionally secured by and payable from a limited pledge of the surplus revenue (not to exceed \$1,000) of the City's solid waste disposal system.

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City and limits its maximum ad valorem tax rate to \$2.50 per \$100 assessed valuation for all City purposes. The City operates under a Home Rule Charter, sometimes referred to herein as the "Charter", which also limits the City's ad valorem tax rate to \$2.50 per \$100 assessed valuation for all City purposes. Within such Charter limitation, the total tax which may be levied annually by the City for municipal general operating purposes may not exceed \$1.00 per \$100 assessed valuation.

#### Remedies

If the City defaults in the payment of principal, interest, or redemption price on any series of the Obligations when due, or the City defaults in the observation or performance of any other covenants, conditions, or obligations set forth in any of the Ordinances, 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 Obligations if there is no other available remedy at law to compel performance of the Obligations or the respective Ordinance authorizing the issuance of such Obligations, and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Obligations in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinances do not provide for the appointment of a trustee to represent the interest of the holders of any series of the Obligations upon any failure of the City to perform in accordance with the terms of the Ordinances, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in Tooke v. City of Mexia, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, holders of the Obligations may not be able to bring such a suit against the City for breach of the Obligations or covenants contained in the Ordinances. 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.

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 revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9 and such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or holders of the Obligations 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 require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Obligations are qualified with respect to the customary rights of debtors relative to their creditors.

#### **Defeasance of Obligations**

The Ordinances provide for the defeasance of the Obligations when the payment of the principal of the Obligations, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agency, in trust (1) money sufficient to make such payment or (2) Defeasance Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to 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 for the Obligations. The Ordinances provide that "Defeasance Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. There is no assurance that the ratings for any Defeasance Security will be maintained at any particular rating category.

#### **Book-Entry-Only System**

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

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

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

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

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

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

To facilitate subsequent transfers, all Obligations 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 Obligations 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 Obligations; DTC's records reflect only the identity of the Direct Participants to whose accounts such Obligations are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Obligations may wish to take certain steps to augment the

transmission to them of notices of significant events with respect to the Obligations, such as redemptions, tenders, defaults, and proposed amendments to the Obligation documents. For example, Beneficial Owners of Obligations may wish to ascertain that the nominee holding the Obligations 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 Obligations within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

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

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

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but neither the City nor the Purchasers take any responsibility for the accuracy thereof.

## Paying Agent/Registrar

The initial Paying Agent/Registrar for each series of Obligations is BOKF, NA, d/b/a Bank of Texas. Interest on and principal of the Obligations will be payable, and transfer functions will be performed at the corporate trust office designated to the City by the Paying Agent/Registrar (the "Designated Payment/Transfer Office"). In the Ordinances, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times while the Obligations are outstanding and any successor Paying Agent/Registrar shall be a commercial bank, trust company or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Obligations, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Obligations by United States mail, first class postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

#### Transfer, Exchange and Registration

In the event the Book-Entry-Only System should be discontinued, the Obligations may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar at the Designated Payment/Transfer Office and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. An Obligation may be assigned by the execution of an assignment form

thereon or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Obligation will be delivered by the Paying Agent/Registrar, in lieu of the Obligations being transferred or exchanged, at the Designated Payment/Transfer Office, or sent by United States mail, first class postage prepaid, to the new registered owner or his designee. New Obligations registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount and series as the Obligations surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Obligations.

#### Limitation on Transfer of Bonds or Certificates Called for Redemption

Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond or Certificate called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled principal of a Bond or Certificate.

## Optional Redemption of the Bonds and the Certificates

The City reserves the right, at its option, to redeem the Bonds and the Certificates having stated maturities on and after September 1, 2023, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2022, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption. If less than all of the Bonds or all of the Certificates are to be redeemed, the City shall determine the respective maturities and amounts to be redeemed and, if less than all of a maturity and series is to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds and the Certificates are in Book-Entry-Only form) shall determine by lot or other customary random selection method the Bonds or the Certificates, or portions thereof, within such maturity and series to be redeemed.

#### Mandatory Sinking Fund Redemption of the Series 2012B Bonds

The Series 2012B Bonds maturing on September 1, 2032 (the "Series 2012B Term Bonds") are subject to mandatory redemption prior to maturity, in part, at the redemption price of par plus accrued interest to the date of redemption on the respective dates and in principal amounts as follows:

Series 2012B Term Bonds Matur	ing September 1, 2032
Mandatory Sinking Fund	
Redemption Date	Mandatory Sinking
(September 1)	Fund Payment
2030	\$ 435,000
2031	450,000
2032*	465,000
	\$1,350,000
2031	450,000 465,000

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

<sup>\*</sup>Stated maturity.

#### Mandatory Sinking Fund Redemption of the Certificates

The Certificates maturing on September 1, 2037 (the "Term Certificates") are subject to mandatory redemption prior to maturity, in part, at the redemption price of par plus accrued interest to the date of redemption on the respective dates and in principal amounts as follows:

Term Certificates Maturing September 1, 2037					
Mandatory Sinking Fund					
Redemption Date	Mandatory Sinking				
(September 1)	Fund Payment				
2036	\$320,000				
2037*	325,000				
	\$645,000				

The principal amount of the Term Certificates 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 Certificates of like maturity which (1) have been acquired by the City with funds on deposit in the Interest and Sinking Fund for the Certificates at a price not exceeding the principal amount of such Term Certificates plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (2) have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

#### Notice of Redemption

At least thirty days prior to a redemption date, the City shall cause a written notice of such redemption to be sent by United States mail, first class postage prepaid, to the registered owners of each Bond or Certificate to be redeemed at the address shown on the registration books maintained by the Paying Agent/Registrar and subject to the terms and provisions relating thereto contained in the Ordinances. If a Bond or a Certificate (or a portion of its principal sum) shall have been duly called for redemption and notice of such redemption duly given, then upon such redemption date such Bond or Certificate (or the portion of its principal sum to be redeemed) shall become due and payable, and interest thereon shall cease to accrue from and after the redemption date thereof, provided moneys for the payment of the redemption price and the interest on the principal amount to be redeemed to the date of redemption are held for the purpose of such payment by the Paying Agent/Registrar.

#### TAX INFORMATION

#### Ad Valorem Tax Law

The appraisal of property within the City is the responsibility of the Travis Central Appraisal District, Williamson Central Appraisal District and Hays Central Appraisal District (the "Appraisal Districts"). Excluding agricultural and open—space land, which may be taxed on the basis of productive capacity, the Appraisal Districts are required under Title 1, V.T.C.A. Tax Code (commonly known as the "Property Tax Code") to appraise all property within the Appraisal Districts on the basis of 100% of its market value and is prohibited from applying any assessment ratios. State law further limits the appraised value of a residence homestead for a tax year (the "Homestead 10% Increase Cap") to an amount not to exceed the lesser of (1) the property's market value in the most recent tax year in which the market value was determined by the Appraisal Districts or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value the preceding tax year, plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal Districts is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal Districts. The Appraisal Districts are required to review the value of property within the Appraisal Districts at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

Reference is made to the Property Tax Code for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII of the State Constitution ("Article VIII") and State law provide for certain exemptions from property taxes, the valuation of agricultural and open—space lands at productivity value, and the exemption of certain personal property from ad valorem taxation.

Under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant:

- (1) An exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision;
- (2) An exemption of up to 20% of the market value of residence homesteads; minimum exemption \$5,000.

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a sum of \$12,000.

Section 1-b, Article VIII of the Texas Constitution, and State law authorize a county, city, town or junior college district to establish an ad valorem tax freeze on residence homesteads of persons who are disabled or sixty-five years of age or older. If the City Council does not take action to establish the tax limitation, voters within the City may submit a petition signed by five percent of the registered voters of the City requiring the City Council to call an election to determine by majority vote whether to establish the tax limitation.

If the tax limitation is established, the total amount of ad valorem taxes imposed by the City on a homestead that receives the residence homestead exemption for persons who are disabled or sixty-five years of age or older may not be increased, except to the extent the value of the homestead is increased by improvements other than repairs. If a disabled or elderly person dies in a year in which the person received a residence homestead exemption, the total amount of ad valorem taxes imposed on the homestead by the taxing unit may not be increased while it remains the residence homestead of that person's surviving spouse if the spouse is fifty-five years of age or older at the time of the person's death. In addition, the tax limitation applicable to a person's homestead may be transferred to the new homestead of such person if the person moves to a different residence within the taxing unit. Once established, the governing body of the taxing unit may not repeal or rescind the tax limitation.

The City Council has not determined at this time what action, if any, it will take regarding this constitutional amendment. The City can make no representations or predictions concerning the impact such a tax limitation would have on the taxing rates of the City or its ability to make debt service payments.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and 1-d-1.

Personal property not used in the business of a taxpayer, such as automobiles or light trucks, is exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property.

Article VIII, Section 1-j of the Texas Constitution provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication.

Article VIII, Section 1-n of the Texas Constitution provides for an exemption from taxation for "goods-in-transit." "Goods-in-transit" are defined as (i) personal property acquired or imported into Texas and transported to another location in the State, (ii) stored under a contract for bailment in public warehouses not in any way owned or controlled by the owner of the stored goods, and (iii) transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. Pursuant to changes enacted during the 2011 Texas Legislative Special Session, all taxing units, including those that have previously taken official action to tax goods-in-transit, may not tax goods-intransit in the 2012 tax year or thereafter, unless the governing body of the taxing unit holds a public hearing and takes action on or after October 2011, to provide for the taxation of the goods-in-transit. After holding the public hearing, a

taxing unit may take official action prior to January 1 of the first tax year in which the governing body proposes to tax goods-in-transit. After taking official action, the goods-in-transit remain subject to taxation by the taxing unit until the governing body rescinds or repeals its previous action to tax goods-in-transit. If, however, a taxing unit took official action prior to October 1, 2011 to tax goods-in-transit and pledged the taxes imposed on goods-in-transit until the debt is discharged, if cessation of the imposition of the tax would impair the obligation of the contract by which the debt was created.

Freeport property is exempt from taxation by the City, and, on October 20, 2011, the City took action to tax goods-in-transit.

The City grants an exemption to the appraised value of the residence homestead of persons 65 years of age or older and to the disabled of \$51,000.

The City may create one or more tax increment financing districts ("TIF") within the City and freeze the taxable values of real property in the TIF at the value at the time of its creation. Other overlapping taxing units levying taxes in the TIF may agree to contribute all or part of future ad valorem taxes levied and collected against the value of property in the TIF in excess of the "frozen values" to pay or finance the costs of certain public improvements in the TIF. Taxes levied by the City against the values of real property in the TIF in excess of the "frozen" value are not available for general city use but are restricted to paying or financing "project costs" within the TIF. The City may also enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. The City has adopted criteria for granting tax abatements which establish guidelines regarding the number of jobs to be created and the amount of new value to be added by the taxpayer in return for the abatement. The City has entered into several such abatement agreements in recent years.

Cities are also authorized, pursuant to Chapter 380, Texas Local Government Code ("Chapter 380") to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grant of public funds for economic development purposes, however, no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City. The City has entered into several such Chapter 380 agreements in recent years.

#### Tax Valuation

January 1, 2012 Appraised Valuation (1)		\$95,426,878,531
Less Local Exemptions to Assessed Values: (2)		
Residential Homestead over 65	\$1,513,450,855	
Homestead 10% Increase Cap	283,894,263	
Disabled Veterans	170,585,497	
Agricultural and Historical Exemptions	467,691,573	
Disability Exemption	111,724,415	
Other Exemptions	8,434,211,775	
Freeport Exemption	866,793,253	11,848,351,632
January 1, 2012 Net Taxable Assessed Valuation (1)		\$83,578,526,899

<sup>(1) 2012</sup> Certified Appraised Value includes \$6,560,647,557 in property in the appeals process.

<sup>(2)</sup> Exemptions or adjustments to assessed valuation granted in 2012 include (a) exemptions of \$51,000 for homestead property of property owners who are over 65 years of age or disabled; (b) exemptions for residence homestead property exceeding a 10 percent increase in valuation from the previous year; (c) exemptions for property of disabled veterans or certain surviving dependents of disabled veterans; (d) certain adjustments to productive agricultural lands; (e) exemptions to the land designated as historically significant sites by certain public bodies; (f) exemption of freeport property detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication of exported finished goods from Texas.

#### Statement of Debt (As of September 30, 2012)

The following table sets forth on a pro forma basis the amount of Public Improvement Bonds, Assumed Bonds, Contract Revenue Bonds, Certificates of Obligation and Contractual Obligations outstanding and certain debt ratios related thereto.

Public Improvement Bonds (1) Certificates of Obligations (1) Contractual Obligations (1) Mueller Contract Revenue Bonds (2) The Obligations (3) Assumed Bonds (4) Total	\$895,805,000 128,275,000 72,220,000 40,600,000 132,700,000 10,604,994	\$1,280,204,994
Less Self-Supporting Debt: Assumed Bonds Mueller Contract Revenue Bonds (2) Airport (5) Austin Energy (5) City Hall (5) CMTA Mobility (6) Code Compliance (3) (5) Convention Center (5) Financial Services (5) Fleet Management (5) Golf (3) (5) One Texas Center (5) PARD - Zilker Park (6) Solid Waste (3) (5) Transportation (3) (5) Waller Creek (3) (5) Water and Wastewater (3) (5) Watershed Protection (5)	\$10,604,994 40,600,000 191,491 908,486 17,834,727 2,415,000 1,138,570 20,742,035 21,366,378 3,681,294 1,735,249 7,186,869 1,336,969 72,385,917 16,757,663 44,519,119 17,218,769	\$ 288,359,019
Interest and Sinking Fund (7)		16,184,658
Self-Supporting General Fund Payments (8)		9,684,596
Net Debt (8)		\$ 965,976,721
Ratio Total Debt to FY 2012 Net Taxable Assessed Valuation		1.60%
Ratio Net Debt to FY 2012 Net Taxable Assessed Valuation		1.21%

2012 Population (Estimate) – 811,746 (9) Per Capita Net Taxable Assessed Valuation – \$98,663.00 Per Capita Net Debt Outstanding – \$1,189.99

<sup>(1)</sup> Excludes the Obligations.

<sup>(2)</sup> Includes bonds which were sold on August 23, 2012 and are expected to be delivered on October 4, 2012.

<sup>(3)</sup> The Obligations were sold on August 23, 2012 are expected to be delivered on October 4, 2012.

<sup>(4)</sup> Represents bonds of the Northwest Austin MUD#1 annexed by the City.

<sup>(5)</sup> Airport, Austin Energy, City Hall, Convention Center, Financial Services, Fleet Management, Golf, One Texas Center, Solid Waste, Transportation, Water, Wastewater and Watershed Protection represent a portion of the City's Outstanding Public Improvement Bonds, Certificates of Obligation and/or Contractual Obligations. Debt service for Airport, Austin Energy, Convention Center, Financial Services, Golf, One Texas Center, Solid Waste,

- Transportation, Water, Wastewater and Watershed Protection is paid from revenue of the respective enterprises. The City plans to continue to pay these obligations from each respective enterprise. Fleet Management and One Texas Center are internal service funds that generate revenue through charges to user departments.
- (6) The City entered into an interlocal agreement with Capital Metro Transit Authority (CMTA), whereby CMTA will pay the required debt service to the City through a transfer of funds 30 days prior to each debt service payment date. The City entered into an agreement with C3 Productions, whereby C3 Productions will pay the City \$500,000 each year for 5 years to cover the required debt service.
- (7) Represents estimate of cash plus investments at cost on September 30, 2012.
- (8) Various general fund departments have issued debt which is supported by a transfer into the debt service fund from the issuing department. These departments budget the required debt service which reduces the debt service tax requirement.
- (9) Source: City of Austin Planning/Growth Department. This figure does not include areas annexed for limited purposes.

#### Revenue Debt (As of June 30, 2012)

In addition to the above, on a pro forma basis, the City had outstanding \$70,679,944 Combined Utility Systems Revenue Bonds payable from a first lien on the combined net revenue of the Electric System and the Water and Wastewater System and \$168,274,512 Combined Utility System Revenue Bonds payable from a subordinate lien on the combined net revenue of the Electric System and the Water and Wastewater System; \$1,063,390,000 Electric Utility Obligations payable from a separate lien on the net revenues of the Electric Utility System; \$1,955,065,000 Water and Wastewater Obligations payable from a separate lien on the net revenue of the Water and Wastewater System, and \$393,268,000 Combined Utility Systems Commercial Paper payable from a subordinate lien on the combined net revenue of the Electric System and the Water and Wastewater System.

The City also has outstanding \$308,850,000 Airport System Prior Lien Revenue Bonds payable from revenue of the City's Airport System. The City also has outstanding \$206,030,000 in Convention Center Bonds, payable from hotel/motel occupancy and rental car tax collections.

#### Obligations Subject to Annual Appropriation

With respect to the redevelopment of the property formerly known as Robert Mueller Municipal Airport ("Mueller"), the City entered into a Master Development Agreement with Catellus Austin, LLC, effective as of December 2, 2004 (the "Development Agreement"), and in the Development Agreement, the City agreed to issue debt to finance certain "Public Finance Reimbursable Project Costs" either directly or through the auspices of a local government corporation to be created by the City. The City has entered into a economic development grant agreement (the "Grant Agreement") with Mueller Local Government Corporation ("MLGC"), a non-profit local government corporation created by the City to act on its behalf with respect to the redevelopment of Mueller. MLGC was created in response to the provisions of the Development Agreement. Under the terms of the Grant Agreement, the City will make grant payments to MLGC from the General Fund, subject to annual appropriation by the City, in amounts sufficient to pay debt service on bonds issued by MLGC to fund Public Finance Reimbursable Project Costs and pay administrative costs associated with such bonds. It is anticipated that sales tax revenues generated by properties developed at Mueller will be sufficient to fund the grants throughout the term of the Grant Agreement. \$12,000,000 in Contract Revenue Bonds were issued in 2006 by MLGC to finance Public Finance Reimbursable Project Costs.

The City has also created a tax increment reinvestment zone for the Mueller project to include Reinvestment Zone Number Sixteen (the "Zone") and neighboring areas for the promotion, development, encouragement and maintenance of employment, commerce, economic development and public facility development in the Zone which consists of approximately 700 acres. Currently, only the City participates in the Zone by contributing its tax increment revenues to the Zone, and it is not expected that any other taxing unit will participate in the Zone. The tax increment revenues of the City will be contributed by the City to the MLGC pursuant to the terms of a Tri-Party Agreement among the City, the MLGC and the Zone (the "Tri-Party Agreement"). In addition, the City has agreed to consider making payments to the MLGC under a grant agreement between the City and the MLGC, pursuant to which the City may make available to the MLGC grant funds in amounts sufficient to pay debt service on the Tax Increment Contract Revenue Bonds, should Pledged Revenues be insufficient to allow the MLGC to meet its debt service payment obligations. The grant payments are to be funded from available moneys in the City's general fund, subject to annual appropriation. The City is under no obligation to make grant payments. The MLGC issued \$15 million in Tax Increment Contract Revenue Bonds in

September 2009 backed by tax increment revenues generated from taxation of real property within the boundaries of the Zone from taxing units participating in the Zone. The MLGC and the City authorized and approved the issuance of bonds in a principal amount of \$16,735,000 on August 23, 2012. The bonds are expected to be delivered by MLGC on October 4, 2012.

## Valuation and Funded Debt History

						Ratio of Net	
Fiscal			Per Capita			Funded Tax	
Year	Estimated		Taxable	(000's)	Per Capita	Debt to	% of
Ended	City	Taxable Assessed	Assessed	Net Funded	Net Funded	Taxable	Tax
<u>9-30</u>	Population (1)	<u>Valuation</u>	<u>Valuation</u>	Tax Debt (2)	Tax Debt	<u>Valuation</u>	Collections
2004	683,551	\$48,964,275,008	\$ 71,632.22	\$ 955,156	\$1,397.34	1.95%	99.71%
2005	695,881	49,702,906,522	71,424.43	933,180	1,341.01	1.88%	99.45%
2006	714,237	52,349,642,297	73,294.50	943,312	1,320.73	1.80%	99.87%
2007	732,381	60,512,328,889	82,624.11	869,974	1,187.87	1.44%	99.88%
2008	746,105	68,736,790,926	92,127.50	907,667	1,216.54	1.32%	99.73%
2009	770,296	76,752,007,737	99,639.63	1,065,565	1,383.32	1.39%	99.55%
2010	778,560	80,960,540,976	103,987.54	1,002,186	1,287.23	1.24%	98.98%
2011	805,662	77,619,349,384	96,342.32	1,049,751	1,302.97	1.35%	99.13%
2012	811,746	80,089,291,854	98,663.00	965,977	1,189.99	1.21%	99.24% (3)
2013	824,097	83,578,526,899 (4)	101,418.31	1,006,985(5)	1,221.93(5)	1.20% (5)	N/A

<sup>(1)</sup> Source: City of Austin Department of Planning and Development based on full purpose area as of September 30.

#### Tax Rate, Levy and Collection History

Fiscal Year	Total	Dist	tribution			
Ended	Tax	General	Interest and	_	% Current	% Total
<u>9-30</u>	<u>Rate</u>	<u>Fund</u>	Sinking Fund	Tax Levy	Collections	<u>Collections</u>
2004	\$0.4928	\$0.3236	\$0.1692	\$241,295,947	99.06%	99.71%
2005 (1)	0.4430	0.2747	0.1683	220,183,876	98.97%	99.45%
2006	0.4430	0.2841	0.1589	231,908,915	99.55%	99.87%
2007	0.4126	0.2760	0.1366	249,673,869	99.61%	99.88%
2008	0.4034	0.2730	0.1304	277,284,215	99.14%	99.73%
2009	0.4012	0.2749	0.1263	307,929,055	99.03%	99.55%
2010	0.4209	0.2950	0.1259	340,762,917	98.97%	98.98%
2011	0.4571	0.3262	0.1309	354,798,046	99.13%	99.13%
2012	0.4811	0.3551	0.1260	385,309,583	98.51% (2)	99.24% (2)
2013 (3)	0.5029	0.3821	0.1208	420,316,298	N/A	N/A

<sup>(1)</sup> The total tax rate decreased by 6.35¢ as a result of the voters of Travis County (which includes the City) approving in May 2004 the creation of a new County wide hospital district, which resulted in public health services previously provided by the City to be provided by the hospital district. (See "DEBT INFORMATION – Estimated Direct and Overlapping Funded Debt Payable from Ad Valorem Taxes".)

<sup>(2)</sup> Excludes general obligation debt issued for enterprise funds and general fund departments which transfer-in from Operating Budget.

<sup>(3)</sup> Estimated Collections as of June 30, 2012 based on the July 2011 Certified Tax Roll tax levy.

<sup>(4)</sup> Certified taxable value for the 2012 tax year.

<sup>(5)</sup> Projected. Includes the Obligations.

<sup>(2)</sup> Estimated collections as of June 30, 2012 based on the July 2011 Certified Tax Roll tax levy.

<sup>(3)</sup> Preliminary, subject to change pending adoption of the tax rate.

## **Ten Largest Taxpayers** (1)

		January 1, 2012	% of Total Taxable
Name of Taxpayer	Nature of Property	Taxable Assessed Valuation	Assessed Valuation
Samsung Semiconductor LLC	Manufacturing	\$2,930,853,529	3.51%
Thomas Property Group LLC	Commercial	699,783,768	0.84%
St. Davids Healthcare Partnership	Commercial	312,406,358	0.37%
Freescale Semiconductor Inc.(2)	Manufacturing	266,693,429	0.32%
Dell Computer Corporation	Manufacturing	212,097,537	0.25%
Spansion LLC (3)	Manufacturing	204,762,318	0.24%
Brandywine Acquisition Partners	Commercial	186,629,544	0.22%
HEB Grocery Company	Commercial	168,751,932	0.20%
Riata Holdings LP	Commercial	155,935,747	0.19%
CJUF II Stratus Block 21 LLC	Condominiums	154,642,841	<u>0.19%</u>
TOTAL		\$5,292,557,003	6.33%

<sup>(1)</sup> Four of the companies represent computer technology manufacturers.

## **Property Tax Rate Distribution**

		Fiscal Year Ended September 30							
	2009	<u>2009</u> <u>2010</u> <u>2011</u> <u>2012</u> <u>2013</u> (1)							
General Fund	\$.2749	\$.2950	\$.3262	\$.3551	\$.3821				
Interest and Sinking Fund	1263	1259	1309	1260	1208				
Total Tax Rate	\$.4012	\$.4209	\$.4571	\$.4811	\$.5029				

<sup>(1)</sup> Preliminary, subject to change pending adoption of the tax rate.

<sup>(2)</sup> The Motorola Corporation released a portion of its operations to form Freescale Semiconductor Inc.

<sup>(3)</sup> The Advanced Micro Devices corporation released a portion of its operations to form Spansion LLC. Source: Travis Central Appraisal District.

## Net Taxable Assessed Valuations, Tax Levies and Collections

Fiscal									
Year									
Ended	Valuation	Real Prop	erty	Personal Pr	operty	Net Taxable	Total	% Current	% Total
<u>9-30</u>	<u>Date</u>	<u>Amount</u>	% of Total	<u>Amount</u>	% of Total	Assessed Valuation	Tax Levy	Collections	<u>Collections</u>
2004	1-1-03	\$42,832,762,815	87.48%	\$6,131,512,193	12.52%	\$48,964,275,008	\$241,295,947	99.06%	98.71%
2005	1-1-04	43,662,323,952	87.85%	6,040,582,570	12.15%	49,702,906,522	220,183,876 (1)	98.97%	99.45%
2006	1-1-05	46,492,828,677	88.81%	5,856,813,620	11.19%	52,349,642,297	231,908,915	99.55%	99.87%
2007	1-1-06	53,724,137,471	88.78%	6,788,191,418	11.22%	60,512,328,889	249,673,869	99.61%	99.88%
2008	1-1-07	61,455,307,904	89.41%	7,281,483,022	10.59%	68,736,790,926	277,284,215	99.14%	99.73%
2009	1-1-08	68,709,111,385	89.63%	7,961,896,352	10.37%	76,752,007,737	307,929,055	99.03%	99.55%
2010	1-1-09	72,029,659,502	94.21%	8,147,372,223	10.66%	80,960,540,976	340,762,917	98.97%	98.98%
2011	1-1-10	70,498,486,586	90.83%	7,120,349,384	9.17%	77,619,349,384	354,798,046	99.13%	99.13%
2012	1-1-11	71,055,252,115	88.72%	9,034,039,739	11.28%	80,089,291,854	385,309,583	98.51%(2)	99.24%(2)
2013	1-1-12	73,914,712,170	88.44%	9,663,814,729	11.56%	83,578,526,899	420,316,298	N/A	N/A

<sup>(1)</sup> The City approved a tax rate of \$0.5065 which is the effective tax rate. As a result of the voter approved Hospital District, the tax rate was amended and reduced by \$0.0635 to \$0.4430 (see "DEBT INFORMATION – Estimated Direct and Overlapping Funded Debt Payable from Ad Valorem Taxes").

<sup>(2)</sup> Estimated collections through June 30, 2012 based on the July 2011 Certified Tax Roll tax levy.

#### Tax Rate Limitation

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 assessed valuation for all City purposes. The City operates under a Home Rule Charter which also limits the City's ad valorem tax rate to \$2.50 per \$100 assessed valuation for all City purposes. Within such Charter limitation, the total tax which may be levied annually by the City for municipal general operating purposes may not exceed \$1.00 per \$100 assessed valuation.

#### Tax Procedures

By each September 1 or as soon thereafter as practicable, the City Council adopts a tax rate per \$100 taxable value for the upcoming fiscal year beginning October 1. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Section 26.05 of the Property Tax Code provides that the governing body of a taxing unit is required to adopt the annual tax rate for the unit before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit for the tax year to be the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. Furthermore, Section 26.05 provides the City Council may not adopt a tax rate that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings are held on the proposed tax rate following a notice of such public hearing (including the requirement that notice be posted on the City's website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate, the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

"Effective tax rate" means the rate that will produce last year's total tax levy (adjusted) from this year's total taxable values (adjusted). "Adjusted" means lost values are not included in the calculation of last year's taxes and new values are not included in this year's taxable values.

"Rollback tax rate" means the rate that will produce last year's maintenance and operation tax levy (adjusted) from this year's values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (unadjusted) divided by the anticipated tax collection rate.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

## **DEBT INFORMATION (a)**

## **Debt Service Requirements**

Fiscal						The Bonds, The				
Year	Public	Certificates		Assumed	Mueller	Certificates and	Grand	Less	Net	Percent
Ending	Improvement	of	Contractual	NW Austin	Contract Rev	The Contractual	Total	Self-Supporting	Total	Principal
09/30	Bonds	Obligation	Obligations	MUD #1	Bonds	Obligations	Requirements	Requirements (b)	Requirements	Pay out
2013	98,178,112	11,738,302	17,623,860	1,117,360	3,003,521	10,838,486	142,499,641	41,052,085	101,447,556	
2014	93,811,229	10,662,016	15,533,586	1,120,098	3,136,415	8,558,203	132,821,546	39,546,043	93,275,503	
2015	90,985,606	10,125,482	14,097,286	1,115,998	3,140,378	9,083,878	128,548,626	35,263,274	93,285,352	
2016	84,627,392	10,195,829	11,579,120	1,135,590	3,127,203	9,064,553	119,729,686	33,027,250	86,702,436	
2017	89,029,746	8,904,315	8,540,352	1,008,319	3,127,215	9,057,103	119,667,050	29,317,638	90,349,412	32.01%
2018	86,669,576	8,980,381	6,417,510	1,012,938	3,130,165	9,039,203	115,249,772	24,472,584	90,777,188	
2019	84,688,890	9,056,647	2,795,238	1,030,083	3,132,315	9,025,903	109,729,074	22,272,631	87,456,443	
2020	82,129,381	9,051,326	309,956	1,033,498	3,136,890	6,833,103	102,494,153	19,481,133	83,013,020	
2021	78,323,008	9,135,749		1,046,118	3,137,640	4,681,003	96,323,517	18,441,153	77,882,364	
2022	68,381,941	9,226,394		1,036,678	3,139,309	4,659,328	86,443,649	16,145,036	70,298,613	60.00%
2023	55,468,912	9,305,763		1,041,188	3,147,646	13,871,303	82,834,811	13,489,026	69,345,786	
2024	51,314,850	11,260,003		1,038,575	3,149,815	15,619,928	82,383,171	13,648,626	68,734,545	
2025	51,190,920	9,375,834		1,044,475	3,145,415	15,280,243	80,036,887	11,731,439	68,305,448	
2026	53,553,035	8,858,747		943,463	3,146,965	12,953,790	79,456,000	11,349,477	68,106,523	
2027	63,828,887	6,964,615			2,151,215	2,735,290	75,680,006	7,659,045	68,020,961	85.07%
2028	42,502,699	6,703,200			2,150,434	8,039,940	59,396,273	7,598,810	51,797,463	
2029	32,673,744	5,870,114			2,152,059	8,059,470	48,755,387	7,622,545	41,132,842	
2030	25,200,798	5,595,689			2,155,401	8,029,395	40,981,283	7,337,786	33,643,496	
2031	10,923,500	3,860,334			2,151,864	10,500,520	27,436,218	6,363,465	21,072,752	
2032		2,583,949			2,155,369	9,041,870	13,781,188	5,675,515	8,105,672	98.39%
2033		2,603,894				356,225	2,960,119	2,960,119		
2034		2,620,134				351,694	2,971,828	2,971,828		
2035		2,635,681				347,006	2,982,688	2,982,688		
2036		2,657,069				341,769	2,998,838	2,998,838		
2037		2,669,000				335,969	3,004,969	3,004,969		99.29%
2038		2,689,413					2,689,413	2,689,413		
2039		2,699,838					2,699,838	2,699,838		
2040		2,315,513					2,315,513	2,315,513		
2041		2,329,988					2,329,988	2,329,988		100.00%

<sup>(</sup>a) As of September 30, 2012

<sup>(</sup>b) Includes principal and interest on all self-supporting debt (see "Statement of Debt", p. 10).

## Estimated Direct and Overlapping Funded Debt Payable From Ad Valorem Taxes (As of 9-30-11) (in 000's)

Expenditures of the various taxing bodies within the territory of the City are paid out of ad valorem taxes levied by these taxing bodies on properties within the City. These political taxing bodies are independent of the City and may incur borrowings to finance their expenditures. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the date stated above, and such entities may have programs requiring the issuance of substantial amounts of additional bonds the amount of which cannot be determined. The following table reflects the estimated share of overlapping funded debt of the major taxing bodies in the area.

		Total	Estimated %	Overlapping		
Taxing Jurisdiction	F	<u>unded Debt</u>	<u>Applicable</u>	Funded Debt		
Austin, City of	\$	963,977 (1)	100.00%	\$963,977		
Austin Community College		93,164	71.12%	66,258		
Austin Independent School District		816,198	93.97%	766,981		
Northwest Travis County Road District #3		2,260	100.00%	2,260		
Round Rock Independent School District		744,650	33.39%	248,639		
Travis County		605,971	69.92%	423,695		
Del Valle Independent School District		165,525	68.31%	113,070		
Eanes Independent School District		155,600	29.89%	46,509		
Leander Independent School District		1,288,146	11.07%	142,598		
Manor Independent School District		204,315	69.65%	142,305		
Pflugerville Independent School District		346,240	38.48%	133,233		
Williamson County		820,309	9.85%	<u>80,800</u>		
TOTAL DIRECT AND OVERLAPPING FUNDED DEBT						
Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation (2)						
Per Capita Overlapping Funded Debt (3)				\$3,887.89		

<sup>(1)</sup> Includes the Obligations. Excludes general obligation debt reported in proprietary funds.

Source: 2011 City of Austin CAFR.

Note: Overlapping governments are those that coincide, as least in part, with the geographic boundaries of the City. This schedule estimated the portion of the outstanding debt of those overlapping governments that is borne by the City residents and businesses. This process recognized that, when considering the City's ability to issue and repay long-term debt, the entire debt borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

<sup>(2)</sup> Based on assessed valuation of \$77,619,349,384 provided by the Travis Central Appraisal District, Williamson County Appraisal District and Hays Central Appraisal District.

<sup>(3)</sup> Based on 2011 estimated population of 805,662.

#### **Authorized General Obligation Bonds**

				Amount	
			Amount	Being	
	Date	Amount	Previously	Issued	Unissued
<u>Purpose</u>	<u>Authorized</u>	<u>Authorized</u>	<u>Issued</u>	Series 2012 (1)	<u>Balance</u>
Brackenridge 2000	10/22/83	\$ 50,000,000	\$ 40,785,000	\$ -	\$ 9,215,000
Park Improvements	09/08/84	9,975,000	9,648,000	-	327,000
Cultural Arts	01/19/85	20,285,000	14,890,000	-	5,395,000
Transportation (Prop 1)	11/07/06	103,100,000	79,960,000	14,700,000	8,440,000
Drainage Improvements (Prop 2)	11/07/06	145,000,000	125,000,000	5,000,000	15,000,000
Park Improvements (Prop 3)	11/07/06	84,700,000	57,810,000	21,080,000	5,810,000
Cultural Arts (Prop 4)	11/07/06	31,500,000	21,600,000	5,900,000	4,000,000
Affordable Housing (Prop 5)	11/07/06	55,000,000	48,350,000	6,650,000 (2)	-
Central Library (Prop 6)	11/07/06	90,000,000	5,500,000	1,300,000	83,200,000
Public Safety Facility (Prop 7)	11/07/06	58,100,000	52,100,000	1,000,000	5,000,000
Mobility Transportation (Prop 1)	11/02/10	90,000,000	15,305,000	<u>30,000,000</u>	44,695,000
		\$737,660,000	\$470,948,000	\$85,630,000	\$181,082,000

<sup>(1)</sup> Amounts include premium expected to be received on October 4, 2012.

The City may also incur non-voted debts payable from or secured by its collection of ad valorem taxes and other sources of revenue, including certificates of obligation, tax notes, public property finance contractual obligations and leases for various purposes.

The City Council has called a bond election seeking the authority to issue up to \$385 million of general obligation bonds. The bond election will be held November 6, 2012.

#### Anticipated Issuance of General Obligation Debt

The City does not anticipate the issuance of additional general obligation debt before the fall of 2013. The City continues to review opportunities for refunding certain previously issued general obligation bonds and assumed debt.

#### **Funded Debt Limitation**

No direct funded debt limitation is imposed on the City under current State law or the City's Home Rule Charter (see – "Tax Rate Limitations").

#### FISCAL MANAGEMENT

#### The Capital Improvements Plan and Capital Budget

The Capital Improvement Plan is a five-year list of capital improvements and a corresponding spending plan for financing these improvements. It is developed through public input and department prioritization of needs. The process includes neighborhood meetings, department requests, Budget Office assessment of requested projects, input from the Planning Commission's CIP Subcommittee and other Boards and Commissions, and citizen input from public hearings. Each year, the Planning Commission reviews the Capital Improvement Plan and submits a recommendation to the City Manager detailing specific projects to be included in the Capital Budget for the next fiscal year.

The City Manager considers the Planning Commission's recommended plan to propose a Capital Budget to the City Council. The Capital Budget contains requested appropriations for new projects, additional appropriations for previously approved projects and any requests to revise prior year appropriations. Unlike the Operating Budget, which authorizes expenditures for only one fiscal year, Capital Budget appropriations are multi-year, lasting until the project is complete or until changed by the City Council.

<sup>(2)</sup> Series 2012B Bonds; all other amounts shown in this column are Series 2012A Bonds.

The City Council reviews the Capital Budget, holds public hearings to gather final citizen input and establishes the amount of revenue and general obligation debt to sell to fund capital improvements.

## 2012-2013 Capital Budget

The 2012-2013 five-year Capital Improvement Program (CIP) plan was reviewed by the Planning Commission and the Bond Oversight Committee. Public input was received at a public hearing held by the Planning Commission and the Bond Oversight Committee. The plan estimates city-wide capital spending in 2012-2013 of \$616.0 million in enterprise funds and \$167.9 million in general government funds for a total of \$783.9 million.

The first year of the five-year plan was used to determine the new appropriations required for inclusion in the 2012-2013 Capital Budget. Total new proposed appropriation for General Government CIP Funds is \$87.9 million and total new proposed appropriation for Enterprise CIP Funds is \$299.4 million. Appropriation by department is listed below.

Summary of 2012-2013 Proposed Capital Budget (millions):	
Austin Energy	\$177.4
Austin Water Utility	42.5
Aviation	24.6
Austin Resource Recovery	14.5
Watershed Protection	31.4
Convention Center	9.0
Enterprise Appropriations	\$299.4
Communications & Technology Management	\$ 50.4
Financial & Administrative Services	2.5
Library	6.2
Parks & Recreation	10.2
Planning & Development Review	3.7
Public Works and Austin Transportation	9.8
Fleet	4.0
Building Services	1.2
General Government Appropriations	\$87.9
TOTAL PROPOSED NEW APPROPRIATIONS	387.3

#### **Operating Budget**

The City's Home Rule Charter and State law require the City Manager to prepare and submit to the City Council a balanced budget consisting of an estimate of the revenues and expenditures in the budget period and the undesignated General Fund balance available for reappropriation. The budget process in the City normally commences with all department heads submitting to the Chief Financial Officer of the City a detailed estimate of the appropriations required for their respective departments during the next fiscal year. The Chief Financial Officer of the City, in turn, forwards these estimates to the City Manager who submits them to the Mayor and City Council for their consideration and approval.

In June 1989, the City Council approved Financial Management Policies. Among other items, these policies require that a General Fund Emergency Reserve Fund of at least \$40,000,000 shall be budgeted. Additionally, a General Fund Contingency Reserve Fund of 1% of total budgeted departmental expenditures, but not less than \$2,000,000, and a General Fund Reserve for Budget Stabilization shall be budgeted annually. At the end of each fiscal year, any excess revenue received in that year and any unspent appropriations at the end of that year will be deposited into General Fund Reserve for Budget Stabilization. The Budget Stabilization Reserve will then be available for appropriation for one-time expenditures such as capital equipment but no more than one-third of the reserve will normally be appropriated in any one year. There is also a property tax reserve of \$4,500,000.

#### 2012–2013 Budget (Amounts are in thousands)

The 2012-2013 operating budget was presented on August 1, 2012, and was prepared in accordance with guidelines provided by the City Council. The proposed budget includes a total tax rate of \$0.5029 per \$100 assessed valuation, which is based on the 2012 certified tax roll. The property tax revenue in the proposed budget is not significantly different with the revised tax rates. The following is a summary of the proposed 2012-2013 General Fund Budget.

Beginning Balance, October 1, 2012 (Budget Basis) (000's omitted)

Degining Damies, Second 1, 2012 (Budget Duols) (000 t officed)		
Summary of Budgeted General Fund Resources		
Revenue:	#242 20¢	
General Property Taxes	\$313,286	
City Sales Tax Other Taxes	164,235 5,739	
Gross Receipts/Franchise Fees	33,300	
Miscellaneous	<u>85,229</u>	
Total Revenue		\$601,789
Transfers In:		
Electric Revenue	\$105,000	
Water Revenue	34,548	
Water Infrastructure Inspection	<u>1,200</u>	
Total Transfers In		<u>140,748</u>
Total General Fund Resources		<u>\$742,537</u>
Summary of Budgeted General Fund Requirements		
Departmental Appropriations:		
Administrative Services	\$ 14,260	
Urban Growth Management	25,011	
Public Safety Public Health and Human Services	477,339 47,478	
Public Recreation and Culture	81,390	
Total Departmental Appropriations	01,570	\$645,478
Transfers Out:		" - · · · <b>,</b> · · ·
Support Services Fund	\$36,809	
Other Funds	_33,660	
Total Transfers Out		\$ 70,469
Other Requirements		<u>26,590</u>
Total General Fund Requirements		<u>\$742,537</u>
Use of Beginning Balance		0
Ending Balance		<u>0</u>
One-Time Critical Equipment		\$12,600
Transfer to/from Budget Stabilization Reserve		\$(12,600)
Adjusted Ending Balance		<u>0</u>
Budgeted Reserve Requirements		
Emergency Reserve		\$40,000
Contingency Reserve		6,505
Property Tax Reserve		4,500
Budget Stabilization Reserve Fund Total Budgeted Recerve Requirements		<u>43,183</u> \$94,188
Total Budgeted Reserve Requirements		<u>\$24,100</u>

#### **Deficit Budgeting**

The City is barred by Texas law and the City's Charter from deficit budgeting.

#### **Accounting System**

The City's accounting records for general governmental operations are maintained on a modified accrual basis, with the revenue being recorded when available and measurable and expenditures being recorded when the services or goods are received and the liabilities are incurred. Accounting records for the City's enterprise and internal service funds are maintained on an accrual basis.

Article VII, Section 15 of the City's Charter requires an annual audit of all accounts of the City by an independent certified public accountant. This charter requirement has been complied with and the accountant's report is included herein.

#### Short-Term Borrowing

Pursuant to Section 1431, Texas Government Code, the City has the authority to conduct short-term borrowings to provide for the payment of current expenses, through the issuance of anticipation notes. Such notes must mature before the first anniversary of the date the Attorney General approves the anticipation notes.

#### **INVESTMENTS**

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

#### Legal Investments

Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit meeting the requirements of the PFIA that are issued by an institution that has its main office or a branch office in the State of Texas and are guaranteed or insured by a combination of cash and the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent; and (13) local

government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Act) as amended, whose assets consist exclusively of the obligations that are described above. A public funds investment pool must be continuously ranked no lower than "AAA", "AAA-m" or at an equivalent rating by at least one nationally recognized rating service. The City may also invest bond proceeds in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

A political subdivision such as the City may enter into securities lending programs if (i) the 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.

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, the maximum allowable stated maturity of any individual investment, the maximum average dollar—weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement must describe the investment objectives for the particular fund using the following priorities: (1) 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.

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

Under State law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of 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 and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to (a) adopted investment strategy statements and (b) State law. No person may invest City funds without express written authority of the City Council or the Chief Financial Officer of the City.

#### **Additional Provisions**

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

#### **Current Investments**

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

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

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

## GENERAL FUND REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE

(Amounts are in thousands)

	Fiscal Year Ended September 30				
_	<u>2007</u>	<u>2008</u>	2009	<u>2010</u>	2011
Revenues:					
Taxes (1)	\$326,576	\$347,961	\$356,064	\$387,061	\$409,344
Franchise Fees	32,275	35,577	33,276	34,964	32,904
Fines, Forfeitures and Penalties	16,094	18,946	19,100	18,692	18,131
Licenses, Permits and Inspections	25,635	24,268	20,531	15,716	18,653
Charges for Services	26,357	29,175	33,655	33,394	44,464
Interest and Other	13,602	12,639	10,456	8,059	5,096
Total Revenues	\$440,539	\$468,566	\$473,082	\$497,886	\$528,592
Expenditures:					
Administration	\$ 10,607	\$ 11,592	\$ 11,966	\$ 11,768	\$ 12,229
Urban Growth Management	18,886	20,692	19,682	17,535	34,299
Public Safety	352,149	384,081	389,518	398,930	422,092
Public Services and Utilities	297	340	365	363	14
Public Health	32,545	34,823	37,133	37,464	39,230
Public Recreation and Culture	53,213	58,919	59,988	60,040	72,189
Nondepartmental Expenditures	68,170	65,112	<u>52,197</u>	69,456	<u>74,291</u>
Total Expenditures	\$535,867	\$575,559	\$570,849	\$595,556	\$654,344
Excess (Deficiency) of Revenues					
Over Expenditures Before Other					
Financing Sources (Uses)	\$ (95,328)	\$(106,993)	\$ (97,767)	\$ (97,670)	\$(125,752)
Other Financing Sources (Uses):					
Transfers from Other Funds	107,241	116,311	121,936	130,233	141,448
Transfers to Other Funds	(16,907)	(27,438)	(20,698)	(16,014)	(9,487)
Net Other Financing Sources	\$ 90,334	\$ 88,873	\$101,238	\$114,219	\$131,961
Excess (Deficiency) of Total Revenues and Other Services					
Over Expenditures and Other					
Uses	\$ (4,994) (2)	\$ (18,120)	\$ 3,471	\$ 16,549	\$ 6,209
Fund Balances at Beginning of Year	111,804	106,810	<u>88,690</u>	92,161	128,044
Fund Balances at End of Year	<u>\$106,810</u>	<u>\$ 88,690</u> (3)	<u>\$ 92,161</u> (3)	\$108,710 (3)	\$134,253 (3)

<sup>(1)</sup> Consists of property, sales and mixed drinks tax.

<sup>(2)</sup> The City's financial policies were amended in 2006 to establish a budget stabilization reserve in the General Fund. The policies allow the expenditure of one-third of this reserve in any given year to fund capital or other one-time costs. During 2006 and 2007, the City allocated reserve funds to pay for capital and one-time costs that had been deferred during fiscal years 2002 through 2004.

<sup>(3)</sup> In addition to the budget stabilization reserve, the ending balance includes a contingency reserve of approximately \$5.0 million and an emergency reserve of \$40 million.

# CERTAIN GENERAL FUND RECEIPTS OTHER THAN AD VALOREM TAXES

# Municipal Sales Tax

At an election held on September 30, 1967, the citizens of Austin voted a 1% retail sales and use tax to become effective on January 1, 1968. This tax provides an additional revenue source to the General Fund of the City. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts of the State of Texas, who currently remits the proceeds of the tax to the City monthly. Revenue from this source has been:

Fiscal Year	Per Capita	(in 000's)	% of
Ended 9-30	Sales and Use Tax	Sales and Use Tax	Ad Valorem Tax Levy
2003	\$163.70	\$110,454	47.34%
2004	173.44	117,725	48.79%
2005	177.64	123,617	56.14%
2006	196.75	139,289	60.06%
2007	211.43	153,098	61.32%
2008	207.00	154,445	55.70%
2009	182.51	139,795	45.40%
2010	185.87	144,710	42.47%
2011	187.58	151,125	42.59%
2012 (1)	195.48	158,682	41.18%
2013 (2)	199.29	164,235	39.07%
( )		· · · · · · · · · · · · · · · · · · ·	

<sup>(1)</sup> Estimate.

# Transfers from Utility Funds

The City owns and operates a Water and Wastewater System and an Electric Light and Power System, the financial operations of which are accounted for in the Utility Funds. Transfers from the Utility Funds to the General Fund have historically provided a significant percentage of the receipts for operation of the General Fund. The following sets forth the amount of such transfers.

Fiscal Year	(in 000's)	% of General
Ended 9-30	<u>Transfers</u>	Fund Requirements
2003	\$ 92,417	20.3%
2004	95,894	21.1%
2005	94,116	20.9%
2006	97,658	20.3%
2007	106,471	20.0%
2008	115,629	19.8%
2009	121,505	20.9%
2010	129,967	21.5%
2011	134,263	20.8%
2012 (1)	136,919	19.8%
2013 (2)	139,548	18.8%

[The remainder of this page is intentionally left blank.]

<sup>(2)</sup> Estimate used in FY 2013 Proposed Budget.

<sup>(1)</sup> Estimate.

<sup>(2)</sup> Estimate used in FY 2013 Proposed Budget.

#### **ENTERPRISE FUNDS**

## Statement of Revenues, Expenses and Changes in Fund Net Assets

The Enterprise Funds account for the activities of the City which render services on a user charge basis to the general public. Set forth on pages B-28 and B-29 of APPENDIX B, attached hereto, is a summary of the revenues, expenses, transfers and net assets of the City's enterprise funds for the year ended September 30, 2011.

#### 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 1,661 full-time regular employees as of May 1, 2012. The Water and Wastewater System had approximately 1,069 full-time regular employees as of the same date.

# STRATEGIC PLANS, GOALS AND POLICIES

## Strategic Plan

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

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

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

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

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

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

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

Developing the Plan involved extensive analysis of the expected risks, costs, and opportunities to meet the future demand for electricity services. The goals outlined in this document are based on Austin Energy's current understanding of technology and of national, state and local energy policies. The primary goals of the Plan are by 2020 to achieve 800 MW in energy efficiency, 35% renewable energy generation, and CO2 emissions 20% below 2005 levels.

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

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

### **Goals Summary**

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

- Increase the energy efficiency goal from 700 MW to 800 MW
- Increase the renewable energy goal from 30% to 35%
- Increase the solar component of the renewable energy goal from 100 MW to 200 MW
- Establish a CO2 reduction goal of 20% below 2005 level

Figure 1 shows a scenario developed and presented by Austin Energy during the public participation and task force discussions that demonstrates the type and pace of investments that may be followed in meeting these goals. Specific resource investments will be evaluated continually by Austin Energy, reinforcing that the plan is adaptable to changing legal/regulatory, market, and economic conditions. As explained further in this plan, however, each individual investment will be considered by the City Council and subject to public review.

## Austin Energy Recommendation Generation Resources in MW

Year	Coal/Nuclear	Gas	Biomass	Wind	Solar	Renewable Energy %
2009	1,029	1,444	12	439	1	10%
2010		100			30	10%
2011				*(77) 200		15%
2012			100			17%
2013				150		25%
2014					30	25%
2015		200		100		28%
2016			50		20	30%
2017				*(126) 200	30	33%
2018					20	32%
2019					30	32%
2020				115	40	35%
Total	1,029	1,744	162	1,001	201	

<sup>\*</sup> Expiring Wind Contract MWs

Figure 1

Figure 1 illustrates anticipated wind generation at the time the plan was adopted in 2009. Current wind generation totals 635.7 MW of capacity, and Austin Energy has executed additional wind contracts for 292.32 MW of capacity with expected commercial operation in 2013.

Coal/Nuclear. The Plan (Figure 1) recognizes current ownership levels in the STP and the Fayette Power Plant. Plan implementation would effectively reduce by about 24% the amount of energy Austin Energy receives from the Fayette Power Project by 2020 to meet customer load. That reduction figures prominently in the Austin Energy goal to reduce its greenhouse gas emissions within the planning horizon by 20% from 2005 levels.

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

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

Wind. The majority of the Austin Energy renewables goal will be met through wind-generated power. As an early adopter of wind energy resources, Austin Energy now has executed wind contracts for about 928.02 MW of wind capacity that will expire by 2037. The proposed Plan calls for total wind capacity by 2020 of 1,001 MW.

Solar. Installed solar capacity will increase from 1 MW to 201 MW by 2020. In February 2009, the City Council approved a 25-year contract under which Austin Energy will purchase the annual output of a 30 MW solar farm to be built near Webberville on Austin Energy property. That project built by Gemini Solar Development Company, commenced commercial operation in December 2011 and is one of the nation's largest solar projects.

On October 6, 2011, the City Council passed Resolution 20111006-059, directing the City Manager to develop a report by September 2012 analyzing strategies relating to the Fayette Power Project that were outlined in the Generation Plan. Specifically, the report would detail: the potential impact of the USEPA Cross-State Air Pollution Rule and other proposed USEPA regulations that could impact Fayette Power Project's costs of operation; the feasibility of selling the City's share of Fayette Power Project to LCRA or a third party; and the feasibility of "mothballing" the City's share of Fayette Power Project.

#### **Financial Policies**

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

- Current revenue, which does not include the beginning balance, will be sufficient to support current
  expenditures (defined as "structural balance"). However, if projected revenue in future years is not sufficient to
  support projected requirements, the ending balance may be budgeted to achieve structural balance.
- Calculated Debt Service coverage for the FY13 proposed budget is 2.04x, instead of the minimum of 2.0x target per the City's financial policies. (Note: the coverage requirement per the applicable bond ordinance is 1,25x.)
- A fund named the Strategic Reserve Fund shall be created and established, replacing the Debt Management Fund. It will have three components:
  - An Emergency Reserve with a minimum of 60 days of non-power supply operating requirements.
  - Up to a maximum of 60 days of additional non-power supply operating requirements set aside as a Contingency Reserve.
  - Any additional funds over the maximum 120 days of non-power supply operating requirements may be set aside in a Rate Stabilization Reserve.
- The Emergency Reserve shall only be used as a last resort to provide funding in the event of an unanticipated or unforeseen extraordinary need of an emergency nature, such as costs related to a natural disaster, emergency or unexpected costs created by Federal or State legislation. The Emergency Reserve shall be used only after the Contingency Reserve has been exhausted. The Contingency Reserve shall be used for unanticipated or unforeseen events that reduce revenue or increase obligations such as extended unplanned plant outages, insurance deductibles, unexpected costs created by Federal or State legislation, and liquidity support for unexpected changes in fuel costs or purchased power which stabilize fuel rates for our customers. In the event any portion of the Contingency Reserve is used, the balance will be replenished to the targeted amount within

two years. A Rate Stabilization Reserve shall be created and established, replacing the Competitive Reserve in FY 2012, for the purpose of stabilizing electric utility rates in future periods. The Rate Stabilization Reserve may provide funding for: (1) deferring or minimizing future rate increases, (2) new generation capacity construction and acquisition costs and (3) balancing of annual power supply costs (net power supply/energy settlement cost). The balance shall not exceed 90 days of net power supply costs. Funding may be provided from net revenue available after meeting the General Fund Transfer, capital investment (equity contributions from current revenue), Repair and Replacement Fund, and 45 days of working capital.

- The General Fund Transfer shall not exceed 12% of Austin Energy's three-year average revenues, calculated using the current year estimate and the previous two years' actual revenues from the City's Comprehensive Annual Financial Report.
- A decommissioning trust shall be established external to the City to hold the proceeds for moneys collected for the purpose of decommissioning the STP. An external investment manager may be hired to administer the trust investments.
- A Non-Nuclear Plant Decommissioning Fund shall be established to fund plant retirement. The amount set aside will be based on a decommissioning study of the plant site. Funding will be set aside over a minimum of four years prior to the expected plant closure.

A complete listing of Austin Energy's financial policies can be found at https://assets.austintexas.gov/budget/11-12/downloads/fy12\_approved\_volume2.pdf

#### **Customer Rates**

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

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

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

An Independent System Operator ("ISO") was established for the ERCOT as a part of the rules that were adopted by the PUCT to establish access to the wholesale electric market in the State and was approved by the PUCT on August 21, 1996. The ISO received approval on May 5, 2000, of its certification under Senate Bill 7, adopted by the State legislature and signed into law in 1999 ("SB7"). The ISO's responsibilities as detailed in SB7 are to (1) ensure nondiscriminatory access to the ERCOT transmission system; (2) ensure the reliability and adequacy of the ERCOT network; (3) ensure

timely and accurate customer switching; and (4) ensure the accuracy of accounts among wholesale buyers and sellers. Austin Energy is a member of ERCOT, and Austin Energy staff are very active participants in the ERCOT stakeholder process.

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

## State Wholesale Market Design Developments

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

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

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

# Federal Rate Regulation

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

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

Under the Energy Policy Act of 2005, municipal entities are now subject to certain FERC authority on reliability. Specific reliability requirements 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 the Texas Reliability Entity

("TRE"), which will govern the responsibilities of the TRE as the Regional Entity responsible for overseeing the NERC reliability standards in the ERCOT region. On June 4, 2007, FERC approved an initial set of NERC reliability standards that apply to entities operating in the ERCOT region. Austin Energy has established compliance programs in its Energy Markets; transmission systems planning, operations and reliability; and Information Technology and Telecommunications units to examine the requirements for compliance with the new standards and to evaluate and implement any needed changes to systems and procedures. This process is verified through external audits involving the Regional Entity.

#### **Environmental Regulation - General**

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

## **Environmental Regulation Related to Air Emissions**

Mercury and Air Toxics Standards (MATS)

Published in February 2012, USEPA's final MATS rule sets new emissions limits for mercury and other toxic air emissions from coal and oil-fired electric utility boilers to be achieved by 2015. For Austin Energy, this rule applies to the Fayette Power Project units 1 & 2. The flue gas desulphurization ("FGD") units or "scrubbers" that were put in operation in 2011 remove a significant portion of the air toxics to below the new limits. Although the scrubbers remove some mercury, a preliminary feasibility study conducted by Austin Energy in early 2012 concluded that some additional "add-on" equipment will be necessary to enhance the removal of mercury in existing emissions control equipment to below the new limit. Austin Energy and co-owner LCRA are proceeding with the engineering and planning phase of installing that equipment – a preliminary estimate of Austin Energy's share of that capital expense is approximately \$10,000,000. With the scrubbers already in operation, Austin Energy and LCRA are well-positioned to comply with the MATS rule.

#### Maintenance Start-up and Shutdown Permits

All of Austin Energy's large generating units have Federal Operating Permits ("FOP") and New Source Review ("NSR") Permits. In 2011, Austin Energy and all owners of large electric generating units in Texas applied to the TCEQ for permits to cover routine Maintenance, Start-up and Shut-down emissions ("MSS") – amended NSR permits that account for MSS emissions have been issued to all but one Austin Energy facility – the amended permit for the remaining facility is expected to be issued in mid to late 2012 and the facility is considered to be in compliance while the permit amendment is pending. Minor amendments to the FOPs to reflect MSS emissions are still pending but expected to be issued in 2012.

## Cross-State Air Pollution Rule

Austin Energy's large facilities have been complying with the Clean Air Interstate Rule ("CAIR"), a cap-and-trade program for annual NOx and SO2 emissions, since 2009. The USEPA finalized a court-mandated replacement for CAIR in 2011, called the Cross-State Air Pollution Rule ("CSAPR"), with compliance to begin in 2012 for annual NOx, annual SO2 and ozone season NOx emissions in 23 eastern- and mid-U.S. states including Texas. Each state gets an allotment of emissions allowances and allocates these to generators. Generators must hold an allowance for each ton of covered emissions; allowances must be purchased to cover emissions in excess of allocations and any surplus allowances can be banked or traded (sold). Interstate trading is effectively limited by imposing penalties on generators in a state that brings in too many allowances from other states, but intrastate trading is unlimited. Although not in the original proposal, USEPA finalized the requirement that Texas sources hold SO2 allowances and USEPA allotted Texas

allowances to cover only approximately 50% of total SO2 emissions in 2010, meaning there will be a large deficit of SO2 allowances in Texas and presumably very high SO2 prices beginning 2012. A federal court stayed CSAPR in late 2011 pending judicial review of the rule. That court is expected to issue a ruling in mid-2012 as to if and when the rule will come into effect or if it needs to be modified by the USEPA. Austin Energy continues to comply with CAIR pending the outcome of the CSAPR review.

The CSAPR will impact Decker, Fayette Power Project and Sand Hill Energy Center. Austin Energy expects to hold enough NOx allowances for all three facilities to cover most emissions and any additional allowances needed could be acquired without risking penalties due to out-of-state purchases. At this time, Austin Energy does not anticipate that compliance with NOx requirements would necessitate major capital investment in NOx control; however, the exact cost impacts of any potential allowance purchases are uncertain since there is still no market for those allowances or known allowance prices. Austin Energy may need to purchase NOx allowances to cover a small fraction of total NOx emissions beyond what Fayette Power Project units are allocated. With respect to SO2, Fayette Power Project was allocated SO2 allowances based on historical data in years 2010 and earlier. Given that the recently installed Flue Gas Desulfurization (FGD) Scrubbers on Units 1 and 2 remove 95% of the units' SO2 emissions, Austin Energy does not expect to need more allowances than allocated. USEPA finalized technical corrections to the rule granting Texas generators approximately 30% more SO2 allowances and delaying the interstate trading provisions for two years; both of those proposed measures should serve to ease compliance burden and costs if and when the rule comes into effect.

# Environmental Regulation Related to Hazardous Wastes and Remediation

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

#### **Environmental - Other**

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

# **Nuclear Regulation**

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

STP is protected by provisions of the Price-Anderson Act, a comprehensive statutory arrangement providing limitations on nuclear liability and governmental indemnities even though the statutory protections for many non-commercial reactors are different. The Price-Anderson Act expires on December 31, 2025. The limit of liability under the Price-Anderson Act for licensees of nuclear power plants remains at \$12.6 billion per unit per incident. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is \$117.495 million per unit, subject to adjustment for inflation, for the number of operating nuclear units and for each licensed reactor, payable at \$17.55 million per year per reactor for each nuclear incident. The City and each of the other participants of STP are

subject to such assessments, which will be borne on the basis of their respective ownership interests in STP. For purposes of the assessments, STP has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the NRC, in accordance with the financial protection requirements of the Price-Anderson Act.

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

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

The owners of STP currently maintain \$2.75 billion of nuclear property insurance, which is above the legally required amount of \$1.06 billion, but is less than the total amount available for such losses (\$2.75 billion is the maximum amount available for purchase from NEIL, defined below). 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 \$30.7 million during any one-policy year. This number changes annually and is calculated as 10 times the current premium for each policy.

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

# Recent Events Affecting the Nuclear Industry

On March 11, 2011, a region of Japan sustained significant loss of life and destruction because of a major earthquake and resulting tsunami. Included in the damage areas were the Fukushima nuclear units, which lost power to components of the backup and safety control systems and began emitting radiation into the surrounding environment. Following the incident, the NRC began looking into the safety aspects of nuclear plant operations in the United States with the objective of assuring that events such as those at the Fukushima plant do not occur in this country. The NRC has been holding public meetings and briefings on recommendations made by the NRC's Japan Task Force in their July 12, 2011 report. The Task Force concluded that there was no imminent risk from continued operations and made a dozen recommendations, including safety and emergency preparedness enhancements, for Commission consideration. The process in ongoing (the most recently held meeting occurred on May 1, 2012) and it is unknown what the exact implications will be to safety standards at existing and proposed nuclear operation in the United States.

## THE CITY

#### Administration

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

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

# City Manager - Marc A. Ott

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

## Chief Financial Officer - Elaine Hart, CPA

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

## Services Provided by the City

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

## **Employees**

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

The City does not have automatic escalators in payroll or in its retirement systems. The retirement systems may grant cost-of-living increases up to 6% for the municipal employees and 6% for police officers and a percentage based on the

amount of increase in the Consumer Price Index for the firemen only if recommended by the independent actuary and approved by the retirement boards.

## **Annexation Program**

The City annexes territory on a regular basis. Chapter 43 of the Texas Local Government Code regulates annexation of property by Texas municipalities. 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 State 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 residents appointed by the county commissioners negotiate with City staff on the service plan.

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

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

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

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

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

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

<sup>(1)</sup> Includes acres converted from limited purpose to full purpose status.

#### **Recent Annexation**

In the first half of 2012, the City annexed 3,818 acres for limited purposes. These annexations were conducted with the consent of property owners and in accordance with strategic partnership agreements ("SPAs") with nine new municipal utility districts ("MUDs"). Full purpose annexation will be deferred to allow the MUDs to issue debt for major infrastructure improvements and public amenities to serve two large new mixed-use developments in eastern Travis County.

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

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

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

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

<sup>(2)</sup> Through June 30, 2012.

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

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

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

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

#### **Future Annexation**

In the remainder of 2012, staff anticipates the full purpose annexation of fourteen areas for a total of over 4,100 acres. Included in the 2012 annexation program are two fully developed areas with mixed commercial, industrial, and residential land uses; six vacant tracts with development plans approved or in process; the Circuit of the Americas racetrack site; and five other associated undeveloped or publicly-owned sites. The current taxable assessed value (TAV) for these areas exceeds \$124,000,000 in total. In addition, staff anticipates the limited purpose annexation of an additional 57-acre site, which is the location of a proposed mixed use development.

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

#### **Pension Plans**

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

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

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

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

Although the COAERS funding period had been infinite since December 31, 2002, investment losses in 2008 of 25.9% led to a significant decrease in the actuarial funded ratio and a significant increase to the unfunded actuarial accrued

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

See APPENDIX B – "ANNUAL FINANCIAL STATEMENTS – Note 7" for additional information on the City's Pension Plans.

### Other Post-Employment Benefits

In addition to providing pension benefits, the City provides certain health care and insurance benefits to its retirees. Any retiree who is eligible to receive retirement benefits under any of the City's three pension plans is eligible for these benefits. Post-retirement benefits include health, dental, vision, and \$1,000 of life insurance. The City pays a portion of the retiree's medical insurance premiums and a portion of the retiree's dependents' medical insurance premium. The portion paid by the City varies according to age, coverage selection and years of service. The City pays the entire cost of the premium for life insurance for the retiree.

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

As of September 30, 2011, the City's unfunded actuarial accrued liability is approximately \$1.4 billion; the net OPEB obligation is \$383.2 million. The City has worked with a task force consisting of employees and retirees to determine which elements of the retiree health care plan they value most highly. Using their input and information from other sources, the City has run alternate scenarios to assess the effect these would have on reducing retiree benefits or developing other cost-sharing strategies. Cost reduction strategies have also been implemented.

#### Insurance

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

# CONTINUING DISCLOSURE OF INFORMATION

In each Ordinance, the City has made the following agreement for the benefit of the Holders and beneficial owners of the Obligations. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Obligations. 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 the Municipal Securities Rulemaking Board (the "MSRB").

#### **Annual Reports**

The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in the main text of the Official Statement within the various tables and in APPENDIX B. The City will update and provide this information as of the end of each fiscal year within six months after the end of each fiscal year.

The City will provide the updated information to the MSRB through its Electronic Municipal Markets Access ("EMMA") information system.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12 (the "Rule"), promulgated by the United States Securities and Exchange Commission (the "SEC"). 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 the MSRB of the change.

## **Disclosure Event Notices**

The City shall notify the MSRB, in a timely manner not in excess of ten Business Days after the occurrence of the event, of any of the following events with respect to the Obligations: (1) principal and interest payment delinquencies; (2) nonpayment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Obligations, or other material events affecting the tax status of the Obligations; (7) modifications to rights of holders of the Obligations, if material; (8) Obligation calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Obligations, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material. (Neither the Obligations nor the Ordinances make any provision for debt service reserves or liquidity enhancement.) The City shall notify the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data by the time required by the Ordinances.

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

# Availability of Information

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

#### **Limitations and Amendments**

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

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

# Compliance with Prior Undertakings

Except as described in this paragraph, during the last five (5) years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule. The City filed its financial statements for the fiscal year ended September 30, 2006, after the March 31, 2007, deadline, and for the fiscal year ended September 30, 2011, after the March 31, 2012, deadline. The City's audited financial statements for the fiscal year ending September 30, 2006 were filed on October 24, 2007. The City's audited financial statements for the fiscal year ended September 30, 2007 were filed on May 1, 2008. The City's audited financial statements for the fiscal year ended September 30, 2008 were filed on April 30, 2009. The City's audited financial statements for the fiscal year ending September 30, 2011 were filed on April 2, 2012, which was the first business day after the expiration of the six month period following end of the fiscal year ending September 30, 2011. Annual financial information and operating data of the City were filed in accordance with the Rule in the years in which the audited financial statements were filed later than March 31 following the fiscal year end in question upon receipt by the City from their external auditors. The City has filed material event notices in connection with each late filing.

## TAX MATTERS FOR SERIES 2012A BONDS, CERTIFICATES AND CONTRACTUAL OBLIGATIONS

## Tax Exemption

Delivery of the Series 2012A Bonds, Certificates and Contractual Obligations is subject to the opinion of Andrews Kurth LLP, Houston, Texas, Bond Counsel, that interest on the Series 2012A Bonds, Certificates and Contractual Obligations will be (1) excludable from gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (2) not includable in the alternative minimum taxable income of individuals or, except as described below, corporations.

Interest on the Series 2012A Bonds, Certificates and Contractual Obligations owned by a corporation, other than an S corporation, a regulated investment company, a real estate investment trust (REIT), a real estate mortgage investment conduit (REMIC) or a financial asset securitization investment trust (FASIT), will be included in such corporation's adjusted current earnings for purposes of calculating such corporation's alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by the Code is computed.

The foregoing opinions of Bond Counsel are based on the Code and the regulations, rulings and court decisions thereunder in existence on the date of issue of the Series 2012A Bonds, Certificates and Contractual Obligations. Such authorities are subject to change and any such change could prospectively or retroactively result in the inclusion of the

interest on the Series 2012A Bonds, Certificates and Contractual Obligations in gross income of the owners thereof or change the treatment of such interest for purposes of computing alternative minimum taxable income.

In rendering its opinions, Bond Counsel has assumed continuing compliance by the City with certain covenants contained in the Ordinances for Series 2012A Bonds, Certificates and Contractual Obligations and has relied on representations by the City with respect to matters solely within the knowledge of the City, which Bond Counsel has not independently verified. The covenants and representations relate to, among other things, the use of bond proceeds and any facilities finance therewith, the source of repayment of the Series 2012A Bonds, Certificates and Contractual Obligations, the investment of bond proceeds and certain other amounts prior to expenditure, and requirements that excess arbitrage earned on the investment of bond proceeds and certain other amounts be paid periodically to the United States and that the City file an information report with the Internal Revenue Service. If the City should fail to comply with the covenants in the Ordinances for Series 2012A Bonds, Certificates and Contractual Obligations should be determined to be inaccurate or incomplete, interest on the Series 2012A Bonds, Certificates and Contractual Obligations could become taxable from the date of delivery of the Series 2012A Bonds, Certificates and Contractual Obligations, regardless of the date on which the event causing such taxability occurs.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt or accrual of interest on or acquisition or disposition of the Series 2012A Bonds, Certificates and Contractual Obligations.

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

Under the Code, taxpayers are required to provide information on their returns regarding the amount of tax-exempt interest, such as interest on the Series 2012A Bonds, Certificates and Contractual Obligations, received or accrued during the year.

Prospective purchasers of the Series 2012A Bonds, Certificates and Contractual Obligations should be aware that the ownership of tax-exempt obligations, such as the Series 2012A Bonds, Certificates and Contractual Obligations, may result in collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. Such prospective purchasers should consult their tax advisors as to the consequences of investing in the Series 2012A Bonds, Certificates and Contractual Obligations.

## Impact of President's 2013 Budget Proposal

On February 13, 2012, President Obama released the language of his proposed budget for fiscal year 2013 (the "Budget"). One provision of the Budget would have the effect of imposing an additional amount of tax on certain "high income" taxpayers based on, among other things, the amount of interest on tax-exempt obligations, such as the Series 2012A Bonds, Certificates and Contractual Obligations, received by such taxpayers. As originally proposed, this provision will be effective for taxable years beginning on or after January 1, 2013, and will apply to interest on the Series 2012A Bonds, Certificates and Contractual Obligations and other tax-exempt obligations received by such taxpayers on

or after that date. The introduction or enactment of this provision or any similar legislative proposal may also affect the market price for, or marketability of, the Series 2012A Bonds, Certificates and Contractual Obligations. Prospective purchasers of the Series 2012A Bonds, Certificates and Contractual Obligations are advised to consult their tax advisors with respect to the impact of the Budget or other legislative proposals, as to which Bond Counsel expresses no opinion.

## Tax Treatment of Original Issue Discount on Series 2012A Bonds, Certificates and Contractual Obligations

Certain maturities of the Series 2012A Bonds, Certificates and Contractual Obligations may be offered at an initial offering price which is less than the stated redemption price at maturity of such Series 2012A Bonds, Certificates and Contractual Obligations. If a substantial amount of any maturity of the Series 2012A Bonds, Certificates or Contractual Obligations is sold to members of the public (which for this purpose excludes bond houses, brokers and similar persons or organizations acting in the capacity of wholesalers or initial purchasers) at such initial offering price, the Series 2012A Bonds, Certificates or Contractual Obligations of that maturity (the "Discount Obligations") will be considered to have "original issue discount" for federal income tax purposes. An initial owner who purchases a Discount Obligation in the initial public offering of the Series 2012A Bonds, Certificates and Contractual Obligations at such an initial offering price will acquire such Discount Obligation with original issue discount equal to the difference between (a) the stated redemption price payable at the maturity of such Discount Obligation and (b) the initial public offering price to the public of such Discount Obligation. Under existing law, such original issue discount will be treated for federal income tax purposes as additional interest on a Discount Obligation and such initial owner will be entitled to exclude from gross income for federal income tax purposes that portion of such original issue discount deemed to be earned (as discussed below) during the period while such Discount Obligation continues to be owned by such initial owner. Except as otherwise provided herein, the discussion regarding interest on the Series 2012A Bonds, Certificates and Contractual Obligations under the caption "Tax Exemption" generally applies to original issue discount deemed to be earned on a Discount Obligation while held by an owner who has purchased such Discount Obligation at the initial offering price in the initial public offering of the Series 2012A Bonds, Certificates and Contractual Obligations and that discussion should be considered in connection with this portion of the Official Statement.

In the event of a redemption, sale, or other taxable disposition of a Discount Obligation prior to its stated maturity, however, any amount realized by such initial owner in excess of the basis of such Discount Obligation in the hands of such owner (increased to reflect the portion of the original issue discount deemed to have been earned while such Discount Obligation continues to be held by such initial owner) will be includable in gross income for federal income tax purposes.

Because original issue discount on a Discount Obligation will be treated for federal income tax purposes as interest on a Series 2012A Bond, Certificate or Contractual Obligation, such original issue discount must be taken into account for certain federal income tax purposes as it is deemed to be earned even though there will not be a corresponding cash payment. See "Tax Exemption" for a reference to collateral federal tax consequences for certain other owners.

The characterization of original issue discount as interest is for federal income tax purposes only and does not otherwise affect the rights or obligations of the owner of a Discount Obligation or of the Issuer. The portion of the principal of a Discount Obligation representing original issue discount is payable upon the maturity or earlier redemption of such Series 2012A Bond, Certificate or Contractual Obligation to the registered owner of the Discount Obligation at that time.

Under special tax accounting rules prescribed by existing law, a portion of the original issue discount on each Discount Obligation is deemed to be earned each day. The portion of the original issue discount deemed to be earned each day is determined under an actuarial method of accrual, using the yield to maturity as the constant interest rate and semi-annual compounding.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Discount Obligations by an owner that did not purchase such Series 2012A Bonds, Certificates or Contractual Obligations in the initial public offering and at the initial offering price may be determined according to rules which differ from those described above. All prospective purchasers of Discount Obligations should consult their tax advisors with respect to the determination for federal, state and local income tax purposes of interest and original issue discount accrued upon redemption, sale or other disposition of such Discount Obligations and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Discount Obligations.

# Tax Treatment of Original Issue Premium on Series 2012A Bonds, Certificates and Contractual Obligations

Certain maturities of the Series 2012A Bonds, Certificates and Contractual Obligations may be offered at an initial offering price which exceeds the stated redemption price payable at the maturity of such Series 2012A Bonds, Certificates and Contractual Obligations. If a substantial amount of any maturity of the Series 2012A Bonds, Certificates or Contractual Obligations is sold to members of the public (which for this purpose excludes bond houses, brokers and similar person or organizations acting in the capacity of wholesalers or initial purchasers) at such initial offering price, each of the Series 2012A Bonds, Certificates or Contractual Obligations of such maturity ("Premium Obligation") will be considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis for federal income tax purposes of a Premium Obligation in the hands of an initial purchaser who purchases such Premium Obligation in the initial offering must be reduced each year and upon the sale or other taxable disposition of the Premium Obligation by the amount of amortizable bond premium. This reduction in basis will increase the amount of any gain (or decrease the amount of any loss) recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Obligation by the initial purchaser. Generally, no corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Obligation which is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Obligation) is determined under special tax accounting rules which use a constant yield throughout the term of the Premium Obligation based on the initial purchaser's original basis in such Premium Obligation.

# TAX MATTERS FOR SERIES 2012B BONDS

#### General

The following is a general summary of United States federal income tax consequences of the purchase and ownership of the Series 2012B Bonds. The discussion is based upon laws, Treasury Regulations, rulings and decisions now in effect, all of which are subject to change (possibly with retroactive effect) 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 Series 2012B Bonds in light of the investor's particular personal investment circumstances or to certain types of investors subject to special treatment under United States federal income tax laws (including insurance companies, tax exempt organizations, financial institutions, broker-dealers, and persons who have hedged the risk of owning the Series 2012B Bonds). The summary is therefore limited to certain issues relating to initial investors who will hold the Series 2012B Bonds as "capital assets" within the meaning of section 1221 of the Code, and acquire such Series 2012B Bonds for investment and not as a dealer or for resale. This summary addresses certain federal income tax consequences applicable to beneficial owners of the Series 2012B Bonds who are United States persons within the meaning of section 7701(a)(30) of the Code ("United States persons") and, except as discussed below, does not address any consequences to persons other than United States persons. Prospective investors should note that no rulings have been or will be sought from the IRS with respect to any of the U.S. federal income tax consequences discussed below, and the discussion below is not binding on the IRS.

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

## Internal Revenue Service Circular 230 Notice

You should be aware that:

- 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.

## Stated Interest on the Series 2012B Bonds

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

#### Disposition of Series 2012B Bonds

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

# **Backup Withholding**

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

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

## Withholding on Payments to Nonresident Alien Individuals and Foreign Corporations

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

Assuming payments on the Series 2012B Bonds are treated as portfolio interest within the meaning of sections 871 and 881 of the Code, then no 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 or reason to know 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 Series 2012B Bonds will be reported to the IRS. Such information will be filed each year with the IRS on Form 1099 which will reflect the name, address, and TIN of the beneficial owner. A copy of Form 1099 will be sent to each beneficial owner of a Series 2012B Bond for U.S. federal income tax purposes.

## **New Legislation**

For taxable years beginning after December 31, 2012, newly enacted legislation is scheduled to impose a 3.8% tax on the "net investment income" of certain "high income" U.S. citizens and resident aliens, and on the undistributed "net investment income" of certain estates and trusts. Among other items, "net investment income" would generally include gross income from interest, less certain deductions.

All holders of the Series 2012B Bonds should consult their own tax advisers with respect to the tax consequences of the new legislation described above and its application to the Series 2012B Bonds.

## OTHER RELEVANT INFORMATION

# Ratings

The Obligations have received ratings of "AAA" by Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business ("S&P"), "AAA" by Fitch Ratings, Inc. ("Fitch") and "Aaa" by Moody's Investors Service, Inc. ("Moody's"). The presently outstanding ad valorem tax supported debt of the City is rated "AAA" by S&P, "AAA" by Fitch and "Aaa" by Moody's. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if in the judgment of one or all such companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or by any one of them, may have an adverse effect on the market price of the Obligations. The City will undertake no responsibility to notify the owners of the Obligations of any such revisions or withdrawal of ratings.

# 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.

The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2011.

# **Electric Utility System Litigation**

The City is in litigation with the owner of a block of land in downtown Austin, which is the site of a municipal parking garage and utility-owned chilled-water plant site. The chilled-water plant is one of two currently providing chilled-water services to some of Austin Energy's commercial customers in the downtown area. The City initiated a condemnation proceeding against the land on August 9, 2001 in Travis County Probate Court as Cause No. 2403, City of Austin v. Whittington, et al. The trial court granted the City summary judgment upholding the City's right to condemn the land, and a jury awarded the condemnee a price of \$7.75 million. The condemnee appealed the condemnation proceeding. It also brought a related suit for declaratory judgment in the 250th Travis County District Court, Cause No. GN302752, Whittington, et al. v. City of Austin, alleging the City had failed to include an alleyway crossing the land in its condemnation proceeding, and thus had not taken title to the entire block. In the original condemnation proceeding, the Third Court of Appeals (Case No. 03-03-00496-CV) reversed the trial court's summary judgment, holding that the City had failed to meet its burden to show the City Council made proper determinations of public purpose and necessity in deciding to condemn the land. The Texas Supreme Court declined to review the appellate court's decision. In the separate alleyway case, the trial court entered judgment against the City, finding that the City had failed to include the alleyway in its

condemnation proceeding and thus did not hold title to the alleyway portion of the land. The cases were consolidated and tried to a jury in April 2007. The jury found against the City on its affirmative defense, and valued the property at \$10.5 million. The City appealed. The Third Court of Appeals upheld the trial court verdict. On May 20, 2010, the City filed a petition for review with the Texas Supreme Court, which asked for a briefing on the merits on August 20, 2010. The City filed its brief on the merits on September 30, 2010. Oral arguments were made before the Texas Supreme Court on December 8, 2011. The City cannot predict when a decision will be rendered by the Texas Supreme Court, or what the outcome of such a decision will be. Should the Texas Supreme Court rule against the City, remedies the City may consider include relocating the facilities constructed on the site, or negotiating with the landowner to purchase the facilities. The City cannot predict the potential financial impact to Austin Energy should the Texas Supreme Court rule against the City.

#### Registration and Qualification

The sale of the Obligations 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 Obligations have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Obligations been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Obligations under the securities laws of any jurisdiction in which the Obligations may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Obligations shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

# Legal Investments and Eligibility to Secure Public Funds in Texas

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

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

# Legal Opinions and No-Litigation Certificate

The City will furnish complete transcripts of proceedings had incident to the authorization and issuance of the Obligations including the unqualified approving legal opinions of the Attorney General of the State of Texas approving the Obligations and to the effect that the Obligations are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinions of Bond Counsel, to like effect and to the effect that the interest on the Series 2012A Bonds, the Certificates and the Contractual Obligations will be excludable from gross income for federal income tax purposes under section 103(a) of the Code, subject to the matters described under "TAX MATTERS FOR SERIES 2012A BONDS, CERTIFICATES AND CONTRACTUAL OBLIGATIONS" herein. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Obligations or which would affect the provision made for their payment or security or in any manner questioning the validity of the Obligations will also be furnished. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the

information describing the Obligations in the Official Statement to verify that such information conforms to the provisions of the Ordinances. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of each series of the Obligations are contingent on the sale and delivery of the Obligations. The legal opinions will accompany the Obligations deposited with DTC or will be printed on the Obligations in the event of the discontinuance of the Book-Entry-Only System. In connection with the transactions described in this Official Statement, Bond Counsel represents only the City.

#### **Financial Advisor**

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

# **Independent Auditors**

The financial data listed as fiscal year 2013 herein has been derived from the unaudited internal records of the City. The City's independent auditors have not reviewed, examined, or performed any procedures with respect to the unaudited financial information, nor have they expressed any opinion or any other form of assurance on such information, and assume no responsibility for, and disclaim any association with the unaudited financial information. The unaudited information is preliminary and is subject to change as a result of the audit and may differ from the audited financial statements when they are released.

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

#### Authenticity of Financial Data and Other 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 resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. 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.

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## Certification of the Official Statement

At the time of payment for and delivery of each series of the Obligations, the City will furnish a certificate, executed by proper officials, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of such Obligations and the acceptance of the best bid therefor, and on the date of their delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since the date of the last unaudited financial statements of the City.

This Official Statement, and the execution and delivery of this Official Statement was authorized by the Ordinances adopted by the City Council on August 23, 2012.

/s/ Lee Leffingwell
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.

#### General Information

The City of Austin, chartered in 1839, has a Council-Manager form of government with a Mayor and six Councilmembers. The Mayor and Councilmembers are elected at large for three-year staggered terms with a maximum of two consecutive terms. The City Manager, appointed by the City Council, is responsible to them for the management of all City employees and the administration of all City affairs. Austin, the capital of Texas, is the fourth largest city in the state (behind Houston, Dallas, and San Antonio) with a September 2011 population of 805,662, according to the City's estimates. Over the past ten years, Austin's population has increased by approximately 134,600 residents or 20.1%. Geographically, Austin consists of approximately 308 square miles. The current estimated median household income for Austin residents is \$46,689, according to Claritas, a Nielsen company. Austin's per capita income is estimated to be \$38,484 based on analysis of the Bureau of Economic Analysis information.

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

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

#### Local Economy

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

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

As reported to Council during the fiscal year 2012 budget process, housing sales have remained stable and median home sales prices have increased 5.3% since June 2010, a reflection of the area's positive job growth. Sales tax revenue has shown positive growth over the past two fiscal years. Fiscal year 2011 experienced a 4.4% increase over fiscal year 2010, which was a 3.5% increase over the previous fiscal year. During 2011, Austin-Bergstrom International Airport (ABIA) passenger activity experienced a record high of more than 9 million travelers, a 5% increase over 2010. For the sixth consecutive year, ABIA was highly ranked for customer service, ranking fourth among airports in North America, regardless of size, by Airport Council International's 2011 Airport Service Quality (ASQ) passenger survey. ABIA's consistently high ASQ ranking earned the airport a place in the first Airport Council International's Director General's Roll of Excellence. Only 14 airports in the world received this recognition.

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

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

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

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

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

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

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

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

Only 13 of Top 100 U.S. Metros Have Bounced Back from Recession

The Business Journals On Numbers – February 2012

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

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

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

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

The 10 Hottest Spots to Start a Small Business (Austin ranked number 1)

The Fiscal Times – July 2011

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

## Long-term Financial Planning

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

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

On November 2, 2010, Austin voters approved a \$90 million bond program designed to enhance mobility in the region. Over the next two years, this bond program will invest in streets, sidewalks, bike paths, trails, and transit infrastructure in all parts of Austin. The City Council established the Bond Oversight Committee to ensure efficiency, equity, timeliness, and accountability in the implementation of the 2006 and 2010 bond programs, as well as all future bond programs. The City has also formed a Bond Election Advisory Task Force to make recommendations to the City Council regarding a potential bond package to present to the voters for approval in November 2012.

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

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

#### **Budgetary Information**

The fiscal year 2012 Approved Budget totals \$2.8 billion and includes \$690.2 million for the General Fund to provide public safety, health, library, parks, and other needed services to the Austin community. It is a structurally balanced budget, maintaining the high quality core services that our residents expect and contribute to Austin's top ranked quality of life.

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

The fiscal year 2012 Approved Budget was passed with an increase to the property tax rate of 2.4 cents, from 45.71 to 48.11 cents per \$100 of taxable value. Included in the approved budget are moderate pay increases for employees; a 2% wage adjustment for all civilian employees and a 3% wage adjustment for uniformed personnel based on the approved contract terms. Also included in the fiscal year 2012 Budget is the addition of 49 new police officers and the annualized cost of 42 new paramedic positions and 10 new firefighters added during the previous fiscal year. The fiscal year 2012

Budget authorizes the use of approximately \$11 million of the budget stabilization reserves to address capital replacement and other critical needs. The Approved Budget projects budget stabilization reserves of \$36.2 million at the end of fiscal year 2012.

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

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

## **Major Initiatives**

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

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

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

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

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

<u>Innovative.</u> In October 2010, the City unveiled Austin Finance Online, a one-stop web-based portal containing financial documents, Online Contract Catalog, Vendor Connection, eCheckbook, and other financial information of the City.

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

<u>ARRA.</u> In 2009, the City established a Recovery Office to coordinate the City's efforts with other entities in applying for and reporting on funding received through the American Recovery and Reinvestment Act (ARRA). The City has successfully pursued various ARRA funding opportunities in areas ranging from transportation to energy to health care. At year end, the City had been awarded \$86.6 million either directly or as pass-through funds with a total of 81% of those funds being obligated. In fiscal year 2011, the City received \$1.2 million in new funding to add solar power to the George Washington Carver Museum, establish a public computing center for job seekers at the Carver Library, convert 60 City fleet vehicles from unleaded gasoline to propane and test 14 plug-in hybrid Ram1500 Crew Cab vehicles for 3 years. The City also received extra funds for on-going programs. In addition, four grants were completed including the three S.T.O.P. Violence Against Women grants awarded to the Police Department and the Public Works grant for the Loop 360 Bike and Pedestrian Improvements.

## **Financial Policies**

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

#### **Internal Controls**

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

#### **Budgetary Control**

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

#### Awards

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

# Employment by Industry in the Austin Metropolitan Area (a)

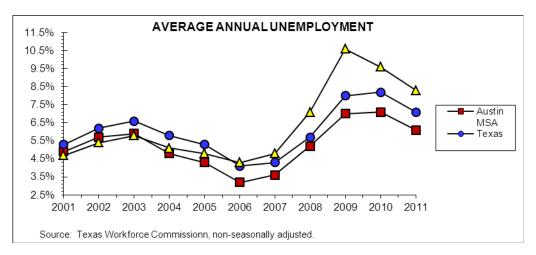
# **Employment Characteristics**

	<u>20</u>		20	08	<u>20</u>	_	20	010	20	<u>)11</u>
		% of Total		% of <u>Total</u>		% of <u>Total</u>		% of <u>Total</u>		% of <u>Total</u>
Industrial Classification Manufacturing	60,600	7.9%	55,000	7.0%	49,500	6.5%	47,300	6.2%	50,900	6.4%
Government	158,400	20.8%	163,700	21.0%	167,900	22.1%	170,500	22.2%	167,400	20.9%
Trade, transportation & utilities	159,800	21.0%	163,700	21.0%	152,500	20.1%	134,200	17.5%	142,600	17.8%
Services and miscellaneous	290,100	38.0%	300,500	38.5%	304,000	40.0%	333,200	43.5%	354,500	44.4%
Finance, insurance and real estate	45,200	5.9%	47,200	6.0%	43,900	5.8%	42,300	5.5%	45,300	5.7%
Natural resources, mining & construction	49,200	6.4%	50,800	6.5%	42,000	5.5%	<u>39,000</u>	5.1%	38,600	4.8%
Total	<u>763,300</u>	100.0%	<u>780,900</u>	<u>100.0%</u>	<u>759,800</u>	100.0%	<u>766,500</u>	100.00%	<u>782,200</u>	100.00%

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

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

# Average Annual Unemployment Rate



	Austin MSA	<u>Texas</u>	<u>U.S.</u>
2001	4.9%	5.3%	4.7%
2002	5.7%	6.2%	5.4%
2003	5.9%	6.6%	5.8%
2004	4.8%	5.8%	5.1%
2005	4.3%	5.3%	4.8%
2006	3.2%	4.1%	4.3%
2007	3.6%	4.3%	4.8%
2008	5.2%	5.7%	7.1%
2009	7.0%	8.0%	10.6%
2010	7.1%	8.2%	9.6%
2011	6.1%	7.1%	8.3%

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

# City Sales Tax Collections (In Millions)

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

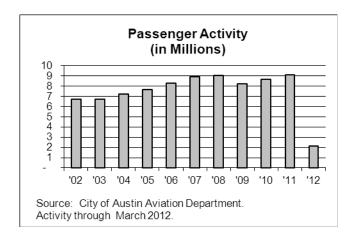
<sup>(1)</sup> Includes a \$1.5 million one-time sales tax correction.

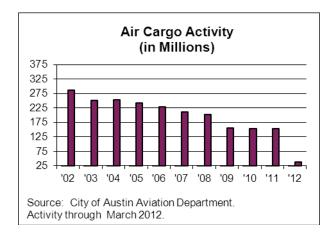
# Ten Largest Employers (As of September 30, 2011)

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

Source: 2011 Comprehensive Annual Financial Report.

# Transportation





<sup>(2)</sup> Collections for 10-1-11 reflect an increase of \$1,162,541 in future period and audit collection adjustments from the prior year. A similar adjustment is not expected to occur in 2012.

Source: City of Austin, Budget Office.

## Austin-Bergstrom International Airport

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

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

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

# Demographic and Economic Statistics - Last Ten Years

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

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

- (1) Source: City Demographer, City of Austin, Neighborhood Planning and Zoning Department based on full purpose area as of September 30.
- (2) Source: Bureau of Economic Analysis for all years except 2011 which will not be available until second quarter 2012.
- (3) Source: Claritas, a Nielson Company.
- (4) Source: Bureau of Labor Statistics; United State Department of Labor as of September 30.
- (5) Data not available for 2011. Figures are estimated.
- (6) Source: Claritas, a Nielson Company that historically reports less than the final numbers from the Bureau of Economic Analysis.

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# **Connections and Permits**

_	Uti	lity Connection	ons		Building Permits	
Year	<u>Electric</u>	Water	Gas	<u>Taxable</u>	Federal, State and Municipal	<u>Total</u>
2001	349,671	178,608	172,177	\$1,625,508,854	\$71,189,116	\$1,696,697,970
2002	359,358	182,977	193,278	1,261,868,130	38,727,017	1,300,595,147
2003	363,377	184,659	199,042	1,189,489,091	17,084,652	1,206,573,743
2004	369,458	188,441	203,966	1,280,385,298	20,533,975	1,300,919,273
2005	372,735	192,511	207,686	1,405,871,887	40,484,950	1,446,356,837
2006	380,696	197,511	213,009	2,353,171,746	16,526,040	2,369,697,786
2007	388,626	199,671	188,101	2,529,648,915	14,272,851	2,543,921,766
2008	396,791	206,695	198,718	1,468,699,801	4,099,000	1,472,798,801
2009	407,926	209,994	208,232	834,498,480	6,988,999	841,487,479
2010	419,355	210,901	204,823	1,413,989,503	4,252,978	1,418,242,481
2011	418,968	212,754	213,365	745,909,589	2,812,350	748,721,939

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

# **Housing Units**

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

# Residential Sales Data

<u>Year</u>	Number of Sales	Total Volume	Average Price
2002	18,716	\$3,695,947,381	\$197,475
2003	19,793	3,899,018,519	196,990
2004	22,567	4,487,464,528	198,851
2005	26,905	5,660,934,916	210,405
2006	30,278	6,960,536,304	229,888
2007	28,047	6,910,684,916	246,397
2008	22,438	5,470,241,896	243,783
2009	20,747	4,924,240,373	237,347
2010	19,872	4,906,445,110	246,792
2011	21,192	5,332,738,945	251,600

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

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

# City-Wide Austin Office Occupancy Rate

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

Source: Oxford Commercial.

# Education

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

School Year	Average Daily Membership	Average Daily Attendance
2001/02	76,347	71,638
2002/03	77,009	72,494
2003/04	77,313	73,085
2004/05	77,937	73,572
2005/06	79,500	74,860
2006/07	82,063	74,212
2007/08	82,739	74,622
2008/09	83,730	75,606
2009/10	84,996	76,658
2010/11	85,273	80,198
2011/12	86,724	79,087

Source: Austin Independent School District.

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

The University of Texas at Austin has total enrollment of 51,112 for the fall semester of 2011 and is a major research university with many nationally ranked academic programs at the graduate level. It is also known for its library collections and research resources. The present site has expanded more than 300 acres since classes began on the original 40 acres near downtown Austin. Additionally, University owned property located in other areas of Austin includes the Pickle Research Center and the Brackenridge Tract, partially used for married student housing. The McDonald Observatory on Mount Locke in West Texas, the Marine Science Institute at Port Aransas and the Institute for Geophysics (Galveston) on the Gulf Coast operate as specialized research units of The University of Texas at Austin.

#### Tourism

The impact of tourism on the Austin economy is significant. There are more than 257 hotels available within the Austin Metropolitan Area and year to date occupancy through March 2012 is 68.2%.

Existing City convention and meeting facilities include a Convention Center, which is supported by hotel/motel occupancy tax collections and revenues of the facility and the new Lester E. Palmer Events Center with 70,000 square feet of exhibit space. Other facilities in Austin include the Frank Erwin Center, a 17,000-seat arena at The University of Texas, the Texas Exposition and Heritage Center, the Austin Music Hall, and The Long Center for Performing Arts. The Texas Exposition and Heritage Center offers 6,000 seat arena seating and 20,000 square feet of banquet/exhibit hall facilities. The Austin Music Hall has a concert seating capacity of 3,000 and 32,000 square feet of exhibit space. The Long Center for the Performing Arts, a \$77 million venue, opened in March 2008. The Center contains two theaters; the 2,300-seat Michael and Susan Dell Hall and the flexible 240-seat Debra and Kevin Rollins Studio Theater. This venue belongs to the City, while a private nonprofit operates the building. The Austin City Limits Live at The Moody Theater is a state-of-the-art, 2,700+ person capacity live music venue that also serves as the home of the KLRU-TV produced PBS program Austin City Limits, the longest running music series in American television history. The venue hosts 60-100 concerts a year. Additionally, the University of Texas Darrel K. Royal-Texas Memorial Stadium was recently expanded to a seating capacity of 100,119.

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# APPENDIX B

**Annual Financial Report** 





Deloitte & Touche LLP Suite 1700 400 West 15th Street Austin, TX 78701-1648 USA

Tel: 1+ 512 691 2300 Fax: 1+ 512 708 1035 www.deloitte.com

#### INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Austin, Texas (the "City"), as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2011 and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Management's Discussion and Analysis, the General Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual-Budget Basis, the Retirement Plans – Trend Information, and the Other Post-Employment Benefits – Trend Information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. This supplementary information is the responsibility of the City's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

March 30, 2012

Delaitte & Jouche LLP

The Management's Discussion and Analysis (MD&A) section of the City of Austin's (the City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2011.

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

#### FINANCIAL HIGHLIGHTS

#### **Government-wide financial statements**

The assets of the City exceeded its liabilities at the end of the fiscal year 2011, resulting in \$4.5 billion of net assets. Net assets associated with governmental activities are approximately \$1.5 billion, or 33% of the total net assets of the City. Net assets associated with business-type activities are approximately \$3 billion, or 67% of the total net assets of the City. The largest portion of net assets consists of investment in capital assets, net of related debt, which is \$3.6 billion, or 80% of total net assets.

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

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

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

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

#### a -- Government-wide financial statements

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

- The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two
  reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial
  position of the City of Austin is improving or deteriorating.
- The **Statement of Activities** presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues for uncollected taxes and expenses for future general obligation debt payments. The statement includes the annual depreciation for infrastructure and governmental assets.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS, continued**

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

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

#### b -- Fund financial statements

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

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

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

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

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

- Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of three of the City's major funds, Austin Energy<sup>TM</sup>, Austin Water Utility, and Austin-Bergstrom International Airport (Airport), as well as the nonmajor enterprise funds.
- Internal Service funds are used to report activities that provide supplies and services for many City programs and activities. The
  City's internal service funds include: Capital Projects Management; Combined Transportation, Emergency and
  Communications Center (CTECC); Employee Benefits; Fleet Maintenance; Information Systems; Liability Reserve; Support
  Services; Wireless Communication; and Workers' Compensation. Because these services predominantly benefit governmental
  operations rather than business-type functions, they have been included in governmental activities in the government-wide
  financial statements.

#### OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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

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

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

Government-	
wide	Fund Financials
Governmental	Governmental - Major
Governmental	Governmental - Nonmajor
Governmental	Proprietary
Governmental	Excluded
Governmental	Excluded
Business-type	Proprietary - Major
Business-type	Proprietary - Major
Business-type	Proprietary - Major
Business-type	Proprietary - Nonmajor
Excluded	Fiduciary
	wide Governmental Governmental Governmental Governmental Governmental Governmental Governmental Governmental Business-type

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

#### c -- Notes to the financial statements

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

#### d -- Other information

The Required Supplementary Information (RSI) section immediately follows the basic financial statements and related notes section of this report. The City adopts an annual appropriated budget for the General Fund plus four separately budgeted activities, all of which comprise the General Fund for GAAP reporting. RSI provides a comparison of revenues, expenditures and other financing sources and uses to budget and demonstrates budgetary compliance for each fund/activity. In addition, trend information related to the City's retirement and other post employment benefits plans is presented in RSI. Following the RSI are other statements and schedules, including the combining statements for nonmajor governmental and enterprise funds, internal service funds, and fiduciary funds.

#### a -- Net assets

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

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

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

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

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

Significant factors in the increase of business-type total assets include an increase in capital assets of \$172.7 million. Significant factors in the increase in total liabilities include increases in commercial paper notes payable of \$104 million and other post employment benefits payable of \$48.5 million.

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by \$4.5 billion at the end of the current fiscal year. However, the largest portion of the City's net assets are invested in capital assets, net of related debt (e.g. land, building, and equipment), which are \$3.6 billion, or 80% of the total amount of the City's net assets. The City uses these capital assets to provide services to citizens. Capital assets are generally not highly liquid; consequently, they are not considered future available resources. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion, \$643.2 million of the City's net assets, represents resources that are subject to external restrictions on how they may be used in the future. The remaining balance, \$274.1 million of unrestricted net assets, may be used to meet the government's future obligations. Unrestricted net assets decreased \$71.3 million in the current fiscal year.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole, as well as for business-type activities. However, governmental activities report a deficit of \$164.2 million for unrestricted net assets.

#### b -- Changes in net assets

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

	Governmental Activities			ss-Type vities	Total		
	2011	2010	2011	2010	2011	2010	
Program revenues:		<del></del>					
Charges for services	\$ 101,7	35 109,136	2,019,742	1,814,907	2,121,477	1,924,043	
Operating grants and contributions	66,3	48 66,831			66,348	66,831	
Capital grants and contributions	51,18	32 50,546	47,850	31,703	99,032	82,249	
General revenues:							
Property tax	355,18	341,812			355,185	341,812	
Sales tax	151,1	25 144,710			151,125	144,710	
Franchise fees and gross receipts tax	95,0	29 87,996			95,029	87,996	
Interest and other	19,30	31,960	11,274	13,935	30,638	45,895	
Total revenues	839,9	832,991	2,078,866	1,860,545	2,918,834	2,693,536	
Program expenses:							
General government	99,78	89,315			99,780	89,315	
Public safety	485,6	11 455,760			485,611	455,760	
Transportation, planning and sustainability	74,8	35 65,565			74,835	65,565	
Public health	61,8	65 63,215			61,865	63,215	
Public recreation and culture	106,4	91,732			106,488	91,732	
Urban growth management	129,2	58 143,884			129,258	143,884	
Interest on debt	45,1	54 44,889			45,154	44,889	
Electric			1,136,850	1,086,470	1,136,850	1,086,470	
Water			178,712	169,708	178,712	169,708	
Wastewater			170,514	166,979	170,514	166,979	
Airport			102,774	92,780	102,774	92,780	
Convention			54,231	51,818	54,231	51,818	
Environmental and health services			91,151	66,380	91,151	66,380	
Public recreation			5,209	9,715	5,209	9,715	
Urban growth management		<u></u>	110,996	106,618	110,996	106,618	
Total expenses	1,002,9	954,360	1,850,437	1,750,468	2,853,428	2,704,828	
Excess (deficiency) before transfers	(163,0	23) (121,369)	228,429	110,077	65,406	(11,292)	
Transfers	97,10	96,031	(97,100)	(96,031)			
Increase (decrease) in net assets	(65,9)	23) (25,338)	131,329	14,046	65,406	(11,292)	
Beginning net assets, as previously reported	1,558,5	48 1,583,886	2,904,310	2,886,129	4,462,858	4,470,015	
Restatement adjustment	(2,0	31)	2,081	4,135		4,135	
Beginning net assets, as restated	1,556,4	1,583,886	2,906,391	2,890,264	4,462,858	4,474,150	
Ending net assets	\$ 1,490,54	1,558,548	3,037,720	2,904,310	4,528,264	4,462,858	

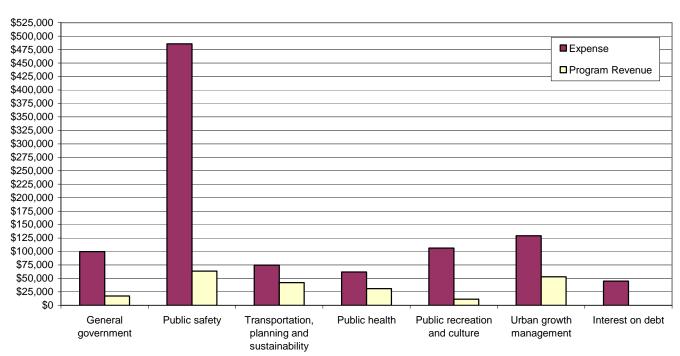
#### c -- Program revenues and expenses -- governmental activities

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

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

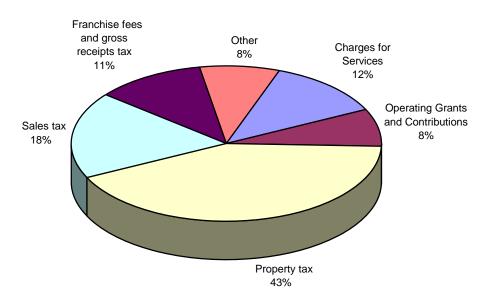
The chart below illustrates the City's governmental expense and revenues by function: general government; public safety; transportation, planning and sustainability; public health; public recreation and culture; urban growth management; and interest on debt.

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



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

#### Government-wide Revenues by Source -- Governmental Activities



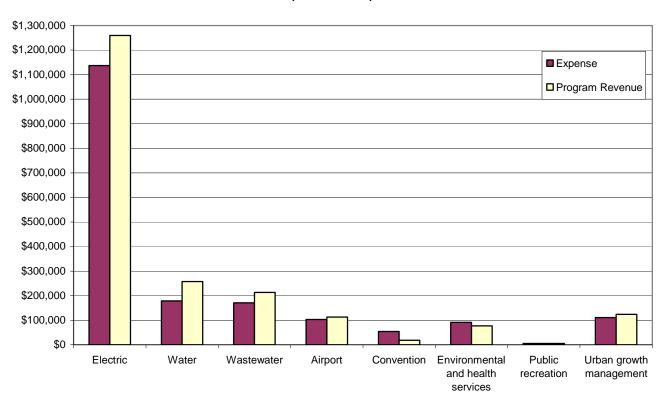
#### d -- Program revenues and expenses -- business-type activities

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

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

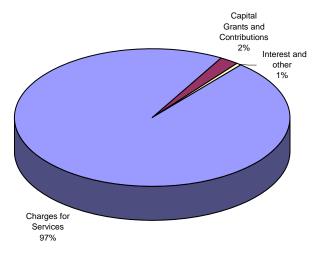
As shown in the following chart, the electric utility, with expenses of \$1.14 billion is the City's largest business-type activity, followed by water (\$179 million), wastewater (\$171 million), urban growth management (\$111 million), airport (\$103 million), environmental (\$91 million), convention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

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



For all business-type activities, charges for services provide the largest percentage of revenues (97%), followed by capital grants and contributions (2%), and interest and other revenues (1%).

Government-wide Revenue by Source – Business-type Activities



#### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND LEVEL STATEMENTS

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

#### a -- Governmental funds

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

At the end of the fiscal year, the City of Austin's governmental funds reported combined ending fund balances of \$369.3 million, a decrease of \$1.1 million from the previous year. Approximately \$2.1 million is nonspendable, \$175.5 million is restricted, \$29.3 million is committed, \$80.0 million is assigned, and \$82.4 million is unassigned.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the General Fund reported nonspendable fund balance of \$1.1 million, committed fund balance of \$3.1 million, assigned fund balance of \$11.0 million, and unassigned fund balance of \$119.0 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 18.2% of total General Fund expenditures of \$654.3 million, and total fund balance represents 20.5% of expenditures. The City's financial policies provide that surplus fund balance be indentified for budget stabilization. This amount is a component of unassigned fund balance. The fund balance indentified for budget stabilization was \$60.5 million. The balance indentified for budget stabilization may be appropriated to fund capital or other one-time expenditures in the subsequent fiscal year, but such appropriation will not normally exceed one-third of the total indentified amount, with the other two-thirds indentified for budget stabilization in future years.

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

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

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

#### b -- Proprietary funds

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

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

#### OTHER INFORMATION

#### a -- General Fund budgetary highlights

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

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

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

#### b -- Capital assets

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

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

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

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

#### **OTHER INFORMATION, continued**

#### c -- Debt administration

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

### Outstanding Debt General Obligation and Revenue Debt (in millions)

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

During fiscal year 2011, the City's total outstanding debt increased by \$154 million. The City issued new debt and refinanced portions of existing debt to achieve lower borrowing costs. Debt issues include the following:

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

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

Debt	•	Investors ce, Inc		Standard & Poor's		ı, Inc.
	2011	2010	2011	2010	2011	2010
General obligation bonds and other tax supported debt	Aaa	Aaa	AAA	AAA	AAA	AAA
Commercial paper notes	P-1	P-1	A-1+	A-1+	F1+	F1+
Commercial paper notes - taxable	P-1	P-1	A-1+	A-1+	F1+	F1+
Utility revenue bonds - prior lien	A1	A1	AA	AA	AA-	AA-
Utility revenue bonds - subordinate lien	A1	A1	AA	AA	AA-	AA-
Utility revenue bonds - separate lien: Electric Water and Wastewater	A1 Aa2	A1 Aa2	A+ AA	A+ AA	AA- AA-	AA- AA-
Airport system revenue bonds	NUR(1)	NUR(1)	Α	A-	NUR(1)	NUR(1)
Airport variable rate notes	NUR(1)	NUR(1)	NUR(1)	NUR(1)	NUR(1)	NUR(1)
Convention Center revenue bonds	A1	A2	A-	A-	NUR(1)	NUR(1)

(1) No underlying rating

#### OTHER INFORMATION, continued

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

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

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

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

#### e -- Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Financial and Administrative Services Department of the City of Austin, P.O. Box 2920, Austin, Texas 78768, or (512) 974-2600 or on the web at: https://www.ci.austin.tx.us/financeonline/finance/index.cfm

## BASIC FINANCIAL STATEMENTS



	Governmental	Business-type	
ASSETS	Activities	Activities	Total (†)
Current assets:			
Cash	\$ 70	67	137
	•		
Pooled investments and cash	431,170	233,332	664,502
Pooled investments and cash - restricted	404.470	187,551	187,551
Total pooled investments and cash	431,170	420,883	852,053
Investments, at fair value	17,165		17,165
Investments, at fair value - restricted		249,325	249,325
Cash held by trustee - restricted	1,606	97	1,703
Working capital advances		7,942	7,942
Property taxes receivable	14,850		14,850
Less allowance for uncollectible taxes	(4,498)		(4,498)
Net property taxes receivable	10,352		10,352
Accounts and other receivables	195,978	238,238	434,216
Less allowance for doubtful accounts	(108,731)	(3,273)	(112,004)
Net accounts receivable	87,247	234,965	322,212
Receivables from other governments	14,274		14,274
Receivables from other governments - restricted		13	13
Notes receivable, net of allowance of \$27,194	14,026		14,026
Internal balances	(15,744)	15,744	
Inventories, at cost	2,496	79,296	81,792
Real property held for resale	9,396		9,396
Other receivables - restricted		3,323	3,323
Deferred costs and expenses, net of amortization		58,729	58,729
Prepaid items	329	4,122	4,451
Other assets	1,163	30,807	31,970
Total current assets	573,550	1,105,313	1,678,863
Noncurrent assets:			
Cash - restricted		4,319	4,319
Pooled investments and cash - restricted		177,617	177,617
Investments, at fair value - restricted		165,272	165,272
Investments held by trustee - restricted		176,325	176,325
Interest receivable - restricted		1,343	1,343
Depreciable capital assets, net of accumulated depreciation	1,870,492	5,642,773	7,513,265
Nondepreciable capital assets	553,475	1,106,081	1,659,556
Derivative instruments - energy risk management		7,076	7,076
Net pension asset	8,055	7,070	8,055
Other long-term assets		57	57
Deferred costs and expenses, net of amortization	6,967	409,953	416,920
Total noncurrent assets	2,438,989	7,690,816	10,129,805
Total assets	3,012,539	8,796,129	
10(a) 4556(5	3,012,339	0,190,129	11,808,668
Deferred outflows of resources	\$	186,369	186,369

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

(Continued)

	Governmental Activities	Business-type Activities	Total (†)
LIABILITIES			1 5 55.1 (1)
Current liabilities:			
Accounts payable	\$ 41,144	79,411	120,555
Accounts and retainage payable from restricted assets		49,384	49,384
Accrued payroll	12,284	6,495	18,779
Accrued compensated absences	44,538	23,037	67,575
Claims payable	16,972		16,972
Accrued interest payable from restricted assets		94,840	94,840
Interest payable on capital appreciation bonds and other debt	3,687	734	4,421
Bonds payable	60,409	13,717	74,126
Bonds payable from restricted assets		171,522	171,522
Capital lease obligations payable	274	40	314
Customer and escrow deposits payable from restricted assets		41,735	41,735
Accrued landfill closure and postclosure costs		186	186
Deferred credits and other current liabilities	67,388	34,679	102,067
Other current liabilities payable from restricted assets		3,471	3,471
Total current liabilities	246,696	519,251	765,947
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	72,192	820	73,012
Claims payable	16,889		16,889
Capital appreciation bond interest payable		118,206	118,206
Commercial paper notes payable, net of discount		359,792	359,792
Revenue notes payable		28,000	28,000
Bonds payable, net of discount and inclusive of premium	877,719	3,641,467	4,519,186
Pension obligation payable	62,447	61,245	123,692
Other post employment benefits payable	234,018	149,174	383,192
Capital lease obligations payable	159	1,218	1,377
Accrued landfill closure and postclosure costs		7,323	7,323
Decommissioning liability payable from restricted assets		166,556	166,556
Derivative instruments - energy risk management		77,627	77,627
Derivative instruments - interest rate swaps		108,811	108,811
Deferred credits and other liabilities	11,875	691,813	703,688
Other liabilities payable from restricted assets		6,399	6,399
Total noncurrent liabilities	1,275,299	5,418,451	6,693,750
Total liabilities	1,521,995	5,937,702	7,459,697
Deferred inflows of resources		7,076	7,076
NET ASSETS			
Invested in capital assets, net of related debt	1,562,046	2,048,964	3,611,010
Restricted for:			
Debt service	13,522	107,919	121,441
Strategic reserve		140,529	140,529
Capital projects	27,285	175,979	203,264
Renewal and replacement		10,939	10,939
Bond reserve		71,366	71,366
Passenger facility charges		30,863	30,863
Operating reserve		12,921	12,921
Perpetual care:			
Expendable	764		764
Nonexpendable	1,040		1,040
Other purposes	50,039		50,039
Unrestricted (deficit)	(164,152)	438,240	274,088
Total net assets	\$ 1,490,544	3,037,720	4,528,264

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

			Program Revenu	es	,	xpense) Revenue a	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities General government	\$ 99,780	8,126	658	8,707	(82,289)		(82,289)
Public safety Transportation, planning, and sustainability	485,611 74,835	52,998 3,823	10,098 1,090	521 37,369	(421,994) (32,553)	 	(421,994) (32,553)
Public health Public recreation and culture	61,865 106,488	7,592 7,891	23,593 1,307	2,346	(30,680) (94,944)		(30,680) (94,944)
Urban growth management	129,258	21,305	29,602	2,239	(76,112)		(76,112)
Interest on debt Total governmental activities	45,154 1,002,991	101,735	66,348	51,182	(45,154) (783,726)		(45,154) (783,726)
Business-type activities Electric	1,136,850	1,249,139		10,261	<del></del>	122,550	122,550
Water Wastewater	178,712 170,514	243,382 204,666		13,964 8,673		78,634 42,825	78,634 42,825
Airport	102,774	106,978		5,479	 	9,683	9,683
Convention Environmental and health services	54,231 91,151	18,486 75,981		13 1,027		(35,732) (14,143)	(35,732) (14,143)
Public recreation Urban growth management	5,209 110,996	5,260 115,850	 	150 8,283	 	201 13,137	201 13,137
Total business-type activities	1,850,437	2,019,742		47,850	(700 700)	217,155	217,155
Total	\$ 2,853,428 General revenues	2,121,477	66,348	99,032	(783,726)	217,155	(566,571)
	Property tax Sales tax				355,185 151,125		355,185 151,125
	Franchise fees a		ts tax		95,029		95,029
	Interest and other Transfers-internal	•			19,364 97,100	11,274 (97,100)	30,638 
	Total general reve		ers		717,803	(85,826)	631,977 65,406
	Beginning net ass	ets, as restated	(see Note 16)		1,556,467	2,906,391	4,462,858
	Change in net as	ssets ets, as restated			(65,923)	131,329	65,406



ASSET IS         \$ 52         4         56           Pooled investments and cash         120,755         211,435         332,190           Investments, at fair value         —         17,165         733         733           Cash held by trusteer-restricted         160         573         733           Property taxes receivable         9,522         5,328         14,850           Less allowance for uncollectible taxes         (2,941)         (1,557)         (4,486)           Net property taxes receivable         6,581         3,771         10,352           Accounts and other receivables         164,216         29,477         193,693           Less allowance for doubtful accounts         (108,472)         (259)         108,731           Net accounts receivable         55,744         29,218         84,962           Receivables from other governments         —         14,261         14,261           Net accounts receivable         —         14,026         14,026           Receivables from other governments         —         14,261         14,281           Note seceivable, net of allowance         —         3,597         3,597           Inventories, at cost         862         —         9,36           Ac	100770		General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Pooled investments and cash Investments, at fair value         120,755         211,435         332,190           Investments, at fair value          17,165         17,165           Cash held by trustee-restricted         160         573         733           Property taxes receivable         9,522         5,328         14,850           Less allowance for uncollectible taxes         (2,941)         (1,557)         (4,488)           Net property taxes receivable         6,581         3,771         10,352           Accounts and other receivables         164,216         29,477         193,693           Less allowance for doubtful accounts         (108,472)         (259)         (108,731)           Net accounts receivable, net of allowance          14,026         14,026           Notes receivable, net of allowance          14,026         14,026           Due from other funds         227         44,471         44,698           Advances to other funds          3,597         3,597           Inventories, at cost         862          862           Real property held for resale          9,396         9,396           Prepaid items         247          247 <tr< td=""><td>ASSETS</td><td>•</td><td>50</td><td>4</td><td>50</td></tr<>	ASSETS	•	50	4	50
Investments, at fair value         —         17,165         17,165           Cash held by trustee-restricted         160         573         733           Properly taxes receivable         9,522         5,328         14,850           Less allowance for uncollectible taxes         (2,941)         (1,557)         (4,498)           Net properly taxes receivable         6,581         3,771         10,352           Accounts and other receivables         164,216         29,477         193,693           Less allowance for doubtful accounts         (108,472)         (259)         (108,731)           Net accounts receivables from other governments         55,744         29,218         84,962           Receivables from other governments         2-         14,026         14,026           Notes receivable, net of allowance         -         14,026         14,026           Due from other funds         227         44,471         44,698           Advances to other funds         -         3,597         3,597           Inventories, at cost         862         -         862           Real property held for resale         -         9,396         9,396           Real property held for resale         12,93         15,159         27,352		Ф	~-	•	
Cash held by trustee-restricted         160         573         733           Property taxes receivable         9,522         5,328         14,850           Less allowance for uncollectible taxes         (2,941)         (1,557)         (4,488)           Net property taxes receivable         6,581         3,771         10,352           Accounts and other receivables         164,216         29,477         193,693           Less allowance for doubtful accounts         (108,472)         (259)         (108,731)           Net accounts receivable         55,744         29,218         84,962           Receivables from other governments         -         14,261         14,026           Notes receivable, net of allowance         -         14,026         14,026           Notes receivable, net of allowance         -         14,026         14,026           Notes receivable, net of allowance         -         14,261         14,026           Notes receivable, net of allowance         -         14,261         14,026           Notes receivable, net of allowance         -         3,597         3,597           Inventories, act cost         862         -         662           Real property held for resale         -         9,386         9,386 </td <td></td> <td></td> <td></td> <td></td> <td>,</td>					,
Property taxes receivable         9,522         5,328         14,850           Less allowance for uncollectible taxes         (2,941)         (1,557)         (4,488)           Net property taxes receivable         6,581         3,771         10,352           Accounts and other receivables         164,216         29,477         193,693           Less allowance for doubtful accounts         (108,472)         (259)         (108,731)           Net accounts receivable         55,744         29,218         84,962           Receivables from other governments          14,261         14,226           Notes receivable, net of allowance          14,026         14,026           Due from other funds         227         44,471         44,698           Advances to other funds         227         44,471         44,698           Advances to other funds         227         9,396         9,396           Real property held for resale          9,396         9,396           Prepaid items         247          247           Other assets         173         990         1,163           Total assets         184,801         348,907         533,708           LIABILITIES AND FUND BALANCE	•				,
Less allowance for uncollectible taxes         (2,941)         (1,557)         (4,498)           Net property taxes receivable         6,581         3,771         10,352           Accounts and other receivables         164,216         29,477         193,693           Less allowance for doubtful accounts         (108,472)         (259)         (108,731)           Net accounts receivable         55,744         29,218         84,962           Receivables from other governments         -         14,261         14,261           Notes receivable, net of allowance         -         14,026         14,026           Due from other funds         227         44,471         44,698           Advances to other funds         -         3,597         3,597           Inventories, at cost         862         -         862           Real property held for resale         -         9,396         9,396           Prepaid items         247         -         247           Other assets         173         390         1,163           Total assets         18,801         348,907         533,708           LIABILITIES AND FUND BALANCES         12,193         15,159         27,352           Accounts payable         12,193	· · · · · · · · · · · · · · · · · · ·				
Net property taxes receivable         6,581         3,771         10,352           Accounts and other receivables         164,216         29,477         193,693           Less allowance for doubtful accounts         (108,472)         (259)         (108,731)           Net accounts receivable         55,744         29,218         84,962           Receivables from other governments          14,261         14,261           Notes receivable, net of allowance          14,261         14,261           Oute from other funds         227         44,471         44,698           Advances to other funds          3,597         3,597           Inventories, at cost         862          862           Real property held for resale          9,396         9,396           Prepaid items         247          247           Other assets         173         990         1,163           Total assets         173         990         1,163           Total assets         12,193         15,159         27,352           Accrued payroll         10,053         42         10,955           Accrued payroll         10,053         42         10,955 </td <td></td> <td></td> <td>,</td> <td>,</td> <td>,</td>			,	,	,
Accounts and other receivables         164,216         29,477         193,693           Less allowance for doubtful accounts         (108,472)         (259)         (108,731)           Net accounts receivable         55,744         29,218         84,962           Receivables from other governments         —         14,261         14,261           Notes receivable, net of allowance         —         14,026         14,026           Due from other funds         227         44,471         44,698           Advances to other funds         —         3,597         3,597           Inventories, at cost         862         —         862           Real property held for resale         —         9,396         9,396           Prepaid flems         247         —         247           Other assets         173         990         1,163           Total assets         184,801         348,907         533,708           LIABILITIES AND FUND BALANCES         Accounts payable         12,193         15,159         27,352           Accrued payroll         10,053         42         10,095           Accrued pompensated absences         721         —         721           Deferred revenue         22,190 <td< td=""><td></td><td></td><td></td><td></td><td></td></td<>					
Less allowance for doubtful accounts         (108,472)         (259)         (100,731)           Net accounts receivable         55,744         29,218         84,962           Receivables from other governments          14,261         14,261           Notes receivable, net of allowance          14,026         14,026           Due from other funds         227         44,471         44,698           Advances to other funds          3,597         3,597           Inventories, at cost         862          862           Real property held for resale          9,396         9,396           Prepaid items         247          247           Other assets         173         990         1,63           Total assets         184,801         348,907         533,708           LIABILITIES AND FUND BALANCES           Accounts payable         12,193         15,159         27,352           Accounts payable         12,193         15,159         27,352           Accrued compensated absences         721          721           Deferred revenue         22,190         6,360         28,550           Advances from other funds			•		,
Net accounts receivable         55,744         29,218         84,962           Receivables from other governments          14,261         14,261           Notes receivable, net of allowance          14,261         14,261           Due from other funds         227         44,471         44,698           Advances to other funds          3,597         3,597           Inventories, at cost         862          862           Real property held for resale          9,396         9,396           Prepaid items         247          247           Other assets         173         990         1,163           Total assets         184,801         348,907         533,708           LIABILITIES AND FUND BALANCES         348,907         533,708           Accounts payable         12,193         15,159         27,352           Accouned compensated absences         721          721           Due to other funds         197         44,690         44,887           Deferred revenue         22,190         6,360         28,550           Advances from other funds         1,809         474         2,283           Deposits and o			,		•
Receivables from other governments         -         14,261         14,262           Notes receivable, net of allowance         -         14,026         14,026           Due from other funds         227         44,471         44,698           Advances to other funds         -         3,597         3,597           Inventories, at cost         862         -         862           Real property held for resale         -         9,396         9,396           Prepaid items         247         -         247           Other assets         184,801         348,907         533,708           Total assets         184,801         348,907         533,708           LIABILITIES AND FUND BALANCES           Accounts payable         12,193         15,159         27,352           Accrued payroll         10,053         42         10,095           Accrued compensated absences         721         -         721           Due to other funds         197         44,690         44,887           Deferred revenue         22,190         6,360         28,550           Advances from other funds         1,809         474         2,283           Deposits and other liabilities         3,385					
Notes receivable, net of allowance         -         14,026         14,026           Due from other funds         227         44,471         44,698           Advances to other funds         -         3,597         3,597           Inventories, at cost         862         -         862           Real property held for resale         -         9,396         9,396           Prepaid items         247         -         247           Other assets         173         990         1,163           Total assets         184,801         348,907         533,708           LIABILITIES AND FUND BALANCES           Accounts payable         12,193         15,159         27,352           Accrued payroll         10,053         42         10,095           Accrued payroll         10,053         42         10,095           Accrued compensated absences         721         -         721           Due to other funds         197         44,690         44,887           Deferred revenue         22,190         6,360         28,550           Advances from other funds         1,809         474         2,283           Deposits and other liabilities         3,385         47,107					,
Due from other funds         227         44,471         44,698           Advances to other funds          3,597         3,597           Inventories, at cost         862          862           Real property held for resale          9,396         9,396           Prepaid items         247          247           Other assets         173         990         1,163           Total assets         184,801         348,907         533,708           LIABILITIES AND FUND BALANCES         **         **         **           Accounts payable         12,193         15,159         27,352           Accrued payroll         10,053         42         10,095           Accrued compensated absences         721          721           Due to other funds         197         44,690         44,887           Deferred revenue         22,190         6,360         28,550           Advances from other funds         1,809         474         2,283           Deposits and other liabilities         3,385         47,107         50,492           Total liabilities         50,548         113,832         164,380           Fund balances <t< td=""><td></td><td></td><td></td><td>,</td><td>*</td></t<>				,	*
Advances to other funds	•		227		·
Inventories, at cost   862     862   Real property held for resale     9,396   9,396   Prepaid items   247     247   247   Cther assets   173   990   1,163   Total assets   184,801   348,907   533,708   ELABILITIES AND FUND BALANCES				,	*
Real property held for resale         -         9,396         9,396           Prepaid items         247         -         247           Other assets         173         990         1,163           Total assets         184,801         348,907         533,708           LIABILITIES AND FUND BALANCES           Accounts payable         12,193         15,159         27,352           Accorued payroll         10,053         42         10,095           Accrued compensated absences         721         -         721           Deterred revenue         22,190         6,360         28,550           Advances from other funds         1,809         474         2,283           Deposits and other liabilities         3,385         47,107         50,492           Total liabilities         50,548         113,832         164,380           Fund balances           Nonspendable:         1,109         -         1,040         1,040           Inventories and prepaid items         1,109         -         1,040         1,040           Restricted         -         175,522         175,522         175,522           Committed         3,117         26,146         29,263			862		,
Prepaid items         247          247           Other assets         173         990         1,163           Total assets         184,801         348,907         533,708           LIABILITIES AND FUND BALANCES           Accounts payable         12,193         15,159         27,352           Accrued payroll         10,053         42         10,095           Accrued compensated absences         721          721           Due to other funds         197         44,690         44,887           Deferred revenue         22,190         6,360         28,550           Advances from other funds         1,809         474         2,283           Deposits and other liabilities         3,385         47,107         50,492           Total liabilities         50,548         113,832         164,380           Fund balances           Nonspendable:         1,109          1,109           Inventories and prepaid items         1,109          1,040           Permanent funds          1,040         1,040           Restricted          175,522         175,522           Committed         3,117         <				9.396	9.396
Interpretation         184,801         348,907         533,708           LIABILITIES AND FUND BALANCES           Accounts payable         12,193         15,159         27,352           Accrued payroll         10,053         42         10,095           Accrued compensated absences         721          721           Due to other funds         197         44,690         44,887           Deferred revenue         22,190         6,360         28,550           Advances from other funds         1,809         474         2,283           Deposits and other liabilities         3,385         47,107         50,492           Total liabilities         50,548         113,832         164,380           Fund balances           Nonspendable:         1,109          1,109           Permanent funds         1,109          1,109           Permanent funds          1,040         1,040           Restricted          175,522         175,522           Committed         3,117         26,146         29,263           Assigned         10,992         68,949         79,941           Unassigned         119,035 <t< td=""><td></td><td></td><td>247</td><td></td><td>,</td></t<>			247		,
Interpretation         184,801         348,907         533,708           LIABILITIES AND FUND BALANCES         348,907         533,708           Accounts payable         12,193         15,159         27,352           Accrued payroll         10,053         42         10,095           Accrued compensated absences         721         -         721           Due to other funds         197         44,690         44,887           Deferred revenue         22,190         6,360         28,550           Advances from other funds         1,809         474         2,283           Deposits and other liabilities         3,385         47,107         50,492           Total liabilities         50,548         113,832         164,380           Fund balances           Nonspendable:         1,109          1,109           Permanent funds         1,109          1,040           Permanent funds         -         1,040         1,040           Restricted          175,522         175,522           Committed         3,117         26,146         29,263           Assigned         10,992         68,949         79,941           Una	•		173	990	1.163
Accounts payable       12,193       15,159       27,352         Accrued payroll       10,053       42       10,095         Accrued compensated absences       721        721         Due to other funds       197       44,690       44,887         Deferred revenue       22,190       6,360       28,550         Advances from other funds       1,809       474       2,283         Deposits and other liabilities       3,385       47,107       50,492         Total liabilities       50,548       113,832       164,380         Fund balances         Nonspendable:       1,109        1,109         Permanent funds        1,040       1,040         Restricted        175,522       175,522         Committed       3,117       26,146       29,263         Assigned       10,992       68,949       79,941         Unassigned       119,035       (36,582)       82,453         Total fund balances       134,253       235,075       369,328	Total assets			348,907	
Accrued payroll       10,053       42       10,095         Accrued compensated absences       721        721         Due to other funds       197       44,690       44,887         Deferred revenue       22,190       6,360       28,550         Advances from other funds       1,809       474       2,283         Deposits and other liabilities       3,385       47,107       50,492         Total liabilities       50,548       113,832       164,380         Fund balances         Nonspendable:       1,109        1,109         Permanent funds        1,040       1,040         Restricted        175,522       175,522         Committed       3,117       26,146       29,263         Assigned       10,992       68,949       79,941         Unassigned       119,035       (36,582)       82,453         Total fund balances       134,253       235,075       369,328	LIABILITIES AND FUND BALANCES				
Accrued payroll       10,053       42       10,095         Accrued compensated absences       721        721         Due to other funds       197       44,690       44,887         Deferred revenue       22,190       6,360       28,550         Advances from other funds       1,809       474       2,283         Deposits and other liabilities       3,385       47,107       50,492         Total liabilities       50,548       113,832       164,380         Fund balances         Nonspendable:       1,109        1,109         Permanent funds        1,040       1,040         Restricted        175,522       175,522         Committed       3,117       26,146       29,263         Assigned       10,992       68,949       79,941         Unassigned       119,035       (36,582)       82,453         Total fund balances       134,253       235,075       369,328	Accounts payable		12,193	15,159	27,352
Accrued compensated absences       721        721         Due to other funds       197       44,690       44,887         Deferred revenue       22,190       6,360       28,550         Advances from other funds       1,809       474       2,283         Deposits and other liabilities       3,385       47,107       50,492         Total liabilities       50,548       113,832       164,380         Fund balances         Nonspendable:       1,109        1,109         Permanent funds        1,040       1,040         Restricted        175,522       175,522         Committed       3,117       26,146       29,263         Assigned       10,992       68,949       79,941         Unassigned       119,035       (36,582)       82,453         Total fund balances       134,253       235,075       369,328	. ,		10,053	42	10,095
Deferred revenue         22,190         6,360         28,550           Advances from other funds         1,809         474         2,283           Deposits and other liabilities         3,385         47,107         50,492           Total liabilities         50,548         113,832         164,380           Fund balances           Nonspendable:         Inventories and prepaid items         1,109          1,109           Permanent funds          1,040         1,040           Restricted          175,522         175,522           Committed         3,117         26,146         29,263           Assigned         10,992         68,949         79,941           Unassigned         119,035         (36,582)         82,453           Total fund balances         134,253         235,075         369,328	· ·		721		721
Advances from other funds       1,809       474       2,283         Deposits and other liabilities       3,385       47,107       50,492         Total liabilities       50,548       113,832       164,380         Fund balances         Nonspendable:       Inventories and prepaid items       1,109        1,109         Permanent funds        1,040       1,040         Restricted        175,522       175,522         Committed       3,117       26,146       29,263         Assigned       10,992       68,949       79,941         Unassigned       119,035       (36,582)       82,453         Total fund balances       134,253       235,075       369,328	Due to other funds		197	44,690	44,887
Deposits and other liabilities         3,385         47,107         50,492           Total liabilities         50,548         113,832         164,380           Fund balances           Nonspendable:         Inventories and prepaid items         1,109          1,109           Permanent funds          1,040         1,040           Restricted          175,522         175,522           Committed         3,117         26,146         29,263           Assigned         10,992         68,949         79,941           Unassigned         119,035         (36,582)         82,453           Total fund balances         134,253         235,075         369,328	Deferred revenue		22,190	6,360	28,550
Deposits and other liabilities         3,385         47,107         50,492           Total liabilities         50,548         113,832         164,380           Fund balances           Nonspendable:         Inventories and prepaid items         1,109          1,109           Permanent funds          1,040         1,040           Restricted          175,522         175,522           Committed         3,117         26,146         29,263           Assigned         10,992         68,949         79,941           Unassigned         119,035         (36,582)         82,453           Total fund balances         134,253         235,075         369,328	Advances from other funds		1,809	474	2,283
Total liabilities         50,548         113,832         164,380           Fund balances           Nonspendable:         Inventories and prepaid items         1,109          1,109           Permanent funds          1,040         1,040           Restricted          175,522         175,522           Committed         3,117         26,146         29,263           Assigned         10,992         68,949         79,941           Unassigned         119,035         (36,582)         82,453           Total fund balances         134,253         235,075         369,328	Deposits and other liabilities		3,385	47,107	
Nonspendable:         Inventories and prepaid items         1,109          1,109           Permanent funds          1,040         1,040           Restricted          175,522         175,522           Committed         3,117         26,146         29,263           Assigned         10,992         68,949         79,941           Unassigned         119,035         (36,582)         82,453           Total fund balances         134,253         235,075         369,328	Total liabilities		50,548		164,380
Inventories and prepaid items         1,109          1,109           Permanent funds          1,040         1,040           Restricted          175,522         175,522           Committed         3,117         26,146         29,263           Assigned         10,992         68,949         79,941           Unassigned         119,035         (36,582)         82,453           Total fund balances         134,253         235,075         369,328	Fund balances				
Permanent funds          1,040         1,040           Restricted          175,522         175,522           Committed         3,117         26,146         29,263           Assigned         10,992         68,949         79,941           Unassigned         119,035         (36,582)         82,453           Total fund balances         134,253         235,075         369,328	Nonspendable:				
Restricted          175,522         175,522           Committed         3,117         26,146         29,263           Assigned         10,992         68,949         79,941           Unassigned         119,035         (36,582)         82,453           Total fund balances         134,253         235,075         369,328	Inventories and prepaid items		1,109		1,109
Committed         3,117         26,146         29,263           Assigned         10,992         68,949         79,941           Unassigned         119,035         (36,582)         82,453           Total fund balances         134,253         235,075         369,328	Permanent funds			1,040	1,040
Assigned       10,992       68,949       79,941         Unassigned       119,035       (36,582)       82,453         Total fund balances       134,253       235,075       369,328	Restricted			175,522	175,522
Unassigned         119,035         (36,582)         82,453           Total fund balances         134,253         235,075         369,328	Committed		3,117	26,146	29,263
Total fund balances 134,253 235,075 369,328	Assigned		10,992	68,949	79,941
	Unassigned		119,035	(36,582)	82,453
Total liabilities and fund balances         \$ 184,801         348,907         533,708	Total fund balances		134,253	235,075	369,328
	Total liabilities and fund balances	\$	184,801	348,907	533,708

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

Total fund balances - Governmental funds		\$ 369,328
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.		
Governmental capital assets Less: accumulated depreciation	3,522,594 (1,140,504)	0.000.000
Other long-term assets and certain revenues are not available as current-period resources and are not reported in the funds.		2,382,090
Accounts and other taxes receivable	11,661	
Deferred revenue - property taxes and interest	5,728	
Deferred costs and expenses	6,955	
Net pension asset	8,055	
		32,399
Long-term liabilities are not payable in the current period and are not reported in the funds.		
Bonds and other tax supported debt payable, net	(933,553)	
Pension obligation payable	(62,447)	
Other post employment benefits payable	(234,018)	
Compensated absences	(108,452)	
Interest payable	(3,667)	
Deferred credits and other liabilities	(16,378)	
		(1,358,515)
Internal service funds are used by management to charge the costs of capital project management, combined emergency communication center, employee benefits, fleet maintenance, information systems, liability reserve, support services, wireless communication, and workers' compensation to individual funds.		
Certain assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		65,242
Total net assets - Governmental activities		\$ 1,490,544

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

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

(In thousands)

Net change in fund balances - Governmental funds		\$	974
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.			
Capital outlay	124,834		
Depreciation expense	(96,502)		
Loss on disposal of capital assets	(735)		
		27,	597
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.			
Property taxes	(77)		
Charges for services	(1,470)		
Interest and other	(1,076)		
Capital assets contribution	23,348	20	725
		20,	125
the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.			
Issuance of long-term debt	(118,778)		
Principal repayment on long-term debt	78,568		
Issuance of refunding bonds	(79,342)		
Refunding bond premiums Payment to refunding bond escrow agent	(14,929) 94,271		
ayment to retunding bond escrow agent	34,211	(40.	210)
		,	,
Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.			
Compensated absences	(3,997)		
Pension obligation	(5,329)		
Other post employment benefits	(64,586)		
Interest and other	1,394	(72	518)
A portion of the net revenue (expense) of the internal service funds is reported with		(12,	- · · · /
the governmental activities.		(2,	491)
Observed to not see the Occurrence of the Athelian		Φ (25	000)
Change in net assets - Governmental activities		\$ (65 <u>,</u>	923)

	Austin Energy (1)	Austin Water Utility (2)	Airport
ASSETS			
Current assets:			
Cash	\$ 21	8	7
Pooled investments and cash	70,748	5,395	1,521
Pooled investments and cash - restricted	74,710	42,828	32,514
Total pooled investments and cash	145,458	48,223	34,035
Investments, at fair value - restricted	97,605	126,259	15,575
Cash held by trustee - restricted		97	
Working capital advances	7,942		
Accounts receivable	149,006	69,086	4,137
Less allowance for doubtful accounts	(1,912)	(237)	(777)
Net accounts receivable	147,094	68,849	3,360
Receivables from other governments			
Receivables from other governments-restricted			
Due from other funds	2,012		
Inventories, at cost	75,118	1,718	1,366
Prepaid expenses	3,908	6	7
Other assets	30,807		
Other receivables - restricted	1,690	365	613
Deferred costs and expenses, net of amortization	34,421	24,308	
Total current assets	546,076	269,833	54,963
Noncurrent assets:			
Cash - restricted	4,319		
Pooled investments and cash - restricted	19,542	20,298	137,777
Advances to other funds	27,787		
Advances to other funds - restricted			96
Investments, at fair value - restricted	156,774		
Investments held by trustee - restricted	176,325		
Interest receivable - restricted	1,343		
Depreciable capital assets, net of accumulated depreciation	2,334,835	2,466,448	496,963
Nondepreciable capital assets	254,742	569,924	123,560
Derivative instruments - energy risk management	7,076		
Other long-term assets	57		
Deferred costs and expenses, net of amortization	198,722	204,294	2,700
Total noncurrent assets	3,181,522	3,260,964	761,096
Total assets	3,727,598	3,530,797	816,059
10(a) 055615	3,727,396	3,330,797	010,009
Deferred outflows of resources	\$ 77,558	38,616	51,016

<sup>(1)</sup> Prior to 2011, reported as Electric

<sup>(2)</sup> Prior to 2011, reported as Water and Wastewater

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

(Continued)

	Business-Type Activities			
	Austin Energy (1)	Austin Water Utility (2)	Airport	
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 70,210	2,677	1,777	
Accounts and retainage payable from restricted assets	9,138	33,881	3,361	
Accrued payroll	2,919	1,438	428	
Accrued compensated absences	11,252	5,122	1,441	
Claims payable				
Due to other funds			138	
Due to other funds payable from restricted assets		1,240		
Accrued interest payable from restricted assets	46,306	44,720	1,807	
Interest payable on capital appreciation bonds and other debt	33	42	1	
Bonds payable			30	
Bonds payable from restricted assets	75,850	72,057	14,165	
Capital lease obligations payable	40			
Customer and escrow deposits payable from restricted assets	28,409	9,409	432	
Accrued landfill closure and postclosure costs				
Deferred credits and other liabilities	11,225	22,853	601	
Other liabilities payable from restricted assets				
Total current liabilities	255,382	193,439	24,181	
Noncurrent liabilities, net of current portion:				
Accrued compensated absences	51	368	163	
Claims payable				
Advances from other funds		3,172	1,398	
Advances from other funds payable from restricted assets		22,723		
Capital appreciation bond interest payable	23,076	95,130		
Commercial paper notes payable, net of discount	152,582	207,210		
Revenue notes payable		·	28,000	
Bonds payable, net of discount and inclusive of premium	1,181,276	1,905,573	268,640	
Pension obligation payable	27,737	13,765	4,154	
Other post employment benefits payable	62,236	37,386	10,763	
Capital lease obligations payable	1,218			
Accrued landfill closure and postclosure costs	, <u></u>			
Decommissioning liability payable from restricted assets	166,556			
Derivative instruments - energy risk management	77,627			
Derivative instruments - interest rate swaps		38,616	51,016	
Deferred credits and other liabilities	223,182	464,409		
Other liabilities payable from restricted assets		308	56	
Total noncurrent liabilities	1,915,541	2,788,660	364,190	
Total liabilities	2,170,923	2,982,099	388,371	
ו טנפו וופטווונופט	2,170,923	2,902,099	300,311	
Deferred inflows of resources	\$ 7,076			

<sup>(1)</sup> Prior to 2011, reported as Electric

<sup>(2)</sup> Prior to 2011, reported as Water and Wastewater

#### (Continued)

	Business-Typ	e Activities	Governmental
	Nonmajor		Activities-
	Enterprise Funds	Total	Internal Service Funds
LIABILITIES	Fullus	TOtal	runus
Current liabilities:			
Accounts payable	4.747	79,411	13.792
Accounts and retainage payable from restricted assets	3,004	49,384	
Accrued payroll	1,710	6,495	2.189
Accrued compensated absences	5,222	23,037	6,975
Claims payable			16,972
Due to other funds	665	803	141
Due to other funds payable from restricted assets		1,240	
Accrued interest payable from restricted assets	2,007	94,840	
Interest payable on capital appreciation bonds and other debt	658	734	20
Bonds payable	13,687	13,717	487
Bonds payable from restricted assets	9,450	171,522	
Capital lease obligations payable		40	274
Customer and escrow deposits payable from restricted assets	3,485	41,735	
Accrued landfill closure and postclosure costs	186	186	
Deferred credits and other liabilities		34,679	1,232
Other liabilities payable from restricted assets	3,471	3,471	
Total current liabilities	48,292	521,294	42,082
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	238	820	582
Claims payable			16,889
Advances from other funds	1,740	6,310	315
Advances from other funds payable from restricted assets		22,723	
Capital appreciation bond interest payable		118,206	
Commercial paper notes payable, net of discount		359,792	
Revenue notes payable		28,000	
Bonds payable, net of discount and inclusive of premium	285,978	3,641,467	4,088
Pension obligation payable	15,589	61,245	
Other post employment benefits payable	38,789	149,174	
Capital lease obligations payable		1,218	159
Accrued landfill closure and postclosure costs	7,323	7,323	
Decommissioning liability payable from restricted assets		166,556	
Derivative instruments - energy risk management		77,627	
Derivative instruments - interest rate swaps	19,179	108,811	
Deferred credits and other liabilities	4,222	691,813	
Other liabilities payable from restricted assets	6,035	6,399	
Total noncurrent liabilities	379,093	5,447,484	22,033
Total liabilities	427,385	5,968,778	64,115
Deferred inflows of resources		7,076	

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

(Continued)

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

<sup>(1)</sup> Prior to 2011, reported as Electric

<sup>(2)</sup> Prior to 2011, reported as Water and Wastewater

	Nonmajor		
	Enterprise Funds	Total	
NET ASSETS	1 41143		
Invested in capital assets, net of related debt	206,631	2,048,964	36,881
Restricted for:			
Debt service	7,879	107,919	
Strategic reserve		140,529	
Capital projects	12,929	175,979	
Renewal and replacement	875	10,939	
Bond reserve	6,824	71,366	
Passenger facility charges		30,863	
Operating reserve	3,135	12,921	
Unrestricted	89,756	421,724	44,877
Total net assets	328,029	3,021,204	81,758
Reconciliation to government-wide Statement of Net Assets			_
Adjustment to consolidate internal service activities	3,827	16,516	
Total net assets - Business-type activities	331,856	3,037,720	

	Austin E	nergy	Austin Wa Utility (2		Airport
OPERATING REVENUES					<u> </u>
Utility services	\$ 1,24	9,139	448,0	048	
User fees and rentals					89,548
Billings to departments					
Employee contributions					
Operating revenues from other governments					
Other operating revenues					
Total operating revenues	1,24	9,139	448,0	048	89,548
OPERATING EXPENSES					
Operating expenses before depreciation	93	2,802	177,4	174	63,835
Depreciation and amortization	13:	2,077	91,3	398	19,581
Total operating expenses	1,06	4,879	268,8	372	83,416
Operating income (loss)	18	4,260	179,	176	6,132
NONOPERATING REVENUES (EXPENSES)					
Interest and other revenues		9,732	2	271	711
Interest on revenue bonds and other debt	(8	1,823)	(99,8	343)	(14,087)
Interest capitalized during construction					372
Passenger facility charges					17,430
Amortization of bond issue cost		(735)	•	785)	(229)
Cost (recovered) to be recovered in future years		2,667	22,		 (5.000)
Other nonoperating revenue (expense)		4,337)		032)	(5,923)
Total nonoperating revenues (expenses)	(6	4,496)	(81,2	211)	(1,726)
Income (loss) before contributions and transfers	11	9,764	97,9	965	4,406
Capital contributions	1	0,261	22,6	37	5,479
Transfers in	(40	 0.750\	(0.5.4		
Transfers out Change in net assets		3,758) 6,267	(35,9	<u> </u>	9,885
•		•	,		•
Total net assets - beginning, as restated (See Note 16)		0,890	502,7		468,819
Total net assets - ending	\$ 1,62	7,157	587,3	314	478,704
Reconciliation to government-wide Statement of Activities					
Change in net assets	2	6,267	84,6	609	9,885
Adjustment to consolidate internal service activities	;	2,257	1,	128	509
Change in net assets - Business-type activities	\$ 2	8,524	85,	737	10,394

<sup>(1)</sup> Prior to 2011, reported as Electric

<sup>(2)</sup> Prior to 2011, reported as Water and Wastewater

OPERATING REVENUES         Total         Funds           Utility services          1,697,187            User fees and rentals         215,577         305,125            Billings to departments           295,483           Employee contributions           28,320           Operating revenues from other governments           3,131           Other operating revenues           4,852           Total operating revenues         215,577         2,002,312         331,786				Governmental
OPERATING REVENUES         Funds         Total         Funds           Utility services          1,697,187            User fees and rentals         215,577         305,125            Billings to departments           295,483           Employee contributions           28,320           Operating revenues from other governments           3,131           Other operating revenues           4,852		Nonmajor		Activities-
OPERATING REVENUES           Utility services          1,697,187            User fees and rentals         215,577         305,125            Billings to departments           295,483           Employee contributions           28,320           Operating revenues from other governments           3,131           Other operating revenues           4,852		•	Total	
Utility services        1,697,187          User fees and rentals       215,577       305,125          Billings to departments         295,483         Employee contributions          28,320         Operating revenues from other governments         3,131         Other operating revenues         4,852	OPERATING REVENUES	ruilus	I Otal	Fullus
User fees and rentals         215,577         305,125            Billings to departments           295,483           Employee contributions           28,320           Operating revenues from other governments           3,131           Other operating revenues           4,852			1.697.187	
Employee contributions           28,320           Operating revenues from other governments           3,131           Other operating revenues           4,852		215,577		
Operating revenues from other governments 3,131 Other operating revenues 4,852	Billings to departments			295,483
Other operating revenues 4,852	Employee contributions			28,320
	Operating revenues from other governments			3,131
Total operating revenues         215,577         2,002,312         331,786	Other operating revenues	<del></del>		4,852
	Total operating revenues	215,577	2,002,312	331,786
OPERATING EXPENSES	OPERATING EXPENSES			
Operating expenses before depreciation 214,264 1,388,375 305,818	Operating expenses before depreciation	214,264	1,388,375	305,818
Depreciation and amortization 23,635 266,691 8,815	Depreciation and amortization	23,635	266,691	8,815
Total operating expenses         237,899         1,655,066         314,633	Total operating expenses	237,899	1,655,066	314,633
Operating income (loss)         (22,322)         347,246         17,153	Operating income (loss)	(22,322)	347,246	17,153
NONOPERATING REVENUES (EXPENSES)	NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues 844 11,558 118	Interest and other revenues	844	11,558	118
Interest on revenue bonds and other debt (13,793) (209,546) (262)	Interest on revenue bonds and other debt	(13,793)	(209,546)	(262)
Interest capitalized during construction 1,666 2,038		1,666	2,038	
Passenger facility charges 17,430			•	
Amortization of bond issue cost (311) (2,060) 19		(311)	( , ,	19
Cost (recovered) to be recovered in future years 34,845	` '		•	
Other nonoperating revenue (expense) (12,106) (25,398) (11,650)	,		· · ·	
Total nonoperating revenues (expenses)         (23,700)         (171,133)         (11,775)	Total nonoperating revenues (expenses)	(23,700)	(171,133)	(11,775)
Income (loss) before contributions and transfers (46,022) 176,113 5,378	Income (loss) before contributions and transfers	(46,022)	176,113	5,378
Capital contributions 10,581 48,958 7,719	Capital contributions	10,581	48,958	7,719
Transfers in 47,120 47,120	Transfers in	47,120	47,120	
Transfers out (5,861) (145,612) (10,838)				
Change in net assets         5,818         126,579         2,259	Change in net assets	5,818	126,579	2,259
Total net assets - beginning, as restated (See Note 16) 322,211 2,894,625 79,499	Total net assets - beginning, as restated (See Note 16)	322,211	2,894,625	79,499
Total net assets - ending         328,029         3,021,204         81,758	Total net assets - ending	328,029	3,021,204	81,758
Reconciliation to government-wide Statement of Activities	Reconciliation to government-wide Statement of Activities			
Change in net assets 5,818 126,579	Change in net assets	5,818	126,579	
Adjustment to consolidate internal service activities 856 4,750	Adjustment to consolidate internal service activities	856	4,750	
Change in net assets - Business-type activities 6,674 131,329	Change in net assets - Business-type activities	6,674	131,329	

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

<sup>(1)</sup> Prior to 2011, reported as Electric

<sup>(2)</sup> Prior to 2011, reported as Water and Wastewater

	Nonmajor Enterprise Funds	Total	Governmental Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:	·		
Cash received from customers	214,006	1,946,359	330,908
Cash payments to suppliers for goods and services	(109,602)	(931,089)	(82,006)
Cash payments to employees for services	(84,936)	(360,154)	(119,598)
Cash payments to claimants/beneficiaries			(105,353)
Taxes collected and remitted to other governments		(33,836)	
Net cash provided by operating activities	19,468	621,280	23,951
CASH FLOWS FROM NONCAPITAL			
FINANCING ACTIVITIES:	4- 400	4= 400	
Transfers in	47,120	47,120	
Transfers out	(5,861)	(145,612)	(10,838)
Interest paid on revenue notes and other debt	(2)	(55)	
Increase in deferred assets		(105)	
Contributions (to) from other funds	242		
Loans to other funds	(7)	(3,589)	
Loan repayments to other funds	(1,291)	(2,264)	(165)
Loan repayments from other funds	367	3,019	
Collections from other governments	358	12,934	
Net cash provided (used) by noncapital financing activities	40,926	(88,552)	(11,003)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes		234,995	
Proceeds from the sale of general obligation bonds			
and other tax supported debt	22,875	24,550	
Proceeds from the sale of revenue bonds		12,750	
Principal paid on long-term debt	(21,176)	(165,858)	(774)
Purchased interest received	42	1,211	
Interest paid on revenue bonds and other debt	(13,553)	(233,879)	(262)
Passenger facility charges		17,430	
Acquisition and construction of capital assets	(29,356)	(435,111)	(14,011)
Contributions from municipality	230	230	·
Contributions from state and federal governments		998	
Contributions in aid of construction	5,107	26,465	
Bond issuance costs	(225)	(1,954)	
Bond premiums	1,153	3,285	
Bonds issued for advanced refundings of debt	5,513	188,278	
Cash paid for bond refunding escrow	(6,471)	(189,638)	
Cash paid for nuclear fuel inventory		(22,150)	
Net cash (used) by capital and related		, , /	
financing activities	(35,861)	(538,398)	(15,047)

(Continued)

	Business-Type Activities			
	Austin Energy (1)	Austin Water Utility (2)	Airport	
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of investment securities	\$ (436,885)	(168,111)	(30,665)	
Proceeds from sale and maturities of investment				
securities	432,723	148,098	29,264	
Interest on investments	9,620	271	711	
Net cash provided (used) by investing activities	5,458	(19,742)	(690)	
Net increase (decrease) in cash and cash equivalents	(49,453)	1,055	3,221	
Cash and cash equivalents, October 1, as restated (See Note 16)	218,793	67,571	168,598	
Cash and cash equivalents, September 30	169,340	68,626	171,819	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	184,260	179,176	6,132	
Adjustments to reconcile operating income to net cash	,	,	, ,	
provided by operating activities:				
Depreciation	132,077	90,410	19,581	
Amortization		988		
Change in assets and liabilities:				
Increase in working capital advances	(1,388)			
Increase in accounts receivable	(14,018)	(16,045)	(499)	
Increase (decrease) in allowance for doubtful accounts	(358)	(277)	129	
Decrease in due from other funds				
(Increase) decrease in inventory	(107)	(154)	30	
(Increase) decrease in prepaid expenses and				
other assets	(4,370)	10	2	
(Increase) decrease in deferred costs and other expenses	(4,125)	25		
(Increase) decrease in other long-term assets	5			
Increase (decrease) in accounts payable	16,729	(404)	801	
Decrease in accrued payroll and compensated	(= =0 t)	(0.000)	(=00)	
absences	(5,534)	(2,603)	(708)	
Increase in claims payable				
Decrease in due to other governments				
Decrease in advances from other funds				
Increase in pension obligations payable	4,120	1,942	584	
Increase in other post employment benefits payable	21,158	12,000	3,286	
Increase (decrease) in deferred credits and				
other liabilities	(23,812)	28	(532)	
Increase in customer deposits	2,254	1,004	15_	
Total adjustments	122,631	86,924	22,689	
Net cash provided by operating activities	\$ 306,891	266,100	28,821	

<sup>(1)</sup> Prior to 2011, reported as Electric

<sup>(2)</sup> Prior to 2011, reported as Water and Wastewater

#### (Continued)

	Business-Type Activities		Governmental
	Nonmajor Enterprise		Activities- Internal Service
	Funds	Total	Funds
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	(22,657)	(658,318)	
Proceeds from sale and maturities of investment			
securities	22,868	632,953	
Interest on investments	844	11,446	118
Net cash provided (used) by investing activities	1,055	(13,919)	118
Net increase (decrease) in cash and cash equivalents	25,588	(19,589)	(1,981)
Cash and cash equivalents, October 1, as restated (See Note 16)	167,610	622,572	101,848
Cash and cash equivalents, September 30	193,198	602,983	99,867
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	(22,322)	347,246	17,153
Adjustments to reconcile operating income to net cash	, ,	,	,
provided by operating activities:			
Depreciation	23,635	265,703	8,815
Amortization		988	
Change in assets and liabilities:			
Increase in working capital advances		(1,388)	
Increase in accounts receivable	(1,819)	(32,381)	(283)
Increase (decrease) in allowance for doubtful accounts	(18)	(524)	
Decrease in due from other funds			11
(Increase) decrease in inventory	94	(137)	(599)
(Increase) decrease in prepaid expenses and			
other assets	19	(4,339)	(4)
(Increase) decrease in deferred costs and other expenses		(4,100)	(294)
(Increase) decrease in other long-term assets		5	(8)
Increase (decrease) in accounts payable	441	17,567	5,777
Decrease in accrued payroll and compensated			
absences	(3,110)	(11,955)	(3,378)
Increase in claims payable			426
Decrease in due to other governments	 ( <del>-</del> )		(69)
Decrease in advances from other funds	(7)	(7)	(28)
Increase in pension obligations payable	1,959	8,605	
Increase in other post employment benefits payable	12,014	48,458	
Increase (decrease) in deferred credits and	2 222	(40.04.0)	/O ECC)
other liabilities	8,302	(16,014)	(3,568)
Increase in customer deposits	280	3,553	
Total adjustments	41,790	274,034	6,798
Net cash provided by operating activities	19,468	621,280	23,951

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

(Continued)

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

<sup>(1)</sup> Prior to 2011, reported as Electric

<sup>(2)</sup> Prior to 2011, reported as Water and Wastewater

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

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

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

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

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

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

# 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The City of Austin's charter requires an annual audit by an independent certified public accountant. These financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB). The City has implemented GASB Statements No. 1 through No. 59. In fiscal year 2011, the City implemented GASB Statement No. 54 entitled "Fund Balance Reporting and Governmental Fund Type Definitions" (see Note 16 for impact) and GASB Statement No. 59 entitled "Financial Instruments Omnibus." The more significant accounting and reporting policies and practices used by the City are described below.

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

# a -- Reporting Entity

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

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

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

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

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

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

# a -- Reporting Entity, continued

- Austin Housing Authority The Mayor appoints the persons to serve as commissioners of this organization.
- Travis County Healthcare District City Councilmembers appoint four board managers, Travis County appoints four board managers, and the City and County mutually appoint one board manager. Travis County reports the Healthcare District as a component unit on their financial statements.

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

The City of Austin retirement plans (described in Note 7) and the City of Austin Deferred Compensation Plan are not included in the City's reporting entity since the City does not exercise substantial control over these plans.

#### b -- Government-wide and Fund Financial Statements

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

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

The accounts of the City are organized on the basis of funds. The fund level statements focus on the governmental, proprietary, and fiduciary funds. Each fund was established to account for specific activities in accordance with applicable regulations, restrictions, or limitations. Major funds are determined by criteria specified by GASB Statement No. 34; the City has elected to present the Airport Fund as a major fund even though it does not meet the minimum criteria. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All other funds are aggregated into nonmajor governmental, nonmajor enterprise, or internal service fund groupings.

The City's fiduciary funds are presented in the fund financial statements by type (private-purpose and agency). By definition, fiduciary fund assets are held for the benefit of a third party and cannot be used to address activities or obligations of the primary government; therefore, they are not included in the government-wide statements. Reconciliation of the fund financial statements to the government-wide statements is provided in the financial statements to explain the differences created by the integrated approach of GASB Statement No. 34.

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

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

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

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

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

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

The City reports the following major governmental fund:

<u>General Fund</u>: 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:

<u>Special Revenue Funds</u>: Account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

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

<u>Capital Projects Funds</u>: Account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those reported within proprietary funds). It is primarily funded by general obligation debt, other tax supported debt, interest income, and other intergovernmental revenues. A 1981 ordinance requires the establishment of a separate fund for each bond proposition approved in each bond election.

<u>Permanent Funds</u>: Account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's programs.

<u>Proprietary Funds</u>: Consist of enterprise funds and internal service funds. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations, such as providing electric or water-wastewater services. Other revenues or expenses are nonoperating items.

<u>Enterprise Funds</u>: Account for operations that are financed and operated in a manner similar to private business enterprises. Costs are financed or recovered primarily through user charges. In accordance with GASB Statement No. 20, the City applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The City reports the following major enterprise funds:

<u>Austin Energy™</u>: Accounts for the activities of the City-owned electric utility.

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

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

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

<u>Convention</u>: Accounts for convention center and public events activities.

Environmental and health services: Accounts for solid waste services activities.

Public recreation: Accounts for golf and parks and recreation activities.

Urban growth management: Accounts for drainage and transportation activities.

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

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

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

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

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

# d -- Budget

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

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

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

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

# e -- Financial Statement Elements

**Pooled Investments and Cash** -- Cash balances of all city funds (except for certain funds shown in Note 2 as having non-pooled investments) are pooled and invested. Investments purchased with pooled cash, consisting primarily of U.S. government obligations and U.S. agency obligations, are stated at fair value. Interest earned on investments purchased with pooled cash is allocated monthly to each participating fund based upon the fund's average daily balance. Funds that carry a negative balance in pooled cash and investments are not allocated interest earnings nor charged interest expense.

**Investments** -- Certain investments are required to be reported at fair value, based on quoted market prices. Realized gains or losses resulting from the sale of investments are determined by the specific cost of the securities sold. The City carries all of its investments in U.S. government and agency debt securities and money market mutual funds at fair value as of September 30, 2011. Investments in local government investment pools are carried at net asset value per share calculated using the amortized cost method which approximates fair value.

# e -- Financial Statement Elements, continued

**Accounts Receivable** -- Balances of accounts receivable, reported on the government-wide statement of net assets, are aggregations of different components such as charges for services, fines, and balances due from taxpayers or other governments. In order to assist the reader, the following information has been provided regarding significant components of receivable balances as of September 30, 2011 (in thousands):

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

Receivables reported in business-type activities are primarily comprised of charges for services.

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

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

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

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

Fund	Inventory Valuation Method
General Fund	Average cost; postage first-in, first out
Austin Energy	
Fuel oil and coal	Last-in, first-out
Other inventories	Average cost
All others	Average cost

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

Restricted assets -- Restricted assets are assets whose use is subject to constraints that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Since Austin Energy and Austin Water Utility report in accordance with accounting for regulated operations (formerly FASB Statement No. 71), enabling legislation also includes restrictions on asset use established by its governing board which is the City Council. Restricted assets used to repay maturing debt and other current liabilities are classified as current.

# e -- Financial Statement Elements, continued

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

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

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

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

Interest is not capitalized on governmental capital assets. Enterprise funds, with the exception of the Austin Energy and Austin Water Utility, capitalize interest paid on long-term debt when it can be attributed to a specific project and when it materially exceeds the interest revenue generated by the bond proceeds issued to fund the project. Interest is not capitalized on Austin Energy and Austin Water Utility assets in accordance with accounting for regulated operations.

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

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

(1) Includes internal service funds

# e -- Financial Statement Elements, continued

Depreciation of assets is classified by functional component. The City considers land, arts and treasures, and library collections to be inexhaustible; therefore, these assets are reported as nondepreciable. The true value of arts and treasures is expected to be maintained over time and, thus, is not depreciated. The initial investment of library collections for each library is capitalized. All subsequent expenditures related to the maintenance of the collection (replacement of individual items) are expensed, with the overall value of the collection being maintained, and therefore, not depreciated.

In the government-wide and proprietary fund statements, the City recognizes a gain or loss on the disposal of assets when it retires or otherwise disposes of capital assets.

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

**Deferred Expenses or Credits --** In accordance with accounting for regulated operations, certain utility expenses that do not currently require funding are deferred to future periods in which they are intended to be recovered by rates. Likewise, certain credits to income are deferred to periods in which they are matched with related costs. These expenses or credits include changes in fair value of investments, contributions, and debt issuance costs, pension, other post employment benefits, interest, decommission, fuel recovery, etc. Deferred expenses will be recovered in these future periods by setting rates sufficient to provide funds for the requirements. If deferred expenses are not recoverable in future rates, the deferred expenses will be subject to write off. Retail deregulation of electric rates in the future may affect the City's current accounting treatment of its electric utility revenues, expenses, and deferred amounts.

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

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

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

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

- (1) Non-civil service employees are eligible for accumulated sick leave payout if hired before October 1, 1986.
- (2) Civil service police employees with 10 years of actual service are eligible for accumulated sick leave payout.

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

# e -- Financial Statement Elements, continued

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

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

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

Revenue bonds issued to finance capital projects of certain enterprise funds are to be repaid from select revenues of these funds. Note 6 contains more information about pledged revenues by fund. The corresponding debt is recorded in the applicable fund.

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

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

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

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

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

Dad Dahi

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

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

# e -- Financial Statement Elements, continued

Interfund Revenues, Expenses, and Transfers -- Transactions between funds that would be treated as revenues, expenditures, or expenses if they involved organizations external to the governmental unit are accounted for as revenues, expenditures, or expenses in the funds involved, such as billing for utility services. Transactions between funds that constitute reimbursements for expenditures or expenses are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditure or expense in the fund that is reimbursed. Transfers between funds are reported in the operations of governmental and proprietary funds. In the government-wide statement of activities, the effect of interfund activity has generally been removed from the statements. Exceptions include the chargeback of services, such as utilities or vehicle maintenance, and charges for central administrative costs. Elimination of these charges would distort the direct costs and program revenues of the various functions reported. The City recovers indirect costs that are incurred in the Support Services Fund, which is reported as an internal service fund. Indirect costs are calculated in a citywide cost allocation plan or through indirect cost rates, which are based on the cost allocation plan.

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

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

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

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

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

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

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

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

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

# e -- Financial Statement Elements, continued

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

Nonspendable         General government         \$ 318 sere and government         \$ 990 sere and government         \$ 990 sere and government         \$ 318 sere and government         \$ 318 sere and government         \$ 23,806 sere and government         \$ 24,800 sere and government         \$ 29,430 sere and government         \$ 29,243 sere and government         \$ 29,243 sere and govern		Nonmajor				
General government         \$ 318         50         368           Public Safety         630          630           Public Health         1          1           Public recreation and culture          990         990           Urban growth management         160         0         160           Total Nonspendable         1,109         1,040         2,149           Restricted           General government          23,806         23,806           Public safety          5,661         5,661           Public Health          256         256           Public Health          29,430         29,430           Urban growth management          175,522         175,522           Committed           General government         446         4,679         5,125           Public safety         714         180         894           Transportation, planning, and sustainability         288         202         490           Public Health         1,435         179         1,614           Public recreation and culture         171         3,594         3,765 <th></th> <th>Ger</th> <th>neral Fund</th> <th>Governmental</th> <th>Total</th>		Ger	neral Fund	Governmental	Total	
Public safety         630          630           Public Health         1          1           Public recreation and culture          990         990           Urban growth management         160         0         160           Total Nonspendable         1,109         1,040         2,149           Restricted           General government          23,806         23,806           Public safety          5,661         5,661           Transportation, planning, and sustainability          64,908         64,908           Public recreation and culture          29,430         29,430           Urban growth management          51,461         51,461           Total Restricted          175,522         175,522           Committed           General government         446         4,679         5,125           Public safety         714         180         894           Transportation, planning, and sustainability         288         202         490           Public recreation and culture         171         3,594         3,765           Urban growth management	Nonspendable					
Public Health         1          1           Public recreation and culture          990         990           Urban growth management         160         0         160           Total Nonspendable         1,109         1,040         2,149            2,149         1,109         1,040         2,149            2,149         1,109         1,040         2,149            2,149         1,040         2,149            2,149         2,149         2,149            2,149         2,149         2,149            2,149         2,149         2,149         2,149         2,149         2,149         2,149         2,149         2,149         2,149         2,149         2,149         2,149         2,149         2,149         2,140         2,149         2,140         2,149         2,140         2,149         2,140         2,145         2,146         1,146         1,146         1,146         1,146         1,146         1,146         1,146         1,146         1,146         1,146         1,146         1,146	General government	\$	318	50	368	
Public recreation and culture          990         990           Urban growth management         160         0         160           Total Nonspendable         1,109         1,040         2,149           Restricted           General government          23,806         23,806           Public safety          5,661         5,661           Transportation, planning, and sustainability          64,908         64,908           Public Health          256         256           Public recreation and culture          29,430         29,430           Urban growth management          175,522         175,522           Committed           General government         446         4,679         5,125           Public safety         714         180         894           Transportation, planning, and sustainability         288         202         490           Public recreation and culture         171         3,594         3,765           Urban growth management         63         17,312         17,375           Total Committed         3,117         26,146         29,263 <td colspa<="" td=""><td>Public safety</td><td></td><td>630</td><td></td><td>630</td></td>	<td>Public safety</td> <td></td> <td>630</td> <td></td> <td>630</td>	Public safety		630		630
Urban growth management         160         0         160           Total Nonspendable         1,109         1,040         2,149           Restricted         Security           General government          23,806         23,806           Public safety          5,661         5,661           Transportation, planning, and sustainability          64,908         64,908           Public recreation and culture          256         256           Public recreation and culture          29,430         29,430           Urban growth management          175,522         175,522           Committed          175,522         175,522           Committed          175,522         175,522           Committed         446         4,679         5,125           Public safety         714         180         894           Transportation, planning, and sustainability         288         202         490           Public recreation and culture         171         3,594         3,765           Urban growth management         63         17,312         17,375           Total Committed         79 <td>Public Health</td> <td></td> <td>1</td> <td></td> <td>1</td>	Public Health		1		1	
Total Nonspendable         1,109         1,040         2,149           Restricted         General government          23,806         23,806           Public safety          5,661         5,661           Transportation, planning, and sustainability          64,908         64,908           Public Health          256         256           Public recreation and culture          29,430         29,430           Urban growth management          51,461         51,461           Total Restricted          175,522         175,522           Committed          175,522         175,522           Committed         446         4,679         5,125           Public safety         714         180         894           Transportation, planning, and sustainability         288         202         490           Public Health         1,435         179         1,614           Public recreation and culture         171         3,594         3,765           Urban growth management         63         17,312         17,375           Total Committed         3,117         26,146         29,263 <th< td=""><td>Public recreation and culture</td><td></td><td></td><td>990</td><td>990</td></th<>	Public recreation and culture			990	990	
Restricted         General government	Urban growth management		160	0	160	
General government          23,806         23,806           Public safety          5,661         5,661           Transportation, planning, and sustainability          64,908         64,908           Public Health          256         256           Public recreation and culture          29,430         29,430           Urban growth management          51,461         51,461           Total Restricted          175,522         175,522           Committed           General government         446         4,679         5,125           Public safety         714         180         894           Transportation, planning, and sustainability         288         202         490           Public Health         1,435         179         1,614           Public recreation and culture         171         3,594         3,765           Urban growth management         63         17,312         17,375           Total Committed         3,117         26,146         29,263           Assigned           General government         79         25,894         25,973           Public safety	Total Nonspendable		1,109	1,040	2,149	
Public safety          5,661         5,661           Transportation, planning, and sustainability          64,908         64,908           Public Health          256         256           Public recreation and culture          29,430         29,430           Urban growth management          51,461         51,461           Total Restricted          175,522         175,522           Committed           General government         446         4,679         5,125           Public safety         714         180         894           Transportation, planning, and sustainability         288         202         490           Public Health         1,435         179         1,614           Public recreation and culture         171         3,594         3,765           Urban growth management         63         17,312         17,375           Total Committed         3,117         26,146         29,263           Assigned           General government         79         25,894         25,973           Public safety         26         2,873         3,099           Transportation, planning, a	Restricted					
Transportation, planning, and sustainability Public Health          64,908         64,908           Public Health          256         256           Public recreation and culture          29,430         29,430           Urban growth management          51,461         51,461           Total Restricted          175,522         175,522           Committed           General government         446         4,679         5,125           Public safety         714         180         894           Transportation, planning, and sustainability         288         202         490           Public Health         1,435         179         1,614           Public recreation and culture         171         3,594         3,765           Urban growth management         63         17,312         17,375           Total Committed         3,117         26,146         29,263           Assigned           General government         79         25,894         25,973           Public safety         226         2,873         3,099           Transportation, planning, and sustainability         954         16,997         17,951	General government			23,806	23,806	
Public Health          256         256           Public recreation and culture          29,430         29,430           Urban growth management          51,461         51,461           Total Restricted          175,522         175,522           Committed           General government         446         4,679         5,125           Public safety         714         180         894           Transportation, planning, and sustainability         288         202         490           Public Health         1,435         179         1,614           Public recreation and culture         171         3,594         3,765           Urban growth management         63         17,312         17,375           Total Committed         3,117         26,146         29,263           Assigned           General government         79         25,894         25,973           Public safety         226         2,873         3,099           Transportation, planning, and sustainability         954         16,997         17,951           Public recreation and culture         71         16,776         16,847           Urban growth manage	Public safety			5,661	5,661	
Public recreation and culture          29,430         29,430           Urban growth management          51,461         51,461           Total Restricted          175,522         175,522           Committed           General government         446         4,679         5,125           Public safety         714         180         894           Transportation, planning, and sustainability         288         202         490           Public Health         1,435         179         1,614           Public recreation and culture         171         3,594         3,765           Urban growth management         63         17,312         17,375           Total Committed         3,117         26,146         29,263           Assigned           General government         79         25,894         25,973           Public safety         226         2,873         3,099           Transportation, planning, and sustainability         954         16,997         17,951           Public Health         591         789         1,380           Public recreation and culture         71         16,776         16,847           Urba	Transportation, planning, and sustainability			64,908	64,908	
Urban growth management          51,461         51,461           Total Restricted          175,522         175,522           Committed           General government         446         4,679         5,125           Public safety         714         180         894           Transportation, planning, and sustainability         288         202         490           Public Health         1,435         179         1,614           Public recreation and culture         171         3,594         3,765           Urban growth management         63         17,312         17,375           Total Committed         3,117         26,146         29,263           Assigned           General government         79         25,894         25,973           Public safety         226         2,873         3,099           Transportation, planning, and sustainability         954         16,997         17,951           Public recreation and culture         71         16,776         16,847           Urban growth management         9,071         5,620         14,691           Total Assigned         10,992         68,949         79,941	Public Health			256	256	
Committed          175,522         175,522           Committed         General government         446         4,679         5,125           Public safety         714         180         894           Transportation, planning, and sustainability         288         202         490           Public Health         1,435         179         1,614           Public recreation and culture         171         3,594         3,765           Urban growth management         63         17,312         17,375           Total Committed         3,117         26,146         29,263           Assigned         Seneral government         79         25,894         25,973           Public safety         226         2,873         3,099           Transportation, planning, and sustainability         954         16,997         17,951           Public Health         591         789         1,380           Public recreation and culture         71         16,776         16,847           Urban growth management         9,071         5,620         14,691           Total Assigned         10,992         68,949         79,941           Unassigned         119,035         (36,582)         82,	Public recreation and culture			29,430	29,430	
Committed           General government         446         4,679         5,125           Public safety         714         180         894           Transportation, planning, and sustainability         288         202         490           Public Health         1,435         179         1,614           Public recreation and culture         171         3,594         3,765           Urban growth management         63         17,312         17,375           Total Committed         3,117         26,146         29,263           Assigned         26         2,873         3,099           Transportation, planning, and sustainability         954         16,997         17,951           Public Health         591         789         1,380           Public recreation and culture         71         16,776         16,847           Urban growth management         9,071         5,620         14,691           Total Assigned         10,992         68,949         79,941           Unassigned         119,035         (36,582)         82,453	Urban growth management			51,461	51,461	
General government       446       4,679       5,125         Public safety       714       180       894         Transportation, planning, and sustainability       288       202       490         Public Health       1,435       179       1,614         Public recreation and culture       171       3,594       3,765         Urban growth management       63       17,312       17,375         Total Committed       3,117       26,146       29,263         Assigned         General government       79       25,894       25,973         Public safety       226       2,873       3,099         Transportation, planning, and sustainability       954       16,997       17,951         Public Health       591       789       1,380         Public recreation and culture       71       16,776       16,847         Urban growth management       9,071       5,620       14,691         Total Assigned       10,992       68,949       79,941         Unassigned       119,035       (36,582)       82,453	Total Restricted			175,522	175,522	
Public safety       714       180       894         Transportation, planning, and sustainability       288       202       490         Public Health       1,435       179       1,614         Public recreation and culture       171       3,594       3,765         Urban growth management       63       17,312       17,375         Total Committed       3,117       26,146       29,263         Assigned         General government       79       25,894       25,973         Public safety       226       2,873       3,099         Transportation, planning, and sustainability       954       16,997       17,951         Public Health       591       789       1,380         Public recreation and culture       71       16,776       16,847         Urban growth management       9,071       5,620       14,691         Total Assigned       10,992       68,949       79,941         Unassigned       119,035       (36,582)       82,453	Committed					
Transportation, planning, and sustainability       288       202       490         Public Health       1,435       179       1,614         Public recreation and culture       171       3,594       3,765         Urban growth management       63       17,312       17,375         Total Committed       3,117       26,146       29,263         Assigned         General government       79       25,894       25,973         Public safety       226       2,873       3,099         Transportation, planning, and sustainability       954       16,997       17,951         Public Health       591       789       1,380         Public recreation and culture       71       16,776       16,847         Urban growth management       9,071       5,620       14,691         Total Assigned       10,992       68,949       79,941         Unassigned       119,035       (36,582)       82,453	General government		446	4,679	5,125	
Public Health         1,435         179         1,614           Public recreation and culture         171         3,594         3,765           Urban growth management         63         17,312         17,375           Total Committed         3,117         26,146         29,263           Assigned         Seneral government         79         25,894         25,973           Public safety         226         2,873         3,099           Transportation, planning, and sustainability         954         16,997         17,951           Public Health         591         789         1,380           Public recreation and culture         71         16,776         16,847           Urban growth management         9,071         5,620         14,691           Total Assigned         10,992         68,949         79,941           Unassigned         119,035         (36,582)         82,453	Public safety		714	180	894	
Public recreation and culture       171       3,594       3,765         Urban growth management       63       17,312       17,375         Total Committed       3,117       26,146       29,263         Assigned         General government       79       25,894       25,973         Public safety       226       2,873       3,099         Transportation, planning, and sustainability       954       16,997       17,951         Public Health       591       789       1,380         Public recreation and culture       71       16,776       16,847         Urban growth management       9,071       5,620       14,691         Total Assigned       10,992       68,949       79,941         Unassigned       119,035       (36,582)       82,453	Transportation, planning, and sustainability		288	202	490	
Urban growth management         63         17,312         17,375           Total Committed         3,117         26,146         29,263           Assigned           General government         79         25,894         25,973           Public safety         226         2,873         3,099           Transportation, planning, and sustainability         954         16,997         17,951           Public Health         591         789         1,380           Public recreation and culture         71         16,776         16,847           Urban growth management         9,071         5,620         14,691           Total Assigned         10,992         68,949         79,941           Unassigned         119,035         (36,582)         82,453	Public Health		1,435	179	1,614	
Assigned         79         25,894         25,973           Public safety         226         2,873         3,099           Transportation, planning, and sustainability         954         16,997         17,951           Public Health         591         789         1,380           Public recreation and culture         71         16,776         16,847           Urban growth management         9,071         5,620         14,691           Total Assigned         10,992         68,949         79,941           Unassigned         119,035         (36,582)         82,453	Public recreation and culture		171	3,594	3,765	
Assigned         General government       79       25,894       25,973         Public safety       226       2,873       3,099         Transportation, planning, and sustainability       954       16,997       17,951         Public Health       591       789       1,380         Public recreation and culture       71       16,776       16,847         Urban growth management       9,071       5,620       14,691         Total Assigned       10,992       68,949       79,941         Unassigned       119,035       (36,582)       82,453	Urban growth management		63	17,312	17,375	
General government       79       25,894       25,973         Public safety       226       2,873       3,099         Transportation, planning, and sustainability       954       16,997       17,951         Public Health       591       789       1,380         Public recreation and culture       71       16,776       16,847         Urban growth management       9,071       5,620       14,691         Total Assigned       10,992       68,949       79,941         Unassigned       119,035       (36,582)       82,453	Total Committed		3,117	26,146	29,263	
Public safety       226       2,873       3,099         Transportation, planning, and sustainability       954       16,997       17,951         Public Health       591       789       1,380         Public recreation and culture       71       16,776       16,847         Urban growth management       9,071       5,620       14,691         Total Assigned       10,992       68,949       79,941         Unassigned       119,035       (36,582)       82,453	Assigned					
Transportation, planning, and sustainability     954     16,997     17,951       Public Health     591     789     1,380       Public recreation and culture     71     16,776     16,847       Urban growth management     9,071     5,620     14,691       Total Assigned     10,992     68,949     79,941       Unassigned     119,035     (36,582)     82,453	General government		79	25,894	25,973	
Public Health         591         789         1,380           Public recreation and culture         71         16,776         16,847           Urban growth management         9,071         5,620         14,691           Total Assigned         10,992         68,949         79,941           Unassigned         119,035         (36,582)         82,453	Public safety		226	2,873	3,099	
Public recreation and culture         71         16,776         16,847           Urban growth management         9,071         5,620         14,691           Total Assigned         10,992         68,949         79,941           Unassigned         119,035         (36,582)         82,453	Transportation, planning, and sustainability		954	16,997	17,951	
Urban growth management         9,071         5,620         14,691           Total Assigned         10,992         68,949         79,941           Unassigned         119,035         (36,582)         82,453	Public Health		591	789	1,380	
Total Assigned         10,992         68,949         79,941           Unassigned         119,035         (36,582)         82,453	Public recreation and culture		71	16,776	16,847	
Unassigned         119,035         (36,582)         82,453	Urban growth management		9,071	5,620	14,691	
	Total Assigned		10,992	68,949	79,941	
Total Fund Balance         \$ 134,253         235,075         369,328	Unassigned		119,035	(36,582)	82,453	
	Total Fund Balance	\$	134,253	235,075	369,328	

**Restricted resources** -- If both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and unrestricted resources as needed. In governmental funds, unrestricted resources would be utilized in order from committed to assigned and finally unassigned.

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

# e -- Financial Statement Elements, continued

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

Pension Costs -- State law governs pension contribution requirements and benefits. Pension costs are composed of normal cost and, where applicable, amortization of unfunded actuarial accrued liability and of unfunded prior service cost (see Note 7).

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

The City does not participate in a risk pool but purchases commercial insurance for coverage for property loss or damage, commercial crime, fidelity bonds, airport operations, and contractors working at selected capital improvement project sites. It complies with GASB Statement No. 10, "Accounting and Reporting for Risk Financing and Related Insurance issues" (see Note 13).

Austin Energy has established an energy risk management program. This program was authorized by City Council and led by the risk oversight committee. Under this program, Austin Energy enters into futures contracts, options, and swaps to reduce exposure to natural gas and energy price fluctuations. For additional details see Note 9.

# f -- Comparative Data

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

# g -- Use of Estimates

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

# 2 - POOLED INVESTMENTS AND CASH

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

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

# 3 - INVESTMENTS AND DEPOSITS

#### a -- Investments

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

# a -- Investments, continued

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

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

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

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

The City participates in three local government investment pools: TexPool, TexasDAlLY, and TexStar. The State Comptroller oversees TexPool, with Federated Investors managing the daily operations of the pool under a contract with the State Comptroller. Although there is no regulatory oversight over TexasDAlLY, an advisory board consisting of participants or their designees maintains oversight responsibility for TexasDAlLY. PFM Asset Management LLC manages the daily operations of TexasDAlLY under a contract with the advisory board. JPMorgan Investment Management, Inc. and First Southwest Asset Management, Inc. serve as co-administrators for TexStar under an agreement with the TexStar board of directors.

The City invests in local government investment pools, which are structured similar to money market mutual funds, to provide its liquidity needs. TexPool, TexasDAILY, and TexStar were established in conformity with the interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. These funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. These funds seek to maintain a constant net asset value of \$1.00, although this cannot be fully guaranteed. TexPool, TexasDAILY, and TexStar are rated AAAm and must maintain a dollar weighted average maturity not to exceed a 60-day limit. At September 30, 2011, TexPool, TexasDAILY, and TexStar had a weighted average maturity of 44 days, 54 days, and 40 days, respectively. The City considers the holdings in these funds to have a weighted average maturity of one day, due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

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

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

# a - Investments, continued

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

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

# **Concentration of Credit Risk**

At September 30, 2011, the City of Austin was exposed to concentration of credit risk since it held investments with more than five percent of the total investment portfolio balances of the City in securities of the following issuers (in millions): Federal Home Loan Bank (\$356.6 or 22%), Federal Home Loan Mortgage Corporation (\$219.9 or 13%), and Federal National Mortgage Association (\$203.9 or 12%).

# **b** -- Investment Categories

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

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

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

# **Operating Funds**

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

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

# b -- Investment Categories, continued

#### Credit Risk

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

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

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

# **Concentration of Credit Risk**

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

# **Interest Rate Risk**

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

At September 30, 2011, less than half of the Investment Pool was invested in AAAm rated LGIPs, with the remainder invested in municipal bonds and short-to medium term US Agency obligations. Term limits on individual maturities did not exceed three years from the purchase date. The dollar weighted average maturity of all securities was 305 days, which was less than the threshold of 365 days.

# **Debt Service Funds**

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

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

<sup>(1)</sup> Includes combined pledge debt service

#### **Credit Risk**

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

# **Interest Rate Risk**

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

# b -- Investment Categories, continued

# **Special Project Fund**

# **Airport Construction**

As of September 30, 2011, the City's special project fund had the following investments:

	Fair \	/alue			
	(in thou	ısands)	Final		
	Busine	ss-type			
Investment Type	Activ	rities	Maturity		
Local Government Investment Pools	\$	76	N/A		

#### Credit Risk

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

# **Interest Rate Risk**

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

# **Special Purpose Funds**

# **Austin Energy Strategic Reserve Fund**

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

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

# Credit risk

At September 30, 2011, the Austin Energy Strategic Reserve Fund held an investment in TexPool, an LGIP rated AAAm by Standard and Poor's, with the remainder invested in short-to-medium term US Agency and Treasury obligations. Standard and Poor's rated the US Agency Bonds AA+. The remaining securities are direct obligations of the US government.

# **Concentration of Credit Risk**

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

# **Interest Rate Risk**

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

At September 30, 2011, the portfolios held investments in TexPool, US Treasuries, and US Agencies with maturities that will meet anticipated cash flow requirements and an overall dollar weighted average maturity of 1,062 days (2.91 years).

# **Austin Energy Nuclear Decommissioning Trust Funds**

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

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

# b -- Investment Categories, continued

#### Credit Risk

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

# **Concentration of Credit Risk**

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

# **Interest Rate Risk**

As a means of minimizing risk of loss due to interest rate fluctuations, the Investment policy for the Nuclear Decommissioning Trust Funds portfolios requires that the dollar weighted average maturity, using final state maturity dates, shall not exceed seven years, although the portfolio's weighted average maturity may be substantially shorter if market conditions so dictate. At September 30, 2011, the dollar weighted average maturity was 3.39 years.

# **Combined Utility Reserve**

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

	(in the	air Value housands) iness-type	Weighted Average	
Investment Type	Activities		Maturity (days)	
Local Government Investment Pools	\$	20,104	1	
US Agency Bonds		20,104	755	
	\$	40,208	377	

#### **Credit Risk**

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

#### **Concentration of Credit Risk**

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

# **Interest Rate Risk**

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

#### **Convention Center Reserve**

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

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

# Credit Risk

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

# Interest Rate Risk

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

# c -- Investments and Deposits

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

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

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

# **Deposits**

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

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

All bank accounts were either insured or collateralized with securities held by the City or its agents in the City's name at September 30, 2011.

# 4 - PROPERTY TAXES

The City's property tax is levied each October 1 on the assessed value listed as of January 1 for all real and personal property located in the City. The adjusted assessed value for the roll as of January 1, 2010, upon which the 2011 levy was based, was \$77,619,349,384.

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

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

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

# 4 - PROPERTY TAXES, continued

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

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

The tax rate to finance general governmental functions, other than the payment of principal and interest on general obligation long-term debt, for the year ended September 30, 2011, was \$.3262 per \$100 assessed valuation. The City has a tax margin for general governmental purposes of \$.6738 per \$100 assessed valuation, and could levy approximately \$522,999,176 in additional taxes from the assessed valuation of \$77,619,349,384 before the legislative limit is reached.

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

# 5 - CAPITAL ASSETS AND INFRASTRUCTURE

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

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

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

**Governmental Activities** 

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

	Begii	nning				Ending
	Bala	ance	Increases	(1)	Decreases (1)	Balance
Capital assets not depreciated						
Land and improvements	\$ 3	32,457	16,054		(4,659)	343,852
Arts and treasures		5,914	1,036			6,950
Library collections		14,389	1	_	<u></u>	14,390
Total	3	52,760	17,091	_	(4,659)	365,192
Deprecable property, plant and equipment in service						
Building and improvements	6	44,645	64,785		(7,389)	702,041
Plant and equipment	1	56,581	43,064		(10,965)	188,680
Vehicles		93,262	14,474		(4,584)	103,152
Infrastructure	1,9	69,761	92,674			2,062,435
Total	2,8	64,249	214,997	_	(22,938)	3,056,308
Less accumulated depreciation for						
Building and improvements	(2	02,540)	(20,938)		708	(222,770)
Plant and equipment	(	93,038)	(18,409)		2,313	(109,134)
Vehicles	(	58,529)	(8,279)		2,937	(63,871)
Infrastructure	(7	32,350)	(57,691)	_	<u></u>	(790,041)
Total	(1,0	86,457)	(105,317)	(2)	5,958	(1,185,816)
Net property, plant and equipment in service	1,7	77,792	109,680	_	(16,980)	1,870,492
Other capital assets						
Construction in progress	2	41,658	173,443		(226,818)	188,283
Total capital assets	\$ 2,3	72,210	300,214		(248,457)	2,423,967

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

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

Governmental activities:

General government	\$ 6,000
Public safety	13,127
Transportation, planning and sustainability	48,808
Public health	1,426
Public recreation and culture	11,129
Urban growth management	16,012
Internal service funds	8,815
Total increases in accumulated depreciation	\$ 105,317

Business-type Activities: Austin Energy

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

	Beginning			Ending
	Balance	Increases	Decreases	Balance
Capital assets not depreciated				
Land and improvements	\$ 65,200	3,928		69,128
Total	65,200	3,928		69,128
Depreciable property, plant and equipment in service				
Vehicles	28,631	1,512	(900)	29,243
Electric plant	3,850,557	287,819	(35,640)	4,102,736
Non-electric plant	140,456	17,090	(358)	157,188
Total	4,019,644	306,421	(36,898)	4,289,167
Less accumulated depreciation for				
Vehicles	(16,875)	(2,595)	1,412	(18,058)
Electric plant	(1,852,838)	(122,623)	30,455	(1,945,006)
Non-electric plant	(25,947)	(6,859)	39	(32,767)
Total	(1,895,660)	(132,077) (1)	31,906	(1,995,831)
Net property, plant and equipment in service	2,123,984	174,344	(4,992)	2,293,336
Other capital assets				
Construction in progress	328,196	146,441	(315,228)	159,409
Nuclear fuel, net of amortization	34,355	22,150	(15,006)	41,499
Plant held for future use	27,783		(1,578)	26,205
Total capital assets	\$ 2,579,518	346,863	(336,804)	2,589,577

# (1) Components of accumulated depreciation increases: Current year depreciation \$ 132,077

Business-type Activities: Austin Water Utility

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

	Beginning			Ending
	Balance	Increases(1)_	Decreases (1)	Balance
Capital assets not depreciated				
Land and improvements	\$ 212,841	5,405		218,246
Total	212,841	5,405		218,246
Depreciable property, plant and equipment in service				
Building and improvements	547,337	26,649		573,986
Plant and equipment	2,859,110	122,919	(899)	2,981,130
Vehicles	33,038	1,091	(782)	33,347
Total	3,439,485	150,659	(1,681)	3,588,463
Less accumulated depreciation for				
Building and improvements	(186,745)	(12,399)		(199,144)
Plant and equipment	(915,594)	(74,973)	836	(989,731)
Vehicles	(19,026)	(3,038)	776	(21,288)
Total	(1,121,365)	(90,410) (2)	1,612	(1,210,163)
Net property, plant and equipment in service	2,318,120	60,249	(69)	2,378,300
Other capital assets				
Construction in progress	253,410	245,303	(147,035)	351,678
Water rights, net of amortization	89,136		(988) (3)	88,148
Total capital assets	\$ 2,873,507	310,957	(148,092)	3,036,372

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

# (2) Components of accumulated depreciation increases:

Current year depreciation

Water \$ 38,436
Wastewater 51,974
Total increases in accumulated depreciation \$ 90,410

(3) Components of water rights, net of amortization decreases:

Current year amortization - Water \$ 988

Business-type Activities: Airport Fund

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

	Beginning			Ending
	Balance	Increases	Decreases	Balance
Capital assets not depreciated				
Land and improvements	\$ 95,092	3,500	(471)	98,121
Arts and treasures	822	159		981
Total	95,914	3,659	(471)	99,102
Depreciable property, plant and equipment in service				
Building and improvements	662,123	17,311		679,434
Plant and equipment	22,630	776	(464)	22,942
Vehicles	5,541	22_	(88)	5,475
Total	690,294	18,109	(552)	707,851
Less accumulated depreciation for				
Building and improvements	(177,895)	(17,498)		(195,393)
Plant and equipment	(10,861)	(1,686)	392	(12,155)
Vehicles	(3,029)	(397)	86	(3,340)
Total	(191,785)	(19,581) (1)	478	(210,888)
Net property, plant and equipment in service	498,509	(1,472)	(74)	496,963
Other capital assets				
Construction in progress	29,133	22,157	(26,832)	24,458
Total capital assets	\$ 623,556	24,344	(27,377)	620,523

# (1) Components of accumulated depreciation increases: Current year depreciation \$ 19,581

Business-type Activities: Nonmajor Enterprise Funds

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

	Begir Bala	•	Increases (	1) Decreases (1)	Ending Balance
Capital assets not depreciated				<u> </u>	
Land and improvements	\$ 9	1,042	10,776		101,818
Arts and treasures		612			612
Total	g	1,654	10,776		102,430
Depreciable property, plant and equipment in service					
Building and improvements	32	20,763	3,514	(766)	323,511
Plant and equipment	13	32,783	9,768	(6,234)	136,317
Vehicles	7	2,367	7,861	(1,611)	78,617
Total	52	25,913	21,143	(8,611)	538,445
Less accumulated depreciation for					
Building and improvements	(9	7,316)	(9,439)	133	(106,622)
Plant and equipment	(3	88,247)	(6,143)	1,880	(42,510)
Vehicles	(3	88,218)	(8,053)	1,485	(44,786)
Total	(17	'3,781)	(23,635)	2) 3,498	(193,918)
Net property, plant and equipment in service	35	52,132	(2,492)	(5,113)	344,527
Other capital assets					
Construction in progress	5	5,825	30,140	(30,540)	55,425
Total capital assets		9,611	38,424	(35,653)	502,382

<sup>(1)</sup> Increases and decreases do not include transfers (at net book value) between nonmajor enterprise funds.

# (2) Components of accumulated depreciation increases:

Current year depreciation	
Convention Center	\$ 8,388
Environmental and health services	6,695
Public recreation	774
Urban growth management	7,778
Total increases in accumulated depreciation	\$ 23,635

Business-type Activities: Total

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

	Beginning			Ending
	Balance	Increases (1)	Decreases (1)	Balance
Capital assets not depreciated			, . <b>-</b>	
Land and improvements	\$ 464,175	23,609	(471)	487,313
Arts and treasures	1,434	159	<del></del> -	1,593
Total	465,609	23,768	(471)	488,906
Depreciable property, plant and equipment in service				
Building and improvements	1,530,223	47,474	(766)	1,576,931
Plant and equipment	3,014,523	133,463	(7,597)	3,140,389
Vehicles	139,577	10,486	(3,381)	146,682
Electric plant	3,850,557	287,819	(35,640)	4,102,736
Non-electric plant	140,456	17,090	(358)	157,188
Total	8,675,336	496,332	(47,742)	9,123,926
Less accumulated depreciation for				
Building and improvements	(461,956)	(39,336)	133	(501,159)
Plant and equipment	(964,702)	(82,802)	3,108	(1,044,396)
Vehicles	(77,148)	(14,083)	3,759	(87,472)
Electric plant	(1,852,838)	(122,623)	30,455	(1,945,006)
Non-electric plant	(25,947)	(6,859)	39	(32,767)
Total	(3,382,591)	(265,703)(2)	37,494	(3,610,800)
Net property, plant and equipment in service	5,292,745	230,629	(10,248)	5,513,126
Other capital assets				
Construction in progress	666,564	444,041	(519,635)	590,970
Nuclear fuel, net of amortization	34,355	22,150	(15,006)	41,499
Plant held for future use	27,783		(1,578)	26,205
Water rights, net of amortization	89,136		(988) (3)	88,148
Total capital assets	\$ 6,576,192	720,588	(547,926)	6,748,854

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

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

Business-type activities:

71		
Electric	\$	132,077
Water		38,436
Wastewater		51,974
Airport		19,581
Convention Center		8,388
Environmental and health services		6,695
Public recreation		774
Urban growth management		7,778
Total increases in accumulated depreciation	_	265,703
(3) Components of water rights, net of amortization decreases:	'	
Current year amortization - Water	\$	988

# 6 - DEBT AND NON-DEBT LIABILITIES

# a -- Long-Term Liabilities

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

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

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

The following is a summary of changes in long-term obligations. Certain long-term obligations provide financing to both governmental and business-type activities. Balances at September 30, 2011 (in thousands):

Description	O	october 1, 2010	Increases	Decreases	September 30, 2011	Amounts Due Within One Year
Governmental activities (1)						
General obligation bonds, net	\$	789,619	202,895	(149,806)	842,708	48,426
Certificates of obligation, net		71,586	12,943	(22,103)	62,426	8,248
Contractual obligations, net		38,295		(5,301)	32,994	3,735
General obligation bonds						
and other tax supported debt total		899,500	215,838	(177,210)	938,128	60,409
Capital lease obligations		716		(283)	433	274
Debt service requirements total		900,216	215,838	(177,493)	938,561	60,683
Other long-term obligations	1					
Accrued compensated absences		112,498	7,071	(2,839)	116,730	44,538
Claims payable		33,435	1,399	(973)	33,861	16,972
Pension obligation payable		53,736	8,711		62,447	
Other post employment benefits		169,432	64,586		234,018	
Deferred credits and other liabilities		83,653	1,487	(5,877)	79,263	67,388
Governmental activities total		1,352,970	299,092	(187,182)	1,464,880	189,581
Total business-type activities						
General obligation bonds, net		16,233	12,175	(3,010)	25,398	2,670
Certificates of obligation, net		40,169	9,518	(8,784)	40,903	2,737
Contractual obligations, net		50,064	16,569	(11,779)	54,854	12,479
Other tax supported debt, net		18,178		(6,904)	11,274	671
General obligation bonds						
and other tax supported debt total		124,644	38,262	(30,477)	132,429	18,557
Commercial paper notes, net		299,797	235,022	(175,027)	359,792	
Revenue notes		28,000			28,000	
Revenue bonds, net		3,643,111	191,991	(140,825)	3,694,277	166,682
Capital lease obligations		1,628		(370)	1,258	40
Debt service requirements total		4,097,180	465,275	(346,699)	4,215,756	185,279
Other long-term obligations						
Accrued compensated absences		24,359	1,110	(1,612)	23,857	23,037
Accrued landfill closure and postclosure costs		7,940	3,078	(3,509)	7,509	186
Decommissioning expense payable		150,591	15,965		166,556	
Pension obligation payable		52,640	8,877	(272)	61,245	
Other post employment benefits		100,716	48,458		149,174	
Deferred credits and other liabilities		798,481	37,286	(57,670)	778,097	79,885
Business-type activities total		5,231,907	580,049	(409,762)	5,402,194	288,387
Total liabilities (2)	\$	6,584,877	879,141	(596,944)	6,867,074	477,968

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

<sup>(2)</sup> This schedule excludes select short-term liabilities of \$57,115 for governmental activities; and for business-type activities, select short-term liabilities of \$230,864, capital appreciation bond interest payable of \$118,206, and derivative instruments of \$186,438.

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

Description	October 1, 2010	Increases	Decreases	September 30, 2011	Amounts Due Within One Year
Business-type activities:					
Electric activities					
General obligation bonds, net	\$ 1,113		(83)	1,030	78
Contractual obligations	79		(79)		
General obligation bonds					
and other tax supported debt total	1,192		(162)	1,030	78
Commercial paper notes, net	85,155	67,454	(27)	152,582	
Revenue bonds, net	1,326,283		(70,187)	1,256,096	75,772
Capital lease obligations	1,297		(39)	1,258	40
Debt service requirements total	1,413,927	67,454	(70,415)	1,410,966	75,890
Other long-term obligations					
Accrued compensated absences	11,576	571	(844)	11,303	11,252
Decommissioning expense payable	150,591	15,965	` ′	166,556	·
Pension obligation payable	23,617	4,120		27,737	
Other post employment benefits	41,078	21,158		62,236	
Deferred credits and other liabilities	290,398	26,472	(54,054)	262,816	39,634
Electric activities total	1,931,187	135,740	(125,313)	1,941,614	126,776
	1,001,101	100,110	(120,010)	.,0,0	.20,0
Water and Wastewater activities					
General obligation bonds, net	1,179	5,655	(860)	5,974	1,101
Contractual obligations, net	12,371	1,687	(3,308)	10,750	3,231
Other tax supported debt, net	13,829		(6,611)	7,218	430
General obligation bonds					
and other tax supported debt total	27,379	7,342	(10,779)	23,942	4,762
Commercial paper notes, net	214,642	167,568	(175,000)	207,210	
Revenue bonds, net	1,811,897	191,991	(50,200)	1,953,688	67,295
Debt service requirements total	2,053,918	366,901	(235,979)	2,184,840	72,057
Other long-term obligations	2,000,010	000,00	(200,010)	2,101,010	. 2,001
Accrued compensated absences	5,520	368	(398)	5,490	5,122
Pension obligation payable	11,823	1,942	(555)	13,765	J, 122
Other post employment benefits	25,386	12,000		37,386	
Deferred credits and other liabilities		1,006		496,979	22.262
Water and Wastewater activities total	498,551 2,595,198	382,217	(2,578)	2,738,460	32,262 109,441
Water and Wastewater activities total	2,000,100	302,217	(230,933)	2,730,400	103,441
Airport activities					
General obligation bonds, net	262		(30)	232	30
General obligation bonds					
and other tax supported debt total	262		(30)	232	30
Revenue notes	28,000			28,000	
Revenue bonds, net	295,283		(12,680)	282,603	14,165
Capital lease obligations	331		(331)	·	
Debt service requirements total	323,876		(13,041)	310,835	14,195
Other long-term obligations	5_5,515		(10,011)		,
Accrued compensated absences	1,561	102	(59)	1,604	1,441
Pension obligation payable	3,570	584	(55)	4,154	1,771
Other post employment benefits	7,477	3,286		10,763	
Deferred credits and other liabilities		3,200			1,033
Aim	1,550	0.007	(476)	1,089	40,000
Airport activities total	338,034	3,987	(13,576)	328,445	16,669
Nonmajor activities					
General obligation bonds, net	13,679	6,520	(2,037)	18,162	1,461
Certificates of obligation, net	40,169	9,518	(8,784)	40,903	2,737
Contractual obligations	37,614	14,882	(8,392)	44,104	9,248
Other tax supported debt, net	4,349		(293)	4,056	241
General obligation bonds					
and other tax supported debt total	95,811	30,920	(19,506)	107,225	13,687
Revenue bonds, net	209,648		(7,758)	201,890	9,450
Capital lease obligations					
Debt service requirements total	305,459	30,920	(27,264)	309,115	23,137
Other long-term obligations	300,400	30,320	(27,204)	505,115	20,107
Accrued compensated absences	5,702	69	(311)	5,460	5,222
Accrued landfill closure and postclosure costs	5,702 7,940	3,078		7,509	
·			(3,509)		186
Pension obligation payable Other post ampleyment benefits	13,630	2,231	(272)	15,589	
Other post employment benefits	26,775	12,014	(FOC)	38,789	
Deferred credits and other liabilities	7,982	9,793	(562)	17,213	6,956
Nonmajor activities total	\$ 367,488	58,105	(31,918)	393,675	35,501

# b -- Governmental Activities Long-Term Liabilities

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

The following table summarizes significant facts about general obligation bonds, certificates of obligation, contractual obligations, and assumed municipal utility district (MUD) bonds outstanding at September 30, 2011, including those reported in certain proprietary funds (in thousands):

		Original	Dringing	Aggregate In		Interest Rates of Debt	Maturity Dates	
Series	Date Issued	Amount Issue	Principal Outstanding	Requireme Outstand		Outstanding	Maturity Dates of Serial Debt	
NW Austin MUD	December 2004	\$ 2,630	1,844		(1)(3)	3.55 - 4.30%	9/01/2012-2020	-
NW Austin MUD	June 2004	7,995	7,320	3,922		3.90 - 4.25%	9/01/2012-2026	
NW Austin MUD	November 2009	2,760	2,110		(1)(3)	4.00 - 4.25%	3/01/2012-2018	
Series 2001 Refunding	June 2001	123,445	14,420	2,214		4.75 - 5.50%	9/1/2012-2013	
Series 2001	August 2001	79,650	4,375	219	. ,	5.00%	9/1/2012	
Series 2001	August 2001	65,335	5,045	252		5.00%	9/1/2012	
Series 2002 Refunding	June 2002	12,190	8,535	1,173	. ,	4.13 - 4.50%	3/1/2012-2017	
Series 2002	August 2002	99,615	15,600	1,247	. ,	3.75 - 4.00%	9/1/2012-2014	
Series 2002	August 2002	34,095	5,050		(1)	3.75 - 4.00%	9/1/2012-2014	
Series 2003 Refunding	May 2003	62,585	5,025		(1)	5.00%	9/1/2012-2013	
Series 2003 Refunding	September 2003	68,855	22,310		(1)	3.75 - 4.25%	9/1/2012-2017	
Series 2003A Refunding	September 2003	2,530	680		(1)	5.00%	9/1/2012-2013	
Series 2003	September 2003	4,450	3,145	1,012		4.00 - 4.80%	9/1/2012-2023	
Series 2004 Refunding	September 2004	67,835	54,080		(1)	4.00 - 5.00%	9/1/2012-2024	
Series 2004A Refunding	September 2004	2,430	1,056		(1)	4.60 - 4.75%	9/1/2012-2014	
Series 2004	September 2004	25,000	17,375		(1)	4.63 - 5.00%	9/1/2012-2024	
Series 2004	September 2004	21,830	1,985		(2)	3.35%	11/1/2011	
Series 2005 Refunding	February 2005	145,345	128,800	30,938	. ,	5.00%	9/1/2012-2020	
Series 2005 Refunding	August 2005	19,535	14,140		(1)	4.00 - 4.50%	9/1/2012-2025	
Series 2005	August 2005	7,185	5,735		(1)	3.50 - 4.30%	9/1/2012-2025	
Series 2005	August 2005	14,940	3,405		(2)	3.50 - 3.75%	11/1/2011-2012	
Series 2006	August 2006	31,585	31,285		(1)	4.00 - 5.38%	9/1/2012-2026	
Series 2006	August 2006	24,150	20,116	7,728		4.00 - 5.00%	9/1/2012-2026	
Series 2006	August 2006	14,120	5,565	352		4.00 - 4.25%	11/1/2011-2013	
Series 2006	August 2006	12,000	10,590	4,192	. ,	4.00 - 6.00%	9/1/2012-2026	
Series 2007	August 2007	97,525	93,325		(1)	4.64%	9/1/2012-2027	
Series 2007	August 2007	3,820	3,325		(1)	4.88%	9/1/2012-2027	
Series 2007	August 2007	9,755	5,916	607	. ,	3.66%	11/1/2011-2017	
Series 2008 Refunding	January 2008	172,505	122,165	30,283		5.00%	9/1/2012-2021	
Series 2008	August 2008	76,045	61,620		(1)	3.50 - 5.00%	9/1/2012-2028	
Series 2008	August 2008	10,700	9,730	,	(1)	3.25 - 5.00%	9/1/2012-2028	
Series 2008	August 2008	26,715	18,190	,	(2)	3.00 - 3.50%	11/1/2011-2015	
Series 2009A	September 2009	20,905	9,545		(1)	3.00 - 5.00%	9/1/2012-2016	
Series 2009B	September 2009	78,460	78,460	,	(1)	4.15 - 5.31%	9/1/2017-2029	
Series 2009	September 2009	12,500	11,330	6,343		3.00 - 4.75%	9/1/2012-2039	
Series 2009	September 2009	13,800	11,590	1,272		2.00 - 3.25%	11/1/2011-2019	
Series 2009	October 2009	15,000	14,395		(1)(4)	2.50 - 4.25%	9/1/2012-2029	
Series 2010A	October 2010	79,528	69,240	34,565		2.00 - 4.00%	9/1/2012-2030	
Series 2010B	October 2010	26,400	25,760		(1)	3.50 - 4.65%	9/1/2012-2030	
Series 2010	October 2010	22,300	21,625	7,613		2.00 - 3.50%	9/1/2012-2030	
Series 2010	October 2010	16,450	15,475	763		1.00 - 1.75%	5/1/2012-2017	(5)
Series Refunding 2010	November 2010	91,560	91,560		(1)	4.00 - 5.00%	9/1/2012-2023	(5)
2555 Nordinaning 2010		01,000	\$ 1,052,842	33,700	( · )	0.0070	5, 1,2012 2020	
			ψ 1,00Z,0¬Z					

<sup>(1)</sup> Interest is paid semiannually on March 1 and September 1.

<sup>(2)</sup> Interest is paid semiannually on May 1 and November 1.

<sup>(3)</sup> Includes Austin Water Utility principal of \$7,218 and interest of \$2,927 and Drainage Fund principal of \$4,056 and interest of \$1,645.

<sup>(4)</sup> Included with contractual obligations are Mueller Local Government Corporation contract revenue bonds.

<sup>(5)</sup> Series matures on Nov 1st of the final year.

# b -- Governmental Activities Long-Term Liabilities, continued

In October 2010, the City issued \$79,528,000 of Public Improvement Bonds, Series 2010A. The proceeds from the issue will be used as follows: street improvements (\$16,998,000), streets and signals (\$15,800,000), drainage improvements (\$24,000,000), park improvements (\$20,130,000) cultural arts (\$100,000), central library (\$1,000,000), and public safety facility (\$1,500,000). These bonds will be amortized serially on September 1 of each year from 2011 to 2030. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2011. Total interest requirements for these bonds, at rates ranging from 2.00% to 4.00%, are \$37,170,378.

In October 2010, the City issued \$26,400,000 of Public Improvement Bonds, Taxable Series 2010B. The proceeds from the issue will be used as follows: affordable housing (\$26,400,000). These bonds will be amortized serially on September 1 of each year from 2011 to 2030. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2011. Total interest requirements for these bonds, at rates ranging from 3.00% to 4.65%, are \$16,225,123.

In October 2010, the City issued \$22,300,000 of Certificates of Obligation, Series 2010. The proceeds from this issue will be used as follows: public safety facilities (\$3,850,000), solid waste services landfill closure (\$8,100,000), public works transportation projects (\$9,000,000), and improvements (\$1,350,000). These certificates of obligation will be amortized serially on September 1 of each year from 2011 to 2030. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2011. Total interest requirements for these certificates of obligation, at rates ranging from 2.00% to 3.50%, are \$8,237,625.

In October 2010, the City issued \$16,450,000 of Public Property Finance Contractual Obligations, Series 2010. The proceeds from this issue will be used as follows: solid waste services capital equipment (\$8,600,000), parking meter pay stations (\$2,600,000), golf capital equipment (\$1,070,000), public works transportation capital equipment (\$2,505,000) wastewater utility capital equipment (\$1,016,000), and water utility capital equipment (\$659,000). These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2011 to 2017. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2011. Total interest requirements for these obligations, at rates ranging from 1.00% to 1.75%, are \$897,315.

**Public Improvement Refunding Bond Issue** - In November 2010, the City issued \$91,560,000 of Public Improvement Refunding Bonds, Series 2010. The net proceeds of \$108,587,889 (after issue costs, discounts, and premiums) from the refunding were used to refund \$41,500,000 of Public Improvement Bonds, Series 2002; \$31,785,000 of Public Improvement Refunding Bonds, Series 2003; \$20,010,000 of Certificates of Obligations, Series 2001 and 2002; \$2,090,000 of Circle C MUD #3 and Circle C MUD #4 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1996;\$4,040,000 of Davenport Ranch MUD #1 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1997 and Series 1997B; and \$70,000 of Northwest Austin MUD #1 unlimited Tax Bonds, Series 2001. The refunding resulted in future interest requirements to service the debt of \$40,480,158 with interest rates ranging from 3.5% to 5%. An economic gain of \$9,426,174 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of \$11,427,089. An accounting loss of \$9,634,358 was recognized on the refunding.

General obligation bonds authorized and unissued amounted to \$263,252,000 at September 30, 2011. Bond ratings at September 30, 2011, were Aaa (Moody's Investor Services, Inc.), AAA (Standard & Poor's), and AAA (Fitch).

**Utility Debt** - The City has previously issued combined debt for Austin Energy and Austin Water Utility. The City began issuing separate debt for electric and water and wastewater activities in 2000. The following paragraphs describe both combined and separate debt.

Combined Utility Systems Debt -- General - Austin Energy and Austin Water Utility comprise the combined utility systems, which issue combined utility systems revenue bonds to finance capital projects. Principal and interest on these bonds are payable solely from the combined net revenues of Austin Energy and Austin Water Utility.

The total combined utility systems revenue bond obligations at September 30, 2011, exclusive of discounts, premiums, and loss on refundings consists of \$119,597,846 prior lien bonds and \$230,919,512 subordinate lien bonds. Aggregate interest requirements for all prior lien and subordinate lien bonds are \$329,025,093 at September 30, 2011. Revenue bonds authorized and unissued amount to \$1,492,642,660 at that date. Bond ratings at September 30, 2011, for the prior lien and subordinate lien bonds were, respectively, A1 and A1 (Moody's Investor Services, Inc.), AA and AA (Standard & Poor's), and AA- and AA- (Fitch).

# c -- Business-Type Activities Long-Term Liabilities

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

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

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

**Combined Utility Systems Debt -- Bonds Issued and Outstanding -** The following schedule shows the original and refunding revenue bonds outstanding at September 30, 2011 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
1990B Refunding	February 1990	\$ 236,009	3,668	20,502 (1)(3)	7.35%	11/15/2014-2017
1992 Refunding	March 1992	265,806	14,002	40,043 (1)(3)	6.85%	11/15/2011-2012
1992A Refunding	May 1992	351,706	10,834	28,791 (1)(3)	6.80%	11/15/2011
1993 Refunding	January 1993	203,166	26,285	2,271 (1)(3)	6.30%	11/15/2011-2013
1994 Refunding	September 1994	142,559	26,894	96,961 (1)(3)	6.60%	05/15/2017-2019
1998 Refunding	July 1996	180,000	37,915	2,602 (1)(2)	6.75%	11/15/2011-2012
1998 Refunding	October 1998	139,965	134,745	68,036 (1)	5.25%	5/15/2012-2025
1998A Refunding	October 1998	105,350	91,404	69,178 (1)(3)	5.00%	5/15/2012-2028
1998B	August 1998	10,000	4,770	641 (1)	3.45 - 3.75%	11/15/2011-2017
			\$ 350,517			

- (1) Interest is paid semiannually on May 15 and November 15.
- (2) Series 1998 Refunding had a delayed delivery.
- (3) Interest requirements include accreted interest

Combined Utility Systems Debt -- Commercial Paper Notes - The City is authorized by ordinance to issue commercial paper notes in an aggregate principal amount not to exceed \$350,000,000 outstanding at any one time. Proceeds from the notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2011, were P-1 (Moody's Investor Services, Inc.), A-1+ (Standard & Poor's), and F1+ (Fitch). The notes are in denominations of \$100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the notes are payable from the combined net revenues of Austin Energy and Austin Water Utility.

# c -- Business-Type Activities Long-Term Liabilities, continued

At September 30, 2011, Austin Energy had outstanding commercial paper notes of \$111,590,000 and Austin Water Utility had \$207,210,000 of commercial paper notes outstanding. Interest rates on the notes range from 0.14% to 0.32%, which are adjusted daily. Subsequent issues cannot exceed the maximum rate of 15%. The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt. The associated letter of credit agreements have the following terms (in thousands):

Note		Commitment	Credit Fee		Remarketing			
Series	Liquidity Provider	Fee Rate	Rate	Remarketing	Fee Rate	Ot	utstanding	Expiration
various	JPMorgan Chase Bank, NA	0.85%	0.90%	Goldman Sachs	0.075%	\$	130,488	10/1/2014
various	Bank of America	0.85%	0.90%	Goldman Sachs	0.075%		81,875	10/1/2014
various	State Street	0.85%	0.90%	Goldman Sachs	0.075%		106,437	10/1/2014
						\$	318,800	

These notes are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the notes, the notes will be purchased by the respective liquidity providers and become bank notes with principal to be paid in 12 equal, quarterly installments. Bank notes bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate.

Combined Utility Systems Debt -- Taxable Commercial Paper Notes - The City is authorized by ordinance to issue taxable commercial paper notes (the "taxable notes") in an aggregate principal amount not to exceed \$50,000,000 outstanding at any time. Proceeds from the taxable notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2011, were P-1 (Moody's Investor Services, Inc.), A-1+ (Standard & Poor's), and F1+ (Fitch).

The taxable notes are issued in denominations of \$100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the taxable notes are payable from the combined net revenues of Austin Energy and Austin Water Utility.

At September 30, 2011, Austin Energy had outstanding taxable notes of \$41,019,000 (net of discount of \$27,311), and Austin Water Utility had no taxable notes outstanding. Interest rates on the taxable notes range from 0.23% to 0.28%. The City intends to refinance maturing commercial paper notes by issuing long-term debt. The associated letter of credit agreement has the following terms (in thousands):

Note		Commitment		Remarketing			
Series	Liquidity Provider	Fee Rate	Fee Rate Remarketing		Outstanding		Expiration
various	JPMorgan Chase Bank, NA	0.85%	Goldman Sachs	0.075%	\$	41,019	10/1/2014

These notes are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the notes, the notes will be purchased by JPMorgan Chase Bank, NA and become bank notes with principal due immediately. Bank notes bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess note interest or the maximum rate.

The Notes are secured by a direct-pay Letter of Credit issued by JPMorgan Chase Bank, NA which permits draws for the payment of the Notes. Draws made under the Letter of Credit are immediately due and payable by the City from the resources more fully described in the Ordinance. No term loan feature is provided by the Agreement.

**Electric Utility System Revenue Debt -- General -** The City is authorized by ordinance to issue electric utility system revenue obligations. Proceeds from these obligations are used only to fund electric capital projects or to refund debt issued to fund these capital projects. Principal and interest on these obligations are payable solely from the net revenues of Austin Energy. Bond ratings at September 30, 2011, were A1 (Moody's Investor Services, Inc.), A+ (Standard & Poor's), and AA-(Fitch).

# c -- Business-Type Activities Long-Term Liabilities, continued

**Electric Utility System Revenue Debt -- Bonds Issued and Outstanding -** The following table summarizes all electric system original and refunding revenue bonds outstanding at September 30, 2011 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2002 Refunding	February 2002	\$ 74,750	48,070	5,333 (1)	4.00 - 5.50%	11/15/2011-2014
2002A Refunding	July 2002	172,880	90,950	16,386 (1)	4.00 - 5.50%	11/15/2011-2016
2003 Refunding	February 2003	182,100	139,100	72,202 (1)	5.00 - 5.25%	11/15/2011-2028
2006 Refunding	May 2006	150,000	140,900	103,542 (1)	5.00%	11/15/2011-2035
2006A Refunding	October 2006	137,800	107,425	29,741 (1)	5.00%	11/15/2011-2022
2007 Refunding	August 2007	146,635	134,320	25,908 (1)	5.00%	11/15/2011-2020
2008 Refunding	March 2008	50,000	47,795	39,141 (1)	3.43 - 6.26%	11/15/2011-2032
2008A Refunding	July 2008	175,000	174,800	168,524 (1)	4.00 - 6.00%	11/15/2011-2038
2010A Refunding	June 2010	119,255	119,255	83,614 (1)	2.00 - 5.00%	11/15/2012-2040
2010B Refunding	June 2010	100,990	100,990	115,197 (1)	4.54 - 5.72%	11/15/2019-2040
			\$ 1,103,605			

<sup>(1)</sup> Interest is paid semiannually on May 15 and November 15.

**Electric Utility System Revenue Debt – Pledged Revenues -** The net revenue of Austin Energy was pledged to service the outstanding principal and interest payments for revenue debt outstanding. The table below represents the pledged amounts at September 30, 2011 (in thousands):

•				Revenue
Gross	Operating		<b>Debt Service</b>	Bond
Revenue (1)	Expense (2)(3)	Net Revenue	Requirement	Coverage
\$ 1,258,871	907,524	351,347	172,631	203.5%

<sup>(1)</sup> Gross revenue includes revenues from operations and interest income.

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

Water and Wastewater System Revenue Debt -- Revenue Bond Refunding Issues - In November 2010, the City issued \$76,855,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2010A. Proceeds from the bond refunding were used to refund \$75,000,000 of the City's outstanding tax-exempt commercial paper issued for the water and wastewater utility system. The debt service requirements on the refunding bonds are \$153,171,897, with interest rates ranging from 4% to 5.13%. Interest payments are due May 15 and November 15 of each year from 2011 to 2040. Principal payments are due November 15 of each year from 2015 to 2040. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

In November 2010, the City issued \$100,970,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2010B. These bonds are Build America Bonds (BABs) and are part of the Federal American Recovery and Reinvestment Act of 2009. Proceeds from the bond refunding were used to refund \$100,000,000 of the City's outstanding tax-exempt commercial paper issued for the water and wastewater utility system. The debt service requirements on the refunding bonds are \$213,428,131, with interest rates ranging from 2.49% to 6.02%. Interest payments are due May 15 and November 15 of each year from 2011 to 2040. Principal payments are due November 15 of each year from 2015 to 2040. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

In 2011, the City converted an additional \$12,750,000 of initial bonds to definitive Water and Wastewater System Revenue Bonds, Series 2010. With these issuances, the outstanding commitment with the Texas Water Development Board (TWDB) is now \$23,590,000 (see Note 13).

<sup>(2)</sup> Excludes depreciation.

<sup>(3)</sup> Excludes other post employment benefits and pension obligation accruals.

# c -- Business-Type Activities Long-Term Liabilities, continued

Bond ratings at September 30, 2011, were Aa2 (Moody's Investor Services, Inc.), AA (Standard & Poor's), and AA- (Fitch).

Water and Wastewater System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all water and wastewater system original and refunding revenue bonds outstanding at September 30, 2011 (in thousands):

		Original	Detectors	Aggregate Interest	Interest Rates	Matanita Datas
Series	Date Issued	Amount Issued	Principal Outstanding	Requirements Outstanding	of Debt Outstanding	Maturity Dates of Serial Debt
2001A Refunding	April 2001	\$ 152,180	9,260	7,007 (1)	4.63 - 5.75%	11/15/2011-2031 (3)
2001B Refunding	April 2001	73,200	7,895	6,228 (1)	5.13 - 5.75%	5/15/2012-2031
2001C Refunding	November 2001	95,380	13,405	1,578 (1)	4.30 - 5.38%	11/15/2011-2015 (3)
2002A Refunding	July 2002	139,695	71,560	14,461 (1)	4.00 - 5.50%	11/15/2011-2016
2003 Refunding	February 2003	121,500	75,800	44,895 (1)	4.00 - 5.25%	11/15/2011-2028
2004 Refunding	August 2004	132,475	114,545	24,565 (2)	0.13 - 0.45%	11/15/2011-2024
2004A Refunding	September 2004	165,145	147,965	80,960 (1)	5.00%	11/15/2011-2029
2005 Refunding	May 2005	198,485	198,485	86,970 (1)	4.00 - 5.00%	5/15/2012-2030
2005A Refunding	October 2005	142,335	124,325	86,701 (1)	4.30 - 5.00%	5/15/2012-2035
2006 Refunding	August 2006	63,100	49,605	20,341 (1)	5.00%	11/15/2011-2025
2006A Refunding	November 2006	135,000	128,305	88,382 (1)	3.50 - 5.00%	11/15/2011-2036
2007 Refunding	November 2007	135,000	130,435	105,571 (1)	4.00 - 5.25%	11/15/2011-2037
2008 Refunding	May 2008	170,605	160,740	62,642 (2)	0.05 - 0.80%	11/15/2011-2031 (3)
2009 Refunding	January 2009	175,000	175,000	93,972 (1)	3.00 - 5.13%	11/15/2011-2029
2009A Refunding	November 2009	166,575	166,575	138,980 (1)	4.00 - 5.00%	11/15/2011-2039
2010	January 2010	23,590	23,590		0.00%	11/15/2012-2034
2010A Refunding	November 2010	76,855	76,855	74,253 (1)	4.00 - 5.13%	11/15/2013-2040
2010B Refunding	November 2010	100,970	100,970	109,524 (1)	2.49 - 6.02%	11/15/2015-2040
			\$ 1,775,315			

<sup>(1)</sup> Interest is paid semiannually on May 15 and November 15.

The Series 2004 and 2008 refunding bonds are variable rate demand bonds. The associated letter of credit agreements have the following terms (in thousands):

Bond Sub-Series	Liquidity Provider	Commitment Fee Rate	Remarketing Agent	Remarketing Fee Rate	Oı	ıtstanding	Expiration
			JP Morgan Chase				
2004	Landesbank Baden-Wurttemberg	0.75%	Bank, NA	0.075%	\$	114,545	12/29/2015
	Sumitoma Mitsui Banking Corp./The						
2008	Bank of Tokyo-Mitsubishi UFJ, Ltd	0.85%	Goldman Sachs	0.050%		160,740	5/8/2015
					\$	275,285	

These bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the bonds, the bonds will be purchased by the respective liquidity providers and become bank bonds with principal to be paid in equal semi-annual installments over a 5-year amortization period. Bank bonds bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate.

<sup>(2)</sup> Interest is paid monthly and is based on a variable rate. Aggregate interest requirement is calculated utilizing the rate in effect at the end of the fiscal year.

<sup>(3)</sup> Series matures on May 15th of the final year

# c -- Business-Type Activities Long-Term Liabilities, continued

Water and Wastewater System Revenue Debt -- Pledged Revenues - The net revenue of Austin Energy was pledged to service the outstanding principal and interest payments for revenue debt outstanding. The table below represents the pledged amounts at September 30, 2011 (in thousands):

Gross		Operating		<b>Debt Service</b>	Revenue Bond
Revenue (1)		Expense (2)(3)	Net Revenue	Requirement	Coverage
\$	448.467	163,531	284.936	155.881	182.8%

- (1) Gross revenue includes revenues from operations and interest income.
- (2) Excludes depreciation.
- (3) Excludes other post employment benefits and pension obligation accruals.

**Airport -- Revenue Bonds -** The City's Airport Fund issues airport system revenue bonds to fund Airport Fund capital projects. Principal and interest on these bonds are payable solely from the net revenues of the Airport Fund. At September 30, 2011, the total airport system obligation for prior lien bonds is \$295,015,000 exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior lien bonds are \$97,646,000 at September 30, 2011. Revenue bonds authorized and unissued amount to \$735,795,000.

The bond rating at September 30, 2011, for the prior lien bonds is A (Standard & Poor's).

The following table summarizes all airport system original and refunding revenue bonds outstanding at September 30, 2011 (in thousands):

Series	Date Issued	Original Amount Principal ate Issued Outstanding			Aggregate Interest Requirements Outstanding		Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt		
2003 Refunding	December 2003	\$	54,250		46,665		12,061	(1)	4.00 - 5.25%	11/15/2011-2018
2008 Remarketing	April 2008		281,300		248,350		85,585	(2)	0.05% - 2.00%	11/15/2011-2025
				\$	295,015					

- (1) Interest is paid semiannually on May 15 and November 15.
- (2) Interest is paid monthly and is based on a variable rate. Aggregate interest requirement is calculated utilizing the rate in effect at the end of the fiscal year.

The Series 2008 remarketing bonds are variable rate demand bonds. These bonds are separated into 4 subseries with a total principal amount of \$248,350,000. The associated letter of credit agreements have the following terms (in thousands):

	Bond Sub-		Commitment	Remarketing	Remarketing			
	Series	Liquidity Provider	Fee Rate	Agent	Fee Rate	O	utstanding	Expiration
•	2005-1	JPMorgan Chase Bank, NA	1.35%	Morgan Stanley	0.10%	\$	62,075	6/21/2014
	2005-2	JPMorgan Chase Bank, NA	1.35%	Morgan Stanley	0.10%		62,050	6/21/2014
	2005-3	KBC Bank, N.V.	1.35%	Morgan Stanley	0.10%		62,100	6/21/2014
	2005-4	Royal Bank of Canada	1.35%	Morgan Stanley	0.10%		62,125	6/21/2014
						\$	248,350	

These bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the bonds, the bonds will be purchased by the respective liquidity provider and become bank bonds with principal to be paid in annual installments over the remaining life of the bond series. Bank bonds bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate.

#### c -- Business-Type Activities Long-Term Liabilities, continued

**Airport Debt -- Variable Rate Revenue Notes -** The City is authorized by ordinance to issue airport system variable rate revenue notes. At September 30, 2011, the airport system had outstanding variable rate revenue notes of \$28,000,000. The debt service fund required by the bond ordinance held assets of \$12,686,362 including accrued interest, at September 30, 2011, and was restricted within the airport system. During fiscal year 2011, interest rates on the notes ranged from 0.05% to 0.33%, adjusted weekly at market rates; subsequent rate changes cannot exceed the maximum rate of 15%. Principal and interest on the notes are payable from the net revenues of the airport system.

The Series 1998 revenue notes are variable rate demand notes. The associated letter of credit agreement has the following terms (in thousands):

	Liquidity	Commitment	Remarketing	Remarketing Fee			
<b>Bond Sub-Series</b>	Provider	Fee Rate	Agent	Rate	Οu	ıtstanding	Expiration
1998	State Street	1.75%	Citi	0.125%	\$	28,000	8/18/2012

These notes are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the notes, the notes will be purchased by State Street and become bank notes with principal to be paid in 12 equal, quarterly installments. Bank notes bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess note interest or the maximum rate.

The bond rating at September 30, 2011, for the airport variable rate notes was NUR (no underlying rating).

**Airport Revenue Debt -- Pledged Revenues -** The net revenue of the Airport Fund was pledged to service the outstanding principal and interest payments for revenue debt outstanding (including revenue bonds and revenue notes). The table below represents the pledged amounts at September 30, 2011 (in thousands):

				Net Revenue and		
Re	Gross evenue (1)	Other available funds (2)	Operating Expense (3)(4)	Other Available Funds	Debt Service Requirement (5)	Revenue Bond Coverage
\$	90.259	8.342	59.965	38.636	14.954	258.4%

- (1) Gross revenue includes revenues from operations and interest income.
- (2) Pursuant to bond ordinance, in addition to gross revenue, the Airport is authorized to use "other available funds" in the calculation of revenue bond coverage.
- (3) Excludes depreciation.
- (4) Excludes other post employment benefits and pension obligation accruals.
- (5) Excludes debt service amounts paid with passenger facility charge revenues.

#### Nonmajor fund:

Convention Center -- Prior and Subordinate Lien Revenue Bonds - The City's Convention Center Fund issues convention center revenue bonds and hotel occupancy tax revenue bonds to fund Convention Center Fund capital projects. Principal and interest on these bonds are payable solely from pledged hotel occupancy tax revenues and the special motor vehicle rental tax revenues. At September 30, 2011, the total convention center obligation for prior and subordinate lien bonds is \$215,470,000, exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior and subordinate lien bonds are \$81,086,840 at September 30, 2011. Revenue bonds authorized and unissued amount to \$760,000 at September 30, 2011.

Bond ratings at September 30, 2011, for the revenue bonds were A1 (Moody's Investor Services, Inc.), and A- (Standard & Poor's).

#### c -- Business-Type Activities Long-Term Liabilities, continued

The following table summarizes Convention Center original and refunding revenue bonds outstanding at September 30, 2011 (in thousands):

		Original Amount	Principal	Aggregate Interest Requirements	Interest Rates of Debt	Maturity Dates
Series	Date Issued	Issued	Outstanding	Outstanding	Outstanding	of Serial Debt
1999A	June 1999	\$ 25,000	20,830	12,565 (1)	5.10 - 5.50%	11/15/2011-2029
2004 Refunding	February 2004	52,715	40,390	9,758 (1)	5.00%	11/15/2011-2019
2005 Refunding	May 2005	36,720	36,720	20,037 (1)	3.30 - 5.00%	11/15/2011-2029
2008AB Refunding	August 2008	125,280	117,530	38,726 (2)	0.07 - 3.25%	11/15/2011-2029
			\$ 215,470			

<sup>(1)</sup> Interest is paid semiannually on May 15 and November 15.

The Series 2008 A and B refunding bonds are variable rate demand bonds. The associated letter of credit agreements have the following terms (in thousands):

		Commitment		Remarketing			
<b>Bond Sub-Series</b>	Liquidity Provider	Fee Rate	Remarketing Agent	Fee Rate	Οι	ıtstanding	Expiration
2008-A	JPMorgan Chase Bank, NA	1.10%	Morgan Keegan	0.060%	\$	58,765	7/25/2014
2008-B	Bank of America, NA	1.10%	Merrill Lynch, Pierce,	0.050%		58,765	7/25/2014
			Fenner& Smith Inc.		\$	117,530	

These bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the bonds, the bonds will be purchased by the respective liquidity provider and become bank bonds with principal to be paid in equal semi-annual installments over a 5-year amortization period. Bank bonds bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate.

<sup>(2)</sup> Interest is paid monthly and is based on a variable rate. Aggregate interest requirement calculated utilizing the rate in effect at the end of the fiscal year.

# d -- Debt Service Requirements

# Governmental Activities (in thousands)

Fiscal Year Ended		General Ob Bond	U	Certificates of Obligation		Contractual Obligations	
September 30		Principal	Interest	Principal	Interest	Principal	Interest
2012	\$	48,426	37,976	8,248	2,501	3,735	1,277
2013		53,952	35,705	3,979	2,145	2,165	1,169
2014		50,103	33,224	4,200	2,001	2,161	1,097
2015		51,422	30,883	2,617	1,849	2,688	1,009
2016		46,676	28,500	2,752	1,739	2,256	899
2017-2021		271,123	105,430	15,766	6,950	7,835	3,486
2022-2026		182,792	49,825	19,070	3,477	8,775	1,836
2027-2031		121,581	10,335	5,601	454	3,145	271
		826,075	331,878	62,233	21,116	32,760	11,044
Less: Unamortized bond discounts		(678)					
Unamortized gain(loss) on bond refundings		(19,068)					
Add: Unamortized bond premiums		36,379		193		234	
Net debt service requirements		842,708	331,878	62,426	21,116	32,994	11,044

Fiscal Year	Capital		Total Governmental  Debt Service Requirements					
Ended September 30	Obliga Principal	Interest	Principal					
2012	274	8	60,683	41,762	102,445			
2013	159	3	60,255	39,022	99,277			
2014			56,464	36,322	92,786			
2015			56,727	33,741	90,468			
2016			51,684	31,138	82,822			
2017-2021			294,724	115,866	410,590			
2022-2026			210,637	55,138	265,775			
2027-2031			130,327	11,060	141,387			
	433	11	921,501	364,049	1,285,550			
Less: Unamortized bond discounts			(678)		(678)			
Unamortized gain(loss) on bond refundings			(19,068)		(19,068)			
Add: Unamortized bond premiums			36,806		36,806			
Net debt service requirements	\$ 433	11	938,561	364,049	1,302,610			

# d -- Debt Service Requirements, continued

# Austin Energy Business-Type Activities (in thousands)

Fiscal Year Ended		General Obligation Bonds			Lease ations	Commercial Paper Notes (1)	
September 30	Pri	ncipal	Interest	Principal	Interest	Principal	Interest
2012	\$	78	49	40	76	152,609	28
2013		125	45	42	74		
2014		131	39	44	72		
2015		139	33	47	69		
2016		112	26	49	67		
2017-2021		402	45	286	293		
2022-2026				367	214		
2027-2031				383	100		
		987	237	1,258	965	152,609	28
Less: Unamortized bond discount		(2)				(27)	
Unamortized gain(loss) on bond refundings							
Add: Unamortized bond premium		45					
Net debt service requirements		1,030	237	1,258	965	152,582	28

Fiscal Year			Total Austin Energy					
Ended	Revenue	Bonds	Debt Se	rvice Requir	rements			
September 30	Principal	Interest	Principal	Interest	Total			
2012	75,772	92,959	228,499	93,112	321,611			
2013	105,092	69,013	105,259	69,132	174,391			
2014	123,006	53,912	123,181	54,023	177,204			
2015	79,754	50,964	79,940	51,066	131,006			
2016	52,996	47,779	53,157	47,872	101,029			
2017-2021	218,125	194,397	218,813	194,735	413,548			
2022-2026	221,294	132,384	221,661	132,598	354,259			
2027-2031	190,175	77,444	190,558	77,544	268,102			
2032-2036	128,930	36,492	128,930	36,492	165,422			
2037-2041	73,640	8,220	73,640	8,220	81,860			
	1,268,784	763,564	1,423,638	764,794	2,188,432			
Less: Unamortized bond discounts	(2,063)		(2,092)		(2,092)			
Unamortized gain(loss) on bond refundings	(44,107)		(44,107)		(44,107)			
Add: Unamortized bond premiums	33,482		33,527		33,527			
Net debt service requirements	\$ 1,256,096	763,564	1,410,966	764,794	2,175,760			

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

# d -- Debt Service Requirements, continued

# Austin Water Utility Business-Type Activities (in thousands)

Fiscal Year Ended		Obligation ends	Contractual	Obligations	Other Tax Supported  Debt		
September 30	Principal	Interest	Principal	Interest	Principal	Interest	
2012	\$ 1,101	338	3,231	301	430	290	
2013	1,206	281	2,857	199	441	274	
2014	976	218	2,144	105	461	256	
2015	1,013	178	1,050	51	476	238	
2016	1,025	136	733	27	508	218	
2017-2021	1,673	147	642	10	2,008	1,277	
2022-2026	14	1_			2,894	374	
	7,008	1,299	10,657	693	7,218	2,927	
Less: Unamortized bond discounts	(11)						
Unamortized gain(loss) on bond refundings	(1,678)						
Add: Unamortized bond premiums	655		93				
Net debt service requirements	5,974	1,299	10,750	693	7,218	2,927	

Fiscal Year Ended	Commercial Paper Notes (1)		Revenue Bonds (2)		Total Austin Water Utility  Debt Service Requirements		
September 30	Principal	Interest	Principal	Interest	Principal	Interest	Total
2012	207,210	17	67,295	107,033	279,267	107,979	387,246
2013			81,482	97,596	85,986	98,350	184,336
2014			105,119	82,858	108,700	83,437	192,137
2015			96,612	87,272	99,151	87,739	186,890
2016			105,573	77,281	107,839	77,662	185,501
2017-2021			395,986	422,474	400,309	423,908	824,217
2022-2026			435,560	214,769	438,468	215,144	653,612
2027-2031			384,700	114,771	384,700	114,771	499,471
2032-2036			163,880	54,644	163,880	54,644	218,524
2037-2041			124,445	13,379	124,445	13,379	137,824
	207,210	17	1,960,652	1,272,077	2,192,745	1,277,013	3,469,758
Less: Unamortized bond discounts			(7,152)		(7,163)		(7,163)
Unamortized gain(loss) on bond refundings			(41,983)		(43,661)		(43,661)
Add: Unamortized bond premiums			42,171		42,919		42,919
Net debt service requirements	\$ 207,210	17	1,953,688	1,272,077	2,184,840	1,277,013	3,461,853

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

<sup>(2)</sup> Portions of these bonds are variable rate bonds with rates of 0.05% to 0.80%.

### d -- Debt Service Requirements, continued

# Airport Business-Type Activities (in thousands)

Fiscal Year		neral O	bligation					
Ended September 30		Bor	nds	Revenue	Notes (1)	Revenue Bonds (2)		
		ncipal	Interest	Principal	Interest	Principal	Interest	
2012	\$	30	11		980	14,165	12,033	
2013		39	10		980	14,795	11,466	
2014		26	8		980	15,610	10,699	
2015		28	6		980	16,345	10,042	
2016		22	5		980	17,105	9,357	
2017-2021		78	9	28,000	1,470	103,070	33,480	
2022-2026		1				113,925	10,569	
		224	49	28,000	6,370	295,015	97,646	
Less: Unamortized bond discounts		(1)				(741)		
Unamortized gain(loss) on bond refundings		1				(13,334)		
Add: Unamortized bond premiums		8				1,663		
Net debt service requirements		232	49	28,000	6,370	282,603	97,646	

Fiscal Year	Total Airport					
Ended	Debt Service Requirements					
September 30	Principal	Interest	Total			
2012	14,195	13,024	27,219			
2013	14,834	12,456	27,290			
2014	15,636	11,687	27,323			
2015	16,373	11,028	27,401			
2016	17,127	10,342	27,469			
2017-2021	131,148	34,959	166,107			
2022-2026	113,926	10,569	124,495			
	323,239	104,065	427,304			
Less: Unamortized bond discounts	(742)		(742)			
Unamortized gain(loss) on bond refundings	(13,333)		(13,333)			
Add: Unamortized bond premiums	1,671		1,671			
Net debt service requirements	310,835	104,065	414,900			

- (1) These are variable rate notes with rates ranging from 0.05% to 0.33%.
- (2) Portions of these bonds are variable rate bonds with rates ranging from 0.05% to 2.0%.

# d -- Debt Service Requirements, continued

# Nonmajor Business-Type Activities (in thousands)

Fiscal Year Ended	General Obligation Bonds			Certificates	of Obligation	Contractual Obligations	
September 30	Prin	cipal	Interest	Principal	Interest	Principal	Interest
2012	\$	1,461	877	2,737	1,678	9,248	1,093
2013		1,598	802	2,251	1,562	8,718	829
2014		1,934	721	2,360	1,469	7,605	594
2015		1,808	630	2,013	1,372	6,967	401
2016		1,810	544	2,113	1,289	5,406	216
2017-2021		8,360	1,374	10,864	5,298	5,749	190
2022-2026		718	36	10,610	2,569		
2027-2031				4,724	1,083		
2032-2036				1,480	477		
2037-2041				1,090	105		
	1	7,689	4,984	40,242	16,902	43,693	3,323
Less: Unamortized bond discounts		(38)					
Unamortized gain(loss) on bond refundings	(	1,229)					
Add: Unamortized bond premiums		1,740		661		411	
Net debt service requirements	1	8,162	4,984	40,903	16,902	44,104	3,323

Fiscal Year	Other Tax Total Nonmajor			r				
Ended	Supported Debt Revenue Bonds		Bonds (1)	Debt Service Requirements				
September 30	Р	rincipal	Interest	Principal	Interest	Principal	Interest	Total
2012		241	163	9,450	8,483	23,137	12,294	35,431
2013		248	154	10,555	8,077	23,370	11,424	34,794
2014		259	144	11,000	7,635	23,158	10,563	33,721
2015		268	133	11,455	7,164	22,511	9,700	32,211
2016		286	123	11,965	6,663	21,580	8,835	30,415
2017-2021		1,128	718	62,090	25,253	88,191	32,833	121,024
2022-2026		1,626	210	50,625	14,247	63,579	17,062	80,641
2027-2031				48,330	3,564	53,054	4,647	57,701
2032-2036						1,480	477	1,957
2037-2041						1,090	105	1,195
		4,056	1,645	215,470	81,086	321,150	107,940	429,090
Less: Unamortized bond discounts				(610)		(648)		(648)
				` ,		, ,		` ,
Unamortized gain(loss) on bond refundings				(15,801)		(17,030)		(17,030)
Add: Unamortized bond premiums				2,831		5,643		5,643
Net debt service requirements	\$	4,056	1,645	201,890	81,086	309,115	107,940	417,055

<sup>(1)</sup> A portion of these bonds are variable rate bonds with rates ranging from 0.07% to 3.15%.

### d -- Debt Service Requirements, continued

# Business-Type Activities (in thousands)

Fiscal Year							
Ended	General Ob	<b>General Obligation Bonds</b>		Certificates of Obligation		Contractual Obligations	
September 30	Principal	Interest	Principal	Interest	Principal	Interest	
2012	\$ 2,670	1,275	2,737	1,678	12,479	1,394	
2013	2,968	1,138	2,251	1,562	11,575	1,028	
2014	3,067	986	2,360	1,469	9,749	699	
2015	2,988	847	2,013	1,372	8,017	452	
2016	2,969	711	2,113	1,289	6,139	243	
2017-2021	10,513	1,575	10,864	5,298	6,391	200	
2022-2026	733	37	10,610	2,569			
2027-2031			4,724	1,083			
2032-2036			1,480	477			
2037-2041			1,090	105			
	25,908	6,569	40,242	16,902	54,350	4,016	
Less: Unamortized bond discounts	(52)						
Unamortized gain(loss) on bond refundings	(2,906)						
Add: Unamortized bond premiums	2,448		661		504		
Net debt service requirements	25,398	6,569	40,903	16,902	54,854	4,016	

Fiscal Year Ended	Other Tax Supported Debt		omor rux		Commercial P	aper Notes (1)	Reve Note:	enue s (2)
September 30	Principal	Interest	Principal	Interest	Principal	Interest		
2012	671	453	359,819	45		980		
2013	689	428				980		
2014	720	400				980		
2015	744	371				980		
2016	794	341				980		
2017-2021	3,136	1,995			28,000	1,470		
2022-2026	4,520	584						
	11,274	4,572	359,819	45	28,000	6,370		
Less: Unamortized bond discounts			(27)					
Unamortized gain(loss) on bond refundings								
Add: Unamortized bond premiums				<u></u>				
Net debt service requirements	\$ 11,274	4,572	359,792	45	28,000	6,370		

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

<sup>(2)</sup> These are variable rate notes with rates ranging from 0.05% to 0.33%.

# d -- Debt Service Requirements, continued

# Business-Type Activities (in thousands)

Fiscal Year Ended		venue ids (3)	Capital Lease Obligations			
September 30	Principal	Interest	Principal	Interest		
2012	\$ 166,682	220,508	40	76		
2013	211,924	186,152	42	74		
2014	254,735	155,104	44	72		
2015	204,166	155,442	47	69		
2016	187,639	141,080	49	67		
2017-2021	779,271	675,604	286	293		
2022-2026	821,404	371,969	367	214		
2027-2031	623,205	195,779	383	100		
2032-2036	292,810	91,136				
2037-2041	198,085	21,599				
	3,739,921	2,214,373	1,258	965		
Less: Unamortized bond discounts	(10,566)					
Unamortized gain(loss) on bond refundings	(115,225)					
Add: Unamortized bond premiums	80,147					
Net debt service requirements	3,694,277	2,214,373	1,258	965		

Fiscal Year	Total Business-Type Activities
Ended	Debt Service Requirements

September 30	Principal	Interest	Total
2012	545,098	226,409	771,507
2013	229,449	191,362	420,811
2014	270,675	159,710	430,385
2015	217,975	159,533	377,508
2016	199,703	144,711	344,414
2017-2021	838,461	686,435	1,524,896
2022-2026	837,634	375,373	1,213,007
2027-2031	628,312	196,962	825,274
2032-2036	294,290	91,613	385,903
2037-2041	199,175	21,704	220,879
	4,260,772	2,253,812	6,514,584
Less: Unamortized bond discounts	(10,645)		(10,645)
Unamortized gain(loss) on bond refundings	(118,131)		(118,131)
Add: Unamortized bond premiums	83,760		83,760
Net debt service requirements	\$ 4,215,756	2,253,812	6,469,568

<sup>(3)</sup> A portion of these bonds are variable rate bonds with rates ranging from 0.05% to 3.15%.

#### e -- Debt Service Requirements

Over time, the City has issued refunding bonds to advance refund certain public improvement bonds, certificates of obligation, and enterprise revenue bonds. The proceeds of the sale of the refunding bonds were deposited with an escrow agent in an amount necessary to accomplish the discharge and final payment of the refunded obligations. These funds are held by the escrow agent in an escrow fund and used to purchase direct obligations of the United States of America to be held in the escrow fund. The escrow fund is irrevocably pledged to the payment of the principal and interest on the refunded obligations.

On September 30, 2011, defeased bonds remaining unredeemed or unmatured are provided below (in thousands):

	Escrow			
Refunded Bonds	Maturity		Balance (1)	
General Obligation				
Certificates of Obligations, Series 2002	9/1/2012	\$	17,675	
Public Improvement Bonds, Series 2002	9/1/2012		54,600	
Public Improvement Bonds, Series 2003	9/1/2013		31,785	
Certificates of Obligations, Series 2004	9/1/2014		1,355	
Austin Energy				
Series 2003	5/15/2013		18,800	
Austin Water Utility				
Series 2003	5/15/2013		29,100	
		\$	153,315	

<sup>(1)</sup> The balances shown have been escrowed to their respective call dates.

#### 7 - RETIREMENT PLANS

#### a -- Description

The City participates in funding three contributory, defined benefit retirement plans: the City of Austin Employees' Retirement and Pension Fund, the City of Austin Police Officers' Retirement and Pension Fund, and the Fire Fighters' Relief and Retirement Fund of Austin, Texas. An independent board of trustees administers each plan. These plans are Citywide single employer funded plans that cover substantially all full-time employees. The fiscal year of each pension fund ends December 31. The most recently available financial statements of the pension funds are for the year ended December 31, 2010, except for the Fire Fighters' Relief and Retirement Fund which has a fiscal year ended December 31, 2009. Membership in the plans at December 31 is follows:

	City Employees	Police Officers	Fire Fighters	Total
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to				
benefits but not yet receiving them	5,276	564	569	6,409
Current employees	8,270	1,624	982	10,876
Total	13,546	2,188	1,551	17,285

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

#### 7 - RETIREMENT PLANS, continued

#### a - Description, continued

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

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

#### 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) City's contribution	8.00%	13.00%	15.70%
(percent of earnings)	14.0% (1)	19.63% (2)	19.05% (3)

- (1) The City contributes two-thirds of the cost of prior service benefit payments. A rate of 14% was effective October 1, 2010. The City contribution includes an 8% employee match plus a subsidy contribution of 6%. This rate increased to 16% effective October 1, 2011. The City contribution includes an 8% employee match plus a subsidy contribution of 8%.
- (2) A rate of 19.63% was effective October 1, 2010. This rate increased to 20.63% effective October 1, 2011.
- (3) A rate of 19.05% was effective October 1, 2010. This rate increased to 20.05% effective October 1, 2011.

While the contribution requirements are not actuarially determined, state law requires that a qualified actuary approve each plan of benefits adopted. Contributions for fiscal year ended September 30, 2011, are as follows (in thousands):

		City	Police	Fire	
	En	nployees	Officers	Fighters	Total
City	\$	64,297	26,111	14,918	105,326
Employees		36,588	17,292	12,295	66,175
Total contributions	\$	100,885	43,403	27,213	171,501

# 7 – RETIREMENT PLANS, continued b -- Funding Policy, continued

The City's annual pension cost of \$119,533,000 for the fiscal year ended September 30, 2011, was \$14,207,000 more than the City's actual contributions. Three-year trend information is as follows (in thousands):

	City			Fire		
	En	ployees	Police Officers	Fighters	Total	
City's Annual Pension Cost (APC)						
2009	\$	59,067	19,909	10,102	89,078	
2010		78,559	20,609	10,058	109,226	
2011		81,615	22,269	15,649	119,533	
Percentage of APC contributed						
2009		69%	97%	135%	N/A	
2010		69%	112%	133%	N/A	
2011		79%	117%	95%	N/A	
Net Pension Obligation (Asset)						
2009		82,146	646	218	83,010	
2010		106,376	(1,799)	(3,144)	101,433	
2011		123,692	(5,641)	(2,414)	115,637	

The Net Pension Obligation (Asset) associated with the City Employees' Retirement and Pension Fund, the Police Officers' Retirement and Pension Fund, and the Fire Fighters' Relief and Retirement Fund is as follows (in thousands):

	Er	City nployees	Police Officers	ı	Fire Fighters	Total
Annual required contribution	\$	79,729	22,31	5	15,709	117,753
Interest on net pension obligation (asset)		8,244	(14	4)	(244)	7,856
Adjustment to annual required contribution		(6,360)	98	3	183	(6,079)
Annual pension cost		81,613	22,269	9	15,648	119,530
Employer contributions		(64,297)	(26,11	1)	(14,918)	(105,326)
Change in net pension obligation (asset)		17,316	(3,842	2)	730	14,204
Beginning net pension obligation (asset)		106,376	(1,799	9)	(3,144)	101,433
Net pension obligation (asset)	\$	123,692	(5,64	1)	(2,414)	115,637

#### 7 - RETIREMENT PLANS, continued

#### c -- Annual Pension Cost and Net Pension Obligation (Asset)

The latest actuarial valuations for the City Employees' Retirement and Pension Fund and the Police Officers' Retirement and Pension Fund were completed as of December 31, 2010, while the Austin Fire Fighters' Relief and Retirement Fund was completed as of December 31, 2009. The actuarial cost method and significant assumptions underlying the actuarial calculations are as follows:

	City Employees	Police Officers	Fire Fighters
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Asset Valuation Basis	5-year smoothed market	5-year smoothed market	5-year smoothed market
Inflation Rate	3.25%	4%	3.5%
Projected Annual Salary Increases	5% to 6%	6.8% average	8%
Post Retirement Benefit Increase	None	None	1% per year
Assumed Rate of Return on Investments	7.75%	8%	7.75%
Amortization Method	Level percentage of projected payroll, open	Level percentage of projected payroll, open	Level percentage of projected payroll, open
Remaining Amortization Period	30 years	23.2 years	30 years

#### d -- Schedule of funding progress

Information pertaining to the schedule of funding progress for each plan is as follows (in thousands):

Valuation Date, December 31	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL (1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
City Employees 2010	\$ 1,711,600	2,460,700	749,100	69.6%	438,900	170.7%
Police Officers 2010	546,957	776,231	229,274	70.5%	127,732	179.5%
Fire Fighters (2) 2009	589,261	664,185	74,924	88.7%	78,980	94.9%

<sup>(1)</sup> UAAL - Unfunded Actuarial Accrued Liability

The schedule of funding progress, presented as Required Supplementary Information, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

<sup>(2)</sup> The actuarial study for the Fire Fighters' plan is performed biannually.

#### **8 - OTHER POST-EMPLOYMENT BENEFITS**

#### a -- Description

In addition to the contributions made to the three pension systems, the City provides certain other post-employment benefits to its retirees. Other post-employment benefits include access to medical, dental, and vision insurance for the retiree and the retiree's family and \$1,000 of life insurance on the retiree only. All retirees who are eligible to receive pension benefits under any of the City's three pension systems are eligible for other post-employment benefits. Retirees may also enroll eligible dependents under the medical, dental, and vision plan(s) in which they participate. The City's other post-employment benefits plan is a single employer plan.

The City is under no obligation to pay any portion of the cost of other post-employment benefits for retirees or their dependents. Allocation of City funds to pay other post-employment benefits is determined on an annual basis by the City Council as part of the budget approval process on a pay-as-you-go basis.

The City recognizes the cost of providing these benefits to active employees as an expense and corresponding revenue in the Employee Benefits Fund; no separate plan report is available. The City pays actual claims for medical and 100% of the retiree's life insurance premium. Group dental and vision coverage is available to retirees and their eligible dependents. The retiree pays the full cost of the dental and vision premium.

Medical, dental, vision, and life insurance expenses are reported in the Employee Benefits Fund. The estimated pay-as-you-go cost of providing medical and life benefits was \$22.7 million for 3,529 retirees in 2011 and \$21.7 million for 3,318 retirees in 2010.

#### b -- Annual Other Post Employment Benefits (OPEB) Cost and Net OPEB (Obligation) Asset

The annual OPEB cost associated with the City's retiree benefits for the fiscal year ended September 30, 2011 is as follows (in thousands):

	OPEB
Annual required contribution	\$ 139,759
Interest on net OPEB obligation	11,373
Adjustment to annual required contribution	(15,376)
Annual OPEB cost	135,756
Contributions made	(22,712)
Change in net OPEB obligation	113,044
Beginning net OPEB obligation	270,148
Net OPEB obligation	\$ 383,192

#### c -- Schedule of Funding Progress at September 30, 2011 (in thousands):

Actuarial	Actuarial			Annual	Percentage of
Value of	Accrued			Covered	<b>UAAL</b> to Covered
Assets	Liability	<b>UAAL (1)</b>	Funded Ratio	Payroll	Payroll

(1) UAAL - Unfunded Actuarial Accrued Liability

The schedule of funding progress, presented as RSI, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the two preceding years are as follows (in thousands):

		Percentage of					
	Year Ended	Annı	ual	Annual OPEE	3 Cost	Net OPEB	
_	September 30 OPEB Cos		Cost	Contribut	ed	Obligation	
	2009	\$ 107	,207	18%		175,150	_
	2010	116	,704	18%		270,148	,
	2011	135	.756	17%		383.192	

# 8 – OTHER POST-EMPLOYMENT BENEFITS, continued d -- Funding Policy

The actuarial cost method and significant assumptions underlying the actuarial calculation are as follows:

	OPEB
Actuarial Valuation Date	October 1, 2010
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percentage Open
Remaining Amortization Period	30 years
Asset Valuation Method	N/A
Investment Rate of Return	4.21%
Inflation Rate	N/A
Salary Increase	None
Payroll Increase	None
Health Care Cost Trend Rate	9.0% in 2011, decreasing 1.0% per year for five years to an ultimate trend of 5.0% in 2015

#### 9 - DERIVATIVE INSTRUMENTS

The City has derivatives in two hedging programs: Energy Risk Management Program and Variable Rate Debt Management Program.

The City reports the fair value of all derivative instruments on the statement of net assets. All derivative instruments are categorized into two basic types – (1) hedging derivative instruments and (2) investment derivative instruments. Hedging derivative instruments significantly reduce an identified financial risk by substantially offsetting changes in cash flows or fair values of an associated hedgeable item. Investment derivative instruments are entered into primarily for income or profit purposes or they are derivative instruments that do not meet the criteria of an effective hedging derivative instrument. Changes in fair value of hedging derivative instruments are deferred on the statement of net assets; and changes in fair value of investment derivative instruments are recognized as gains or losses on the statement of activities.

#### a -- Energy Risk Management Program

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

### **Hedging Derivative Instruments**

#### Natural Gas Derivatives

Austin Energy purchases financial contracts on the New York Mercantile Exchange (NYMEX) to provide a hedge against the physical delivery price of natural gas from its various hubs. Austin Energy enters into basis swaps to protect delivery price differences between Henry Hub and its natural gas delivery points, Western Area Hub Association (WAHA), Katy, and the Houston Ship Channel (HSC).

The fair value of futures, swaps, and basis swap contracts is determined using the NYMEX closing settlement prices as of the last day of the reporting period. The fair value is calculated by deriving the difference between the closing futures price on the last day of the reporting period and purchase price at the time the positions were established. The fair value of the options are calculated using the Black/Scholes valuation method utilizing implied volatility based on the NYMEX closing settlement prices of the options as of the last day of the reporting period, risk free interest rate, time to maturity, and the NYMEX forward price of the underlier as of the last day of the reporting period.

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

#### a -- Energy Risk Management Program, continued

#### Congestion Revenue Rights Derivatives

Preassigned Congestion Revenue Rights (PCRRs) and Transmission Congestion Revenue Rights (CRRs) function as financial hedges against the cost of resolving congestion in the Electric Reliability Council of Texas (ERCOT) market. These instruments allow Austin Energy to hedge expected future congestion that may arise during a certain period. CRRs are purchased at auction, annually and monthly at market value. Municipally owned utilities are granted the right to purchase PCRRs annually at 10-20% of the cost of CRRs. The instruments exhibit all three characteristics - settlement, leverage, and net settlement - to classify them as derivative instruments.

As of September 30, 2011, PCRRs had a fair value of \$75 thousand and CRRs had a fair value of \$1.5 million and are reported as derivative instruments. The market value for CRRs and PCRRs is calculated using the implied market value (the difference between future proxy sink price and source price) multiplied by the number of open positions. The difference in the prices represents what the expected cost of congestion will be for that given point in time.

On September 30, 2011, Austin Energy had the following outstanding hedging derivative instruments (in thousands):

			Fair Value					
		Reference		Notional			Change in	Premiums
Туре	of Transaction	Index	Maturity Dates Volumes			Fair Value	Fair Value	Deferred
								_
Long	OTC Call Options	Henry Hub	Oct 2011 - Dec 2015	17,105,533	(1)	\$ 2,356	900	16,246
Long	OTC Put Options	Henry Hub	Oct 2011 - Dec 2011	1,840,000	(1)	459	460	-
Long	Options	Henry Hub	Apr 2013 - Oct 2013	2,140,000	(1)	474	101	-
Long	Basis Swaps	WAHA	Oct 2011 - Dec 2013	7,930,000	(1)	2,257	726	-
n/a	Congestion Rights	ICE (2)	Oct 2011 - Dec 2011	3,040,661	(3)	1,530	(851)	-
			Derivative instru	uments (assets)		7,076	1,336	16,246
Short	OTC Call Options	Henry Hub	Oct 2011 - Dec 2011	(920,000)	(1)	(48)	121	-
Short	OTC Put Options	Henry Hub	Oct 2011 - Oct 2014	(14,365,000)	(1)	(30,865)	(5,197)	(5,039)
Long	Futures	Henry Hub	Oct 2011 - Jul 2013	917,500	(1)	(3,889)	(683)	-
Short	Options	Henry Hub	Apr 2013 - Oct 2013	(2,140,000)	(1)	(5,331)	(504)	-
Long	OTC Swaps	Henry Hub	Oct 2011 - Sep 2016	34,282,500	(1)	(37,425)	(13,993)	-
			Derivative instrun	nents (liabilities)		(77,558)	(20,256)	(5,039)
				Total		\$ (70,482)	(18,920)	11,207

- (1) Volume in MMBTUs
- (2) IntercontinentalExchange
- (3) Volume in MWHs

Austin Energy routinely purchases derivative instruments. The outstanding hedging derivative instruments were purchased at various dates.

The realized gains and losses related to the hedging activity derivative instruments are netted to fuel expense in the period realized.

#### **Risks**

Credit Risk. Credit risk is the risk of loss due to a counterparty defaulting on its obligations. Austin Energy's fuel derivative contracts expose Austin Energy to custodial credit risk on Exchange Traded derivative positions. In the event of default or nonperformance by brokers or the exchange, Austin Energy's operations will not be materially affected. However, Austin Energy does not expect the brokerages to fail to meet their obligations given their high credit ratings and the strict and deep credit requirements upheld by NYMEX, which these brokerage houses are members. At September 30, 2011, the brokerages had credit ratings of A and BBB-.

The over-the-counter agreements expose Austin Energy to credit risk. In the event of default Austin Energy's operations will not be materially affected. However, Austin Energy does not expect the counterparties to fail to meet their obligations given their high credit rating. At September 30, 2011, the two counterparties had credit ratings of AA- and A. The contractual provisions under the ISDA (International Swaps and Derivatives Association) agreement applied to these contracts include collateral provisions. At September 30, 2011 no collateral was required under these provisions.

The congestion rights expose Austin Energy to custodial credit risk in the event of default or nonperformance by ERCOT. In the event of default of nonperformance Austin Energy's operations will not be materially affected. However, Austin Energy does not expect ERCOT to fail in meeting their obligations as they are a regulatory entity of the State of Texas.

#### a -- Energy Risk Management Program, continued

Termination Risk. Termination risk is the risk that a derivative will terminate prior to its scheduled maturity due to a contractual event. Contractual events include illegality, tax and credit events upon merger and other events. Termination risk for exchange-traded instruments is greatly reduced by the strict rules and guidelines set up by the exchange, which is governed by the Commodity Futures Trade Commission. Austin Energy's exposure to termination risk for over-the counter agreements is minimal due to the high credit rating of the counterparties, and the contractual provisions under the ISDA (International Swaps and Derivatives Association) agreement applied to these contracts. Termination risk is associated with all of Austin Energy's derivatives up to the fair value of the instrument.

Netting Arrangements. Austin Energy enters into netting arrangements whenever it has entered into more than one derivative instrument transaction with a counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on it's obligations, close-out netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by or owed to the non-defaulting party.

Basis Risk. Austin Energy is exposed to basis risk on its fuel hedges because the expected commodity purchases being hedged will price based on a delivery point (WAHA/Katy/HSC) different than that at which the financial hedging contracts are expected to settle NYMEX (Henry Hub). As of September 30, 2011, the NYMEX price was \$3.76 per MMBTU, the WAHA Hub price was \$3.67 per MMBTU, Katy was \$3.685 per MMBTU, and the HSC Hub price was \$3.705 per MMBTU.

#### **Investment Derivative Instruments**

On September 30, 2011, Austin Energy had the following closed out investment derivative instruments (in thousands):

je in
alue
,238
,238)
(92)
92

At September 30, 2011, Austin Energy recorded an unrealized loss of \$11 thousand on outstanding emission investment instruments.

In fiscal year 2011, Austin Energy sold Preassigned Congestion Revenue Rights (PCRRs) and recorded a gain of \$811 thousand; however, this gain was deferred under the accounting requirements for regulated operations. At September 30, 2011, \$183 thousand remained deferred.

#### Risks

As of September 30, 2011, Austin Energy was not exposed to credit, interest, or foreign currency risk on its investment derivative instruments.

#### b -- Variable Rate Debt Management Program

#### **Hedging Derivative Instruments**

The intention of the City's swap portfolio is to change variable interest rate bonds to synthetically fixed rate bonds. As a means to lower its borrowing costs when compared against fixed rate bonds at the time of issuance, the City executed pay-fixed, receive-variable swaps in connection with its issuance of variable rate bonds.

As of September 30, 2011, the City has 4 outstanding swap transactions with initial and outstanding notional amounts totaling \$734.6 million and \$641.2 million, respectively. The mark-to-market or fair value for each swap is estimated using the zero-coupon method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the London Interbank Offered Rate (LIBOR) swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

#### b -- Variable Rate Debt Management Program, continued

On September 30, 2011, the City had the following outstanding interest rate swap hedging derivative instruments (in thousands):

Item	Related Variable Rate Bonds	Terms	Effective Date	Maturity Date	Notional Amount	Fair Value
Busines	ss-Type Activities - Hedging derivatives:					
WW1	Water & Wastewater Revenue Refunding Bonds, Series 2004	Pay 3.657%, receive 68% of LIBOR	8/27/2004	5/15/2024 \$	114,545	(16,280)
WW2	Water & Wastewater Revenue Refunding Bonds, Series 2008	Pay 3.600%, receive SIFMA swap index	5/15/2008	5/15/2031	160,740	(22,336)
AIR1	Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005	Pay 4.051%, receive 71% of LIBOR	8/17/2005	11/15/2025	248,350	(51,016)
HOT1	Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008	Pay 3.251%, receive 67% of LIBOR	8/14/2008	11/15/2029	117,530	(19,179)
				\$	641,165	(108,811)

All swaps are pay-fixed interest rate swaps. All were entered into with the objective of hedging changes in the cash flows on the related variable rate debt.

The fair value of the City's interest rate swap hedging derivative instruments is reported as derivative instruments in liabilities with an offsetting adjustment to deferred outflow of resources. The table below provides for the fair value and changes in fair value of the City's interest rate swap agreements as of September 30, 2011 (in thousands):

			Fair Value and Classification as of September 30, 2011		Change in fair va ended Septen	•
Item	ı	itstanding Notional Amount	Amount	Classification	Deferred Outflows	Deferred Inflows
Business	s-Type	Activities:				
Hedging	deriva	ative instrum	nents (cash flov	v hedges):		
WW1	\$	114,545	(16,280)	Non-current liability	195	
WW2		160,740	(22,336)	Non-current liability	(4,205)	
AIR1		248,350	(51,016)	Non-current liability	(2,790)	
HOT1		117,530	(19,179)	Non-current liability	(2,539)	<u></u>
	\$	641,165	(108,811)		(9,339)	

Due to the continued low interest rate levels during fiscal year 2011, the City's interest rate swap hedging derivative instruments had negative fair values as of September 30, 2011. The fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and any upfront payments that may have been received.

#### **Risks**

*Credit risk*. As of September 30, 2011, the City was not exposed to credit risk on any of its outstanding swap agreements because each swap had a negative fair value. However, should interest rates changes and the fair value of a swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value. The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

#### b -- Variable Rate Debt Management Program, continued

The counterparty credit ratings for the City's interest rate swap hedging derivative instruments at September 30, 2011 are included in the table below:

			Cour	Counterparty Ratin		
Item	Related Variable Rate Bonds	Counterparty	Moody's Investors Service Inc.	Standard & Poor's	Fitch, Inc	
Business-Ty	pe Activities:					
WW1	Water & Wastewater Revenue Refunding Bonds, Series 2004	JPMorgan Chase Bank, NA	Aa1	AA-	AA-	
WW2	Water & Wastewater Revenue Refunding Bonds, Series 2008	Goldman Sachs Bank USA	Aa3	А	A+	
AIR1	Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005	Morgan Stanley Capital Services, Inc.	A2	А	А	
HOT1	Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008	Morgan Keegan Financial Products	Aa3	A+	AA-	

Swap agreements for all four swaps contain collateral agreements with the counterparties. These swap agreements require collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds in the agreements. For Swap WW1, the City purchased swap insurance to mitigate the need to post collateral as long as the insurer, Financial Security Assurance, maintains a credit rating above A2/A by Moody's/Standard & Poor's (S&P). For Swap AIR1, the City purchased swap insurance to mitigate the need to post collateral as long as the insurer, Financial Security Assurance, maintains a credit rating above A2/A by Moody's/S&P. For Swap HOT1, the credit support provider of MKFP is Deutsche Bank AG, New York Branch (DBAG). This swap requires collateralization of the fair value of the swap should DBAG's credit rating fall below the applicable thresholds in the agreement.

Swap payments and associated debt. The net cash flows for the City's interest rate swap hedging derivative instruments for the year ended September 30, 2011 are included in the table below (in thousands):

		Counterparty Swap Interest					
Item	Related Variable Rate Bonds		Pay	Receive	Net	Interest to Bondholders	Net Interest Payments
Busines	ss-Type Activities:						
	Water & Wastewater Revenue						
WW1	Refunding Bonds, Series 2004	\$	(4,209)	185	(4,024)	(366)	(4,390)
	Water & Wastewater Revenue						
WW2	Refunding Bonds, Series 2008		(5,823)	367	(5,456)	(436)	(5,892)
	Airport System Subordinate Lien Revenue Refunding Bonds,						
AIR1	Series 2005		(10,156)	425	(9,731)	(1,010)	(10,741)
	Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds,						
HOT1	Series 2008		(3,844)	185	(3,659)	(725)	(4,384)
		\$	(24,032)	1,162	(22,870)	(2,537)	(25,407)

#### b -- Variable Rate Debt Management Program, continued

Basis and interest rate risk. Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The City does not bear basis risk on Swap WW2. At September 30, 2011, the City bears basis risk on the three remaining swaps. These swaps have basis risk since the City receives a percentage of LIBOR to offset the actual variable rate the City pays on the related bonds. The City is exposed to basis risk should the floating rate that it receives on a swap drop below the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

Tax risk. Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the City's underlying variable rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g. a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. The City is receiving 68% of LIBOR (a taxable index) on Swap WW1, 71% of LIBOR on AIR1, and 67% of LIBOR on Swap HOT1 and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

Termination risk. The City or the counterparties may terminate any of the swaps if the other party falls to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value. The additional termination events in the agreement are limited to credit related events only and the ratings triggers are substantially below the current credit rating of the City. Additionally, the City purchased swap insurance on the Swap WW1 and Swap AIR1 to further reduce the possibility of termination risk.

Rollover risk. The City is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, the City will be re-exposed to the risks being hedged by the hedging derivative instrument. The City is currently not exposed to rollover risk on its hedging derivative instruments.

#### Investment Derivative Instruments

At September 30, 2011, the City did not have any investment derivative instruments related to interest rate swaps.

#### c -- Swap Payments and Associated Debt

As of September 30, 2011, debt service requirement of the City's variable rate debt and net swap payments, assuming current interest rates remain the same, for their term are as follows (as rates vary, variable rate bond interest payments and net swap payments will vary):

Fiscal Year Variable-Rate Ended (in thous			Interest Rate	Total	
September 30		Principal	Interest	Swaps, Net	Interest
2012	\$	29,905	251	22,764	23,015
2013		23,750	237	21,844	22,081
2014		54,920	224	20,331	20,555
2015		43,465	201	18,499	18,700
2016		56,550	159	16,849	17,008
2017-2021		136,155	497	68,353	68,850
2022-2026		212,150	101	33,369	33,470
2027-2031		84,270	(31)	7,900	7,869
Total	\$	641,165	1,639	209,909	211,548

#### 10 - DEFICITS IN FUND BALANCES AND NET ASSETS

At September 30, 2011, the following funds reported deficits in fund balances/net assets (in thousands). Management intends to recover these deficits through future operating revenues, transfers, or debt issues.

Nonmajor Governmental	Deficit	<u>:                                    </u>
Special Revenue Funds:  Municipal Court Traffic Safety Senior Nutrition One Texas Center Rutherford Lane Facility	\$	35 10 395 966
Capital Projects Funds:		
Street & traffic signals		8
Parks and recreation facilities		288
Libraries		17
Radio Trunking		47
Cultural Facilities	3,	,407
Affordable Housing		,304
Central Library	1,	,622
Mobility	3,	,044
Planning & development improvements		1
TPSD general improvements	1,	,731
Build Austin		281
Police and courts		,797
Capital Reserve		332
Public Works		,039
Watershed Protection		670
City Hall, plaza, parking garage	7,	,055
Conservation Land		15
Waller Creek Tunnel	3,	,518
Nonmajor Enterprise		
Solid Waste Services	3,	,791

### 11 - INTERFUND BALANCES AND TRANSFERS

Interfund receivables, payables, and advances at September 30, 2011, are as follows (in thousands):

		Amount			
Receivable Fund	Payable Fund	Current	Long-Term		
Governmental funds:					
General Fund	Nonmajor governmental funds	\$ 227			
Nonmajor governmental funds	Austin Water Utility		3,172		
	General Fund	19			
	Nonmajor enterprise funds		425		
	Nonmajor governmental funds	44,452			
Internal Service funds	Nonmajor governmental funds	11	92		
Business-type funds:					
Austin Energy	Austin Water Utility (restricted)	1,240	22,723		
	Airport	138	1,398		
	General Fund	178	1,809		
	Internal service funds	141	315		
	Nonmajor enterprise funds	315	1,315		
	Nonmajor governmental funds		227		
Airport (restricted)	Nonmajor governmental funds		96		
Nonmajor enterprise funds	Nonmajor enterprise funds	350			
	Nonmajor governmental funds		59		
		\$ 47,071	31,631		

#### 11 - INTERFUND BALANCES AND TRANSFERS, continued

Interfund receivables, payables, and advances reflect loans between funds. Of the above current amount, \$10.4 million is an interfund loan from the Fiscal Surety Fund, a special revenue fund, to other special revenue funds (primarily grant funds) to cover deficit pooled investments and cash. The above current amount also includes \$34.1 million in interfund loans between capital project funds to cover deficit pooled investments and cash.

Interfund transfers during fiscal year 2011 were as follows (in thousands):

	Transfers In						
	General	Nonmajor	Nonmajor				
Transfers Out	Fund	Governmental	Enterprise	Total			
General Fund	\$	6,949	2,538	9,487			
Nonmajor governmental funds	1,092	14,985	44,582	60,659			
Austin Energy	103,000	758		103,758			
Austin Water Utility	35,484	509		35,993			
Nonmajor enterprise funds	1,872	3,989		5,861			
Internal service funds		10,838		10,838			
Total transfers out	\$ 141,448	38,028	47,120	226,596			

Interfund transfers are authorized through City Council approval. Significant transfers include Austin Energy and Austin Water Utility transfers to the General Fund, which are comparable to a return on investment to owners, and the transfer of hotel occupancy and vehicle rental tax collections from the Hotel-Motel Occupancy Tax and the Vehicle Rental Tax Funds to the Convention Center Fund.

#### 12 - SELECTED REVENUES

#### a -- Major Enterprise Funds

#### **Austin Energy and Austin Water Utility**

The Texas Public Utility Commission (PUC) has jurisdiction over electric utility wholesale transmission rates. On June 9, 2006, the PUC approved the City's most recent wholesale transmission rate of \$1.002466/KW. Transmission revenues totaled approximately \$59.1 million in 2011. The City Council has jurisdiction over all other electric utility rates and over all water and wastewater utility rates and other services. The Council determines electric utility and water and wastewater utility rates based on the cost of operations and a debt service coverage approach.

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

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

### Airport

The City has entered into certain lease agreements as lessor for concessions at the Airport. These lease agreements qualify as operating leases for accounting purposes. In the fiscal year 2011, the Airport fund revenues included minimum concession guarantees of \$8,834,593.

#### 12 - SELECTED REVENUES, continued a -- Major Enterprise Funds, continued

The following is a schedule by year of minimum future rentals on noncancelable operating leases with remaining terms of up to ten years for the Airport Fund as of September 30, 2011.

	Enterprise
Fiscal Year	Airport
Ended	Lease
September 30	Receipts
2012	\$ 12,899
2013	11,140
2014	7,679
2015	575
2016	327
2017-2021	491
Totals	\$ 33,111

Projection of minimum future rentals for the Austin-Bergstrom Landhost Enterprises, Inc. is based on the current adjusted minimum rent for the period May 1, 2009 through April 30, 2014. The minimum rent is adjusted every five years commensurate with the percentage increase in the Consumer Price Index – Urban Wage Earners and Clerical workers, U.S. Owner Average, (CPI) published by the U.S. Department of Labor Bureau of Labor Statistics over the five-year period.

# 13 - COMMITMENTS AND CONTINGENCIES

### a -- Fayette Power Project

Austin Energy's coal-fired electric generating units are located at the Fayette Power Project (FPP) and operate pursuant to a participation agreement with LCRA. Austin Energy has an undivided 50 percent interest in Units 1 and 2, and LCRA wholly owns Unit 3. A management committee of four members governs FPP; each participant administratively appoints two members. As managing partner, LCRA is responsible for the operation of the project and appoints project management.

FPP's Flexible Air permit received from the Texas Commission on Environmental Quality in 2002 requires that Austin Energy and LCRA install new SO2 scrubbers on FPP Units 1 and 2 by 2012. The scrubbers are currently in commercial operation.

Austin Energy's investment is financed through operations, revenue bonds, or commercial paper, which are repaid by Austin Energy (see Note 6), and its pro-rata share of operations is recorded as if wholly owned. Austin Energy's pro-rata interest in FPP was \$24.3 million as of September 30, 2011. The decrease in the pro-rata interest from 2010 is primarily due to the transfer of the scrubbers to Plant in Service. The pro-rata interest in the FPP is calculated pursuant to the participation agreement and is reported in various assets and liability accounts within the City's financial statements. The original cost of Austin Energy's share of FPP's generation and transmission facilities is recorded in the utility plant accounts of the City in accordance with its accounting policies.

#### **b** -- South Texas Project

Austin Energy is one of three participants in the South Texas Project (STP), which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the STP are NRG South Texas LP and City Public Service of San Antonio. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. Austin Energy's 16 percent ownership in the STP represents 400 megawatts of plant capacity. At September 30, 2011, Austin Energy's investment in the STP was approximately \$446 million, net of accumulated depreciation.

Effective November 17, 1997, the participation agreement among the owners of STP was amended and restated, and the STP Nuclear Operating Company (STPNOC), a Texas non-profit non-member corporation created by the participants, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STPNOC. Each participant is responsible for its STP funding. The City's portion is financed through operations, revenue bonds, or commercial paper, which are repaid by Austin Energy (see Note 6). In addition, each participant has the obligation to finance any deficits that may occur.

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

STP requested a 20 year license renewal for units 1 & 2 with the nuclear Regulatory Commission (NRC). NRC's review of the license application is proceeding on schedule with an anticipated approval during the first guarter of 2013.

# 13 – COMMITMENTS AND CONTINGENCIES, continued c -- South Texas Project Decommissioning

Austin Energy began collecting in rates and accumulating funds for decommissioning STP in 1989 in an external trust. The Decommissioning Trust assets are reported as restricted cash and restricted investments held by trustee. The related liability is reported as decommissioning liability payable. Excess or unfunded liabilities related to decommissioning STP will be adjusted in future rates so that there are sufficient funds in place to pay for decommissioning. At September 30, 2011, the trust's assets were in excess of the estimated liability by \$21.9 million which is reported as part of deferred revenue and other liabilities (in thousands):

Decommissioning trust assets \$ 168,948
Pro rata decommissioning liability \$ (147,036) \$ 21,912

STP is subject to regulation by the Nuclear Regulatory Commission (NRC). The NRC requires that each holder of a nuclear plant-operating license submit a certificate of financial assurance to the NRC for plant decommissioning every two years or upon transfer of ownership. The certificate provides reasonable assurance that sufficient funds are being accumulated to provide the minimum requirement for decommissioning mandated by the NRC. The most recent annual calculation of financial assurance filed on December 31, 2010 showed that the trust assets exceeded the minimum required assurance by \$29.2 million.

#### d -- Purchased Power

Austin Energy has commitments totaling \$4.3 billion to purchase energy and capacity through purchase power agreements. This amount includes provisions for wind power through 2037, landfill power through 2020, biomass through 2032, and solar through 2035.

#### e -- Decommissioning and Environmental/Pollution Remediation Contingencies

Austin Energy may incur costs for environmental/pollution remediation of certain sites including the Holly, Fayette, and Seaholm Power Plants. The financial statements include a liability of approximately \$27 million at September 30, 2011. Austin Energy anticipates payment of these costs in 2012 and future years. The amount is based on 2011 cost estimates to perform remediation and decommissioning. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

Austin Water Utility closed the Green Water Treatment Plant (GWTP) on September 23, 2008. The estimated decommissioning cost to close the GWTP is \$11 million. The financial statements include a remaining liability of approximately \$645 thousand at September 30, 2011. This amount is based on 2011 cost estimates. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. Plant decommissioning reached substantial completion in fiscal year 2011, with final completion expected to occur in fiscal year 2012.

Solid Waste Services may incur costs for environmental remediation of certain sites outside of the City's landfill site. The financial statements include a liability of approximately \$8.7 million at September 30, 2011 for sites related to Harold Court, Rosewood and Loop 360. Solid Waste Services anticipates payment of these costs in 2012 and future years. The amount is based on 2011 cost estimates to perform remediation. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

#### f -- Texas Water Development Board

In November 2009, the City delivered \$31,815,000 of initial Water and Wastewater System Revenue Bonds, Series 2010 as a private placement with the TWDB. This zero-interest issuance is part of the American Recovery and Reinvestment Act. As part of that program, the initial bonds, in \$5,000 increments, are replaced with definitive bonds as the City requests reimbursement for expenditures related to the approved project: green infrastructure improvements at the Hornsby Bend Biosolids Management plant. The City recognizes a liability once the definitive bonds have been issued. The remaining commitment will be recognized as future definitive bonds are issued. At year end, the liability recognized by the Water and Wastewater System Revenue Bonds, Series 2010 and the remaining commitment are as follows (in thousands):

Total bonds authorized \$ 31,815
Definitive bonds issued to date Remaining commitment \$ 8,225

#### 13 - COMMITMENTS AND CONTINGENCIES, continued

#### f -- Texas Water Development Board, continued

The City intends to issue definitive bonds for the remaining commitment. If the full amount of bonds authorized is not converted to definitive bonds, the TWDB and the City would agree to cancel any remaining initial bonds authorized but not converted. The City's liability in the financial statements represents the amount of definitive bonds outstanding.

#### g -- Arbitrage Rebate Payable

The City's arbitrage consultant has determined that the City has not earned interest revenue on unused bond proceeds in excess of amounts allowed by applicable Federal regulations. Therefore, the City will not be required to rebate any amounts to the federal government. There are no estimated payables at September 30, 2011.

#### h -- Federal and State Financial Assistance Programs

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

#### i -- Capital Improvement Plan

As required by charter, the City has a *Capital Improvements Program* plan (capital budget) covering a five-year period which details anticipated spending for projects in the upcoming and future years. The City's 2011 Capital Budget has substantial contractual commitments relating to its capital improvement plan.

The key projects in progress include improvements to and development of the electric system, water and wastewater systems, airport, transportation infrastructure, public recreation and culture activities, and urban growth management activities. Remaining commitments represent current unspent budget and future costs required to complete projects.

		Re	Remaining	
Project	(in thousands)	Co	mmitment	
Governmental activities:				
General government		\$	62,175	
Public safety			16,950	
Transportation			135,800	
Public health			2,525	
Public recreation and	d culture		71,214	
Urban growth manag	gement		70,121	
Business-type activities:				
Electric			301,530	
Water			664,243	
Wastewater			531,595	
Airport			73,399	
Convention			11,171	
Environmental and h	ealth services		21,002	
Urban growth manag	gement		135,894	
Total		\$	2,097,619	

# 13 – COMMITMENTS AND CONTINGENCIES, continued j -- Landfill Closure and Postclosure Liability

State and federal regulations require the City to place a final cover on the City of Austin landfill site (located on FM 812) when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, a portion of these future closure and postclosure care costs are reported as an operating expense in each period as incurred in the Solid Waste Services Fund, a nonmajor enterprise fund. Substantial closure occurred in FY11, and the City is no longer accepting waste. Final closure is expected to occur in FY2012. The amount of costs reported, based on landfill capacity of 100% as of September 30, 2011, is as follows (in thousands):

	 Closure	Postclosure	Total	
Total estimated costs	\$ 12,961	7,282	20,243	
% capacity used	 100%	100%	100%	
Cumulative liability accrued	12,961	7,282	20,243	
Costs incurred	 (12,734)		(12,734)	
Closure and post-closure liability	\$ 227	7,282	7,509	

These amounts are based on the 2011 cost estimates to perform closure and postclosure care. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. State and federal laws require owners to demonstrate financial assurance for closure, postclosure, and/or corrective action. The City complies with the financial and public notice components of the local government financial test and government-guarantee of the test.

#### k -- Risk-Related Contingencies

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

Fund Name	Description
Employee Benefits	City employees and retirees may choose a self-insured PPO or HMO for health coverage. Approximately 31% of city employees and 39% of retirees use the HMO option; approximately 69% of city employees and 61% of retirees use the PPO option. Costs are charged to city funds through a charge per employee per pay period.
Liability Reserve	This self-insured program includes losses and claims related to liability for bodily injury, property damage, professional liability, and certain employment liability. Premiums are charged to other city funds each year based on historical costs.
Workers' Compensation	Premium charges for this self-insured program are assessed to other funds each year based on the number of full-time equivalent (FTE) employees per fund.

The City purchases stop-loss insurance for the City's PPO and HMO. This stop-loss insurance covers individual claims that exceed \$500,000 per calendar year, up to a maximum of \$5 million. In fiscal year 2011, six claims exceeded the stop-loss limit of \$500,000; during fiscal year 2010, six claims exceeded the stop-loss limit of \$500,000, and during fiscal year 2009, five claims exceeded the stop-loss limit of \$500,000. City coverage is unlimited for lifetime benefits. The City does not purchase stop-loss insurance for workers' compensation claims.

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

#### 13 - COMMITMENTS AND CONTINGENCIES, continued k -- Risk-Related Contingencies, continued

Liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The City utilizes actuarial information and historical claim settlement trends to determine the claim liabilities for the Employee Benefits Fund and Workers' Compensation Fund. Claims liabilities for the Liability Reserve Fund are calculated based on an estimate of outstanding claims, which may differ from the actual amounts paid. Possible losses are estimated to range from \$33.8 to \$62.6 million. The City contributes amounts to an internal service fund based on an estimate of anticipated costs for claims each year.

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

	Employee Benefits		Liability Reserve		Workers' Compensation	
	2011 2010		2011	2010	2011	2010
Liability balances, beginning of year	\$ 10,558	9,260	7,576	6,965	15,301	14,052
Claims and changes in estimates	7,386	9,480	4,289	3,270	3,810	4,445
Claim payments	(7,306)	(8,182)	(4,280)	(2,659)	(3,473)	(3,196)
Liability balances, end of year	\$ 10,638	10,558	7,585	7,576	15,638	15,301

The Liability Reserve Fund claims liability balance at fiscal year end includes liabilities of \$5.0 million discounted at 4.47% in 2011 and \$4.9 million discounted at 4.22% in 2010.

#### I -- Redevelopment of Robert Mueller Municipal Airport

In December 2004, City Council approved a master development agreement with Catellus Development Group (Catellus) to develop approximately 700 acres at the former site of the City's municipal airport into a mixed-use urban village near downtown Austin. Catellus will develop and market the property. The Mueller Local Government Corporation (MLGC), created by the City for this development, will issue debt to fund infrastructure such as streets, drainage facilities, public parks, and greenways, which will be supported by taxes generated from this development.

In September 2006, the MLGC issued debt in the amount of \$12 million. Proceeds of the debt have been used to reimburse the developer for eligible infrastructure such as streets, drainage, and parks. Debt service payments will be funded through an economic development grant from the City of Austin, and supported by sales tax proceeds from the development.

In October 2009, the MLGC issued debt in the amount of \$15 million. Proceeds of the debt have been used to reimburse the developer for additional eligible infrastructure for the residential portion of the development. Debt service payments will be funded through an economic development grant from the City of Austin, and supported by property tax proceeds from the development.

The development contains Class A office space, medical uses, and more than 390,000 square feet of retail space. These uses host over 40 employers providing more than 3.300 jobs at Mueller. From the start of home sales in 2007, the community has been well received. As of September 30, 2011, approximately 707 single-family homes, 642 apartment units, and 88 condos were either complete or under construction.

#### m -- Other Commitments and Contingencies

The City is committed under various leases for building and office space, tracts of land and rights-of-way, and certain equipment. These leases are considered operating leases for accounting purposes. Lease expense for the year ended September 30, 2011 was \$22.9 million. The City expects these leases to be replaced with similar leases in the ordinary course of business. Future minimum lease payments for these leases will remain approximately the same.

The City has entered into certain lease agreements to finance equipment for both governmental and business-type activities. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of the future minimum lease payments at their inception date. Refer to Note 6 for the debt service requirements on these leases.

# 13 – COMMITMENTS AND CONTINGENCIES, continued m -- Other Commitments and Contingencies, continued

The following summarizes capital assets recorded at September 30, 2011, under capital lease obligations (in thousands):

			ess-type Activi	Activities	
	Gove	ernmental			
Capital Assets	Ac	tivities	Electric	Airport	Total
Building and improvements	\$		1,405		1,405
Equipment		1,051		2,320	2,320
Accumulated depreciation		(648)	(316)	(2,217)	(2,533)
Net capital assets	\$	403	1,089	103	1,192

#### 14 - LITIGATION

A number of claims and lawsuits against the City are pending with respect to various matters arising in the normal course of the City's operations. Legal counsel and city management are of the opinion that settlement of these claims and lawsuits will not have a material effect on the City's financial statements. The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2011. These liabilities, reported in the government-wide statement of net assets, include amounts for claims and lawsuits settled subsequent to year-end.

#### 15 - CONDUIT DEBT

The City has issued several series of housing and industrial development revenue bonds to provide for low cost housing and for acquisition and construction of industrial and commercial facilities. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Prior to September 30, 1997, the City issued several series of bonds. The aggregate principal amount outstanding of these bonds could not be determined; however, their original issue amounts totaled \$310.2 million. Subsequent to September 30, 1997, the City has issued \$83.8 million in various series of housing revenue bonds that have an outstanding balance of \$75.8 million as of September 30, 2011.

Revenue bonds have been issued by various related entities to provide for facilities located at the international airport and convention center. These bonds are special limited obligations payable solely from and secured by a pledge of revenue to be received from agreements between the entities and various third parties. As of September 30, 2011, \$344.4 million in revenue and revenue refunding bonds was outstanding that had an original issue value of \$382.2 million.

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

#### 16 - RESTATEMENT AS A RESULT OF THE IMPLEMENTATION OF A NEW ACCOUNTING STANDARD

During fiscal year 2011, the City implemented a new accounting standard, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which changed the standards for reporting fund balance classifications and made changes to the definitions of governmental fund types. GASB Statement No. 54 requires a restatement of prior financial statements for prior period impacts of implementation. The most significant change in the governmental fund type definitions were made to special revenue funds. The focus moved from the purpose of the expenditure to the source of the revenues and the use of those revenue streams. The City reviewed all governmental funds and determined that twenty-nine special revenue funds no longer met the special revenue definition. The main reason for this is because inflows to most of these funds were not specific revenues assigned for a special purpose, but were transfers from other funds with the intention of expending for a specified purpose. The funds providing the inflows include the General Fund, other nonmajor governmental funds, Austin Energy, Austin Water Utility, and other nonmajor enterprise funds. As a result, these twenty-nine funds were consolidated with their major source of funding for financial reporting under GASB Statement No. 54.

#### 16 - RESTATEMENT AS A RESULT OF THE IMPLEMENTATION OF A NEW ACCOUNTING STANDARD, continued

The City has restated the beginning fund balances and beginning net assets in 2011 for the General Fund, nonmajor governmental funds, Governmental Activities, Austin Energy, Austin Water Utility, nonmajor enterprise funds, and Business-type activities to reflect this implementation as represented in the table below. In addition, beginning cash and cash equivalents balances on the proprietary cash flows were also restated.

	Exhibit A-2					
September 30, 2010		overnmental Activities	Business-Type Activities			
Net assets, as previously reported	\$	1,558,548	2,904,310			
Adjustments to properly record:						
Implementation of GASB Statement No. 54		(2,081)	2,081			
Net assets, as restated	\$	1,556,467	2,906,391			

	Exhibit B-2							
September 30, 2010	Ge	neral Fund	Nonmajor Governmental Funds	Total Governmental Funds				
Fund balances, as previously reported Adjustments to properly record:	\$	108,710	261,725	370,435				
Implementation of GASB Statement No. 54		19,334	(21,415)	(2,081)				
Fund balances, as restated	\$	128,044	240,310	368,354				

	Exhibit C-2								
September 30, 2010	Au	Nonmajor Enterprise Busin Austin Energy Austin Water Funds Ac		Enterprise					
Net assets, as previously reported	\$	1,599,555	502,440	321,730	2,892,544				
Adjustments to properly record:									
Implementation of GASB Statement No. 54		1,335	265	481	2,081				
Net assets, as restated	\$	1,600,890	502,705	322,211	2,894,625				

Exhibit C-3							
			Nonmajor Enterprise	Business-Type			
Aus	stin Energy	Austin Water	Funds	Activities			
\$	216,509	66,984	167,095	619,186			
	2,284	587	515	3,386			
\$	218,793	67,571	167,610	622,572			
	\$	2,284	Austin Energy         Austin Water           \$ 216,509         66,984           2,284         587	Austin Energy         Austin Water         Nonmajor Enterprise Funds           \$ 216,509         66,984         167,095           2,284         587         515			

#### 17 - SUBSEQUENT EVENTS

#### a -- General Obligation Bond Issue

In October 2011, the City delivered \$78,090,000 of Public Improvement Bonds, Series 2011A. The proceeds from the issue will be used as follows: streets and signals (\$29,605,000), watershed protection improvements (\$21,490,000), parks and recreation (\$2,745,000), cultural arts (\$10,500,000), central library (\$4,000,000), and facility improvements (\$9,750,000). These bonds will be amortized serially on September 1 of each year from 2012 to 2031. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2012. Total interest requirements for these bonds, at rates ranging from 2.0% to 4.0%, are \$42,099,100.

# 17 – SUBSEQUENT EVENTS, continued a -- General Obligation Bond Issue, continued

In October 2011, the City delivered \$8,450,000 of Public Improvements Bonds, Taxable Series 2011B. The proceeds from the issue will be used for affordable housing. These bonds will be amortized serially on September 1 of each year from 2014 to 2031. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2012. Total interest requirements for these bonds, at rates ranging from 2.5% to 4.5%, are \$4,747,410.

In October 2011, the City delivered \$51,150,000 of Certificates of Obligation, Series 2011. The proceeds from this issue will be used as follows: Solid Waste Environmental Remediation (\$8,650,000), Transportation Projects (\$7,500,000), and Waller Creek Project (\$35,000,000). These certificates of obligation will be amortized serially on September 1 of each year from 2012 to 2041. Interest is payable on March 1 and September 1 of each year, commencing on March 1, 2012. Total interest requirements for these obligations, at rates ranging from 3.0% to 4.3%, are \$35,660,738.

In October 2011, the City delivered \$26,725,000 of Public Property Finance Contractual Obligations, Series 2011. The proceeds from this issue will be used as follows: water utility capital equipment (\$315,000), wastewater utility capital equipment (\$1,650,000), public safety radio replacements (\$7,500,000), police vehicles & equipment (\$8,635,000), public works capital equipment (\$3,003,000), and solid waste services capital equipment (\$5,622,000). These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2012 to 2018. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2012. Total interest requirements for these obligations, at rates ranging from 0.05% to 2.0%, are \$1,793,440.

#### b -- Public Improvement Refunding Bond Issue

In November 2011, the City issued \$68,285,000 of Public Improvement Refunding Bonds, Series 2011A. The net proceeds of \$75,164,595 (after issue costs, discounts, and premiums) from the refunding were used to refund \$4,375,000 of Public Improvement Bonds, Series 2001; \$14,420,000 of Public Improvement Refunding Bonds, Series 2001; \$5,045,000 of Certificates of Obligation, Series 2001; \$5,500,000 of Public Improvement Bonds, Series 2002; \$1,775,000 of Certificates of Obligation, Series 2002; \$5,950,000 Public Improvement Refunding Bonds, Series 2002; \$12,485,000 of Public Improvement and Refunding Bonds, Series 2003; \$9,590,000 of Certificates of Obligation, Series 2004; \$4,980,000 of Public Improvement and Refunding Bonds, Series 2004; \$2,780,000 HUD 108 Loan, Series 2002A; \$785,000 HUD 108 Loan, Series 2003A; and \$655,000 HUD 108 Loan, Series 2006A. The refunding resulted in future interest requirements to service the debt of \$14,428,816 with interest rates ranging from 2.0% to 5.0%. An economic gain of \$4,953,123 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of \$5,572,626. An accounting loss of \$3,504,769, which will be deferred and amortized, was recognized on this refunding.

In November 2011, the City issued \$3,000,000 of Public Improvement Refunding Bonds, Taxable Series 2011B. The net proceeds of \$2,975,379 (after issue costs, discounts, and premiums) from the refunding were used to refund \$2,865,000 of HUD 108 Loan, Series 2010A. The refunding resulted in future interest requirements to service the debt of \$107,077 with interest rates ranging from 0.44% to 1.86% An economic loss of \$72,356 was recognized on this transaction. The change in net cash flows that resulted from the refunding was an increase of \$82,456. An accounting loss of \$110,379, which will be deferred and amortized, was recognized on this refunding.

### c -- Water and Wastewater System Revenue Refunding Bond Issue

In December 2011, the City issued \$237,530,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2011. The net proceeds from the bond refunding were used to refund \$175,000,000 of the City's outstanding tax-exempt commercial paper issued for the water and wastewater utility system; \$52,345,000 of subordinate lien revenue refunding bonds, series 1998A; \$3,545,000 of subordinate lien revenue bonds, series 1998B; \$8,830,000 of water & wastewater system revenue refunding bonds, series 2001A; and \$7,885,000 of water & wastewater system revenue refunding bonds, series 2001B. The debt service requirements on the refunding bonds are \$449,868,159, with interest rates ranging from 2.0% to 5.0%. Interest payments are due May 15 and November 15 of each year from 2012 to 2041. Principal payments are due November 15 of each year from 2014 to 2041. An economic gain of \$4,040,325 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of \$5,988,362. An accounting loss of \$2,614,243, which will be deferred and amortized, was recognized on this refunding.

# 17 – SUBSEQUENT EVENTS, continued d -- Texas Water Development Board

As of February 24, 2012, the City has converted an additional \$3,010,000 of initial bonds to definitive Water and Wastewater System Revenue Bonds, Series 2010 over three separate draw requests. With these issuances, the outstanding commitment with the TWDB in now reduced to \$5,215,000.

#### e -- Special Assessment Bonds Issue

In November 2011, the City issued \$15,500,000 of Special Assessment Revenue Bonds, Senior Series 2011 related to the Whisper Valley Public Improvement District. These bonds are being used by the City pursuant to the Public Improvement District Act, Chapter 372, Texas Local Government Code, Ordinance No. 20111103-054 adopted by the City Council on November 3, 2011. The proceeds from the issue will be used as follows: payment of a portion of the costs of construction, acquisition, or purchase of certain water, wastewater, and roadway public improvements for the benefit of Whisper Valley Public Improvement District; funding of a reserve fund; payment of a portion of the costs incidental to the organization of the District; funding of capitalized interest; and payment of the cost of issuance of the bonds. The bonds are special obligations of the City payable solely from pledged revenues and any other funds held under the indenture, as and to the extent provided in the indenture. The bonds do not give rise to a charge against the general credit or taxing powers of the City. These term bonds mature on September 1 of 2018, 2020, 2022, and 2026 and are subject to mandatory sinking fund redemption prior to their respective maturities. Interest is payable on September 1 of each year, commencing September 1, 2012. Total interest requirements for these bonds, at rates ranging from 7.875% to 8.5%, are \$14,194,080.

In November 2011, the City issued \$2,860,000 of Special Assessment Revenue Bonds, Senior Series 2011 related to the Indian Hills Public Improvement District. These bonds are being used by the City pursuant to the Public Improvement District Act, Chapter 372, Texas Local Government Code, Ordinance No. 20111103-052 adopted by the City Council on November 3, 2011. The proceeds from the issue will be used as follows: payment of a portion of the costs of construction, acquisition, or purchase of certain water, wastewater, and roadway public improvements for the benefit of Indian Hills Public Improvement District; funding of a reserve fund; payment of a portion of the costs incidental to the organization of the District; funding of capitalized interest; and payment of the cost of issuance of the bonds. The bonds are special obligations of the City payable solely from pledged revenues and any other funds held under the indenture, as and to the extent provided in the indenture. The bonds do not give rise to a charge against the general credit or taxing powers of the City. These term bonds mature on September 1 of 2018, 2020, 2022, and 2026 and are subject to mandatory sinking fund redemption prior to their respective maturities. Interest is payable on September 1 of each year, commencing September 1, 2012. Total interest requirements for these bonds, at rates ranging from 7.875% to 8.5%, are \$2,617,613.

In November 2011, the City issued \$18,485,168 of Special Assessment Revenue Bonds, Subordinate Series 2011 related to the Whisper Valley Public Improvement District. These bonds are being used by the City pursuant to the Public Improvement District Act, Chapter 372, Texas Local Government Code, Ordinance No. 20111103-055 adopted by the City Council on November 3, 2011. The proceeds from the issue will be used as follows: payment of a portion of the costs of construction, acquisition, or purchase of certain water, wastewater, and roadway public improvements for the benefit of Whisper Valley Public Improvement District; payment of a portion of the costs incidental to the organization of the District; and payment of the cost of issuance of the bonds. The bonds are special obligations of the City payable solely from pledged revenues and any other funds held under the indenture, as and to the extent provided in the indenture. The bonds do not give rise to a charge against the general credit or taxing powers of the City. These bonds will be amortized serially on December 1 of 2015 and 2016. Interest is payable on December 1 of 2015 and 2016. Total interest requirements for these bonds, at rates ranging from 2.5% to 2.8%, are \$2,534,832.

In November 2011, the City issued \$2,332,350 of Special Assessment Revenue Bonds, Subordinate Series 2011 related to the Indian Hills Public Improvement District. These bonds are being used by the City pursuant to the Public Improvement District Act, Chapter 372, Texas Local Government Code, Ordinance No. 20111103-053 adopted by the City Council on November 3, 2011. The proceeds from the issue will be used as follows: payment of a portion of the costs of construction, acquisition, or purchase of certain water, wastewater, and roadway public improvements for the benefit of Indian Hills Public Improvement District; payment of a portion of the costs incidental to the organization of the District; and payment of the cost of issuance of the bonds. The bonds are special obligations of the City payable solely from pledged revenues and any other funds held under the indenture, as and to the extent provided in the indenture. The bonds do not give rise to a charge against the general credit or taxing powers of the City. These bonds will be amortized serially on December 1 of each year of 2015 and 2016. Interest is payable on December 1 of 2015 and 2016. Total interest requirements for these bonds, at rates ranging from 2.5% to 2.8%, are \$297,650.

#### 17 - SUBSEQUENT EVENTS, continued

#### f -- Convention Center - Subordinate Lien Revenue Refunding Bonds

In March 2012, the City issued \$20,185,000 of Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2012. The net proceeds of \$22,422,882 (after issue costs, discounts, and premiums) from the refunding were used to refund \$20,175,000 of the City's outstanding Waller Creek Venue Project, Series 1999A. The debt service requirements on the refunding bonds are \$30,314,439, with interest rates ranging from 2.0% to 5.0%. Interest payments are due May 15 and November 15 of each year from 2012 to 2029. Principal payments are due November 15 of each year from 2012 to 2029. An economic gain of \$1,337,876 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of \$1,421,296.

# REQUIRED SUPPLEMENTARY INFORMATION

General Fund	neral Fund Adju					Variance (3) Positive	
	Actual	(1) (2)	Basis	Original	Final	(Negative)	
REVENUES							
Taxes	\$ 409,344		409,344	401,767	401,767	7,577	
Franchise fees	32,904	8	32,912	35,139	35,139	(2,227)	
Fines, forfeitures and penalties	18,131	(5)	18,126	18,863	18,863	(737)	
Licenses, permits and inspections	18,653		18,653	13,036	13,353	5,300	
Charges for services/goods	44,464	(7)	44,457	40,780	41,834	2,623	
Interest and other	5,096	(1,062)	4,034	5,314	5,588	(1,554)	
Total revenues	528,592	(1,066)	527,526	514,899	516,544	10,982	
EXPENDITURES							
General government							
Municipal Court	12,229	10	12,239	12,426	12,426	187	
Public safety							
Police	246,985	(173)	246,812	250,889	250,889	4,077	
Fire	126,927	(1,247)	125,680	126,637	126,637	957	
Emergency Medical Services	48,180	(499)	47,681	46,550	47,777	96	
Transportation, planning and sustainability							
Transportation, Planning and Sustainability	14	(14)					
Public health:							
Health	39,230	883	40,113	40,046	40,506	393	
Public recreation and culture							
Parks and Recreation	46,210	(2,326)	43,884	44,013	44,013	129	
Austin Public Library	25,979	(44)	25,935	26,207	26,207	272	
Urban growth management							
Neighborhood Planning and Zoning Development Services and	19,540	48	19,588	21,194	21,194	1,606	
Watershed Protection	3	(3)					
Other Urban Growth Management	14,756	(669)	14,087	15,841	15,358	1,271	
General city responsibilities (4)	74,291	(53,090)	21,201	19,655	19,655	(1,546)	
Total expenditures	654,344	(57,124)	597,220	603,458	604,662	7,442	
Excess (deficiency) of revenues							
over expenditures	(125,752)	56,058	(69,694)	(88,559)	(88,118)	18,424	
OTHER FINANCING SOURCES (USES)							
Transfers in	141,448	13,574	155,022	154,073	154,073	949	
Transfers out	(9,487)	(71,931)	(81,418)	(79,321)	(80,989)	(429)	
Total other financing sources (uses)	131,961	(58,357)	73,604	74,752	73,084	520	
Excess (deficiency) of revenues and other							
sources over expenditures and other uses	6,209	(2,299)	3,910	(13,807)	(15,034)	18,944	
Fund balance at beginning of year	128,044	(10,927)	117,117	97,991	118,780	(1,663)	
Fund balance at end of year	\$ 134,253	(13,226)	121,027	84,184	103,746	17,281	
	,_66	(12,=20)	,	,			

(Continued)

<sup>(1)</sup> 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.

<sup>(3)</sup> Variance is actual-budget basis to final budget.

<sup>(4)</sup> 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 fundlevel expenditures.

General Fund Schedule of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual-Budget Basis For the year ended September 30, 2011 (In thousands)

(Continued)

Budgetary General Fund	General Fund Actual- V					
		Adjustments	Budget	Budg	get	Positive
	Actual	(1) (2)	Basis	Original	Final	(Negative)
REVENUES		. , , , ,				
Taxes	\$ 409,344		409,344	401,767	401,767	7,577
Franchise fees	32,904	8	32,912	35,139	35,139	(2,227)
Fines, forfeitures and penalties	18,131	(5)	18,126	18,863	18,863	(737)
Licenses, permits and inspections	18,653		18,653	13,036	13,353	5,300
Charges for services/goods	44,463	(7)	44,456	40,780	41,834	2,622
Interest and other	4,984	(1,062)	3,922	5,194	5,468	(1,546)
Total revenues	528,479	(1,066)	527,413	514,779	516,424	10,989
EXPENDITURES						
General government						
Municipal Court	12,229	10	12,239	12,426	12,426	187
Public safety	•				•	
Police	246,985	(173)	246,812	250,889	250,889	4,077
Fire	126,927	(1,247)	125,680	126,637	126,637	957
Emergency Medical Services	48,180	(499)	47,681	46,550	47,777	96
Transportation, planning and sustainability						
Transportation, Planning and Sustainability	14	(14)				
Public health:						
Health	39,230	883	40,113	40,046	40,506	393
Public recreation and culture						
Parks and Recreation	46,210	(2,326)	43,884	44,013	44,013	129
Austin Public Library	25,979	(44)	25,935	26,207	26,207	272
Urban growth management						
Neighborhood Planning and Zoning	19,540	48	19,588	21,194	21,194	1,606
Development Services and						
Watershed Protection	3	(3)				
Other Urban Growth Management	42	(42)				
General city responsibilities (4)	74,291	(53,090)	21,201	19,655	19,655	(1,546)
Total expenditures	639,630	(56,497)	583,133	587,617	589,304	6,171
Excess (deficiency) of revenues						
over expenditures	(111,151)	55,431	(55,720)	(72,838)	(72,880)	17,160
OTHER FINANCING SOURCES (USES)						
Transfers in	134,263	1,200	135,463	135,463	135,463	
Transfers out	(7,819)	(69,629)	(77,448)	(77,019)	(77,019)	(429)
Total other financing sources (uses)	126,444	(68,429)	58,015	58,444	58,444	(429)
Fuence (deficiency) of vertical attacks						
Excess (deficiency) of revenues and other	45.000	(40,000)	0.005	(44.004)	(4.4.400)	40 704
sources over expenditures and other uses	15,293	(12,998)	2,295	(14,394)	(14,436)	
Fund balance at beginning of year	110,127	(10,208)	99,919	79,485	100,274	(355)
Fund balance at end of year	\$ 125,420	(23,206)	102,214	65,091	85,838	16,376

(Continued)

<sup>(1)</sup> Includes adjustments to expenditures for current year encumbrances, payments against prior year encumbrances, accrued payroll, compensated absences, and amounts budgeted as operating transfers.

<sup>(2)</sup> Includes adjustments to revenues/transfers required for adjusted budget basis presentation.

<sup>(3)</sup> Variance is actual-budget basis to final budget.

<sup>(4)</sup> 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.

General Fund Schedule of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual-Budget Basis For the year ended September 30, 2011 (In thousands)

(Continued)

Economic Incentives Reserve			Adjustments	Actual- Budget	Budg	ıet	Variance (3) Positive
	-	Actual	(1) (2)	Basis	Original	Final	(Negative)
REVENUES							
Interest and other	\$	49		49			49
Total revenues		49		49			49
EXPENDITURES							
Other Urban Growth Management		8,269	(502)	7,767	9,853	8,870	1,103
Total expenditures		8,269	(502)	7,767	9,853	8,870	1,103
Excess (deficiency) of revenues							
over expenditures		(8,220)	502	(7,718)	(9,853)	(8,870)	1,152
OTHER FINANCING SOURCES (USES)							
Transfers in		1,092	10,072	11,164	10,735	10,735	429
Transfers out		(983)		(983)		(983)	
Total other financing sources (uses)		109	10,072	10,181	10,735	9,752	429
Excess (deficiency) of revenues and other							
sources over expenditures and other uses		(8,111)	10,574	2,463	882	882	1,581
Fund balance at beginning of year		5,364	(255)	5,109	6,417	6,417	(1,308)
Fund balance at end of year		(2,747)	10,319	7,572	7,299	7,299	273

New Central Library		Adjustments	Actual- Budget	Budget		Variance (3) Positive	
	Actual	(1) (2)	Basis	Original	Final	(Negative)	
REVENUES							
Interest and other	55		55	120	120	(65)	
Total revenues	55		55	120	120	(65)	
Fund balance at beginning of year	10,418		10,418	10,418	10,418		
Fund balance at end of year	\$ 10,473		10,473	10,538	10,538	(65)	

(Continued)

- (2) Includes adjustments to revenues/transfers required for adjusted budget basis presentation.
- (3) Variance is actual-budget basis to final budget.

<sup>(1)</sup> Includes adjustments to expenditures for current year encumbrances, payments against prior year encumbrances, accrued payroll, compensated absences, and amounts budgeted as operating transfers.

(Continued)

Neighborhood Housing and Community Development		Adjustments	Actual- Budget	Budg	jet	Variance (3) Positive
	 Actual	(1) (2)	Basis	Original	Final	(Negative)
REVENUES						
Charges for services/goods	\$ 1		1			1
Interest and other	8		8			8
Total revenues	9		9			9
EXPENDITURES						
Other Urban Growth Mangement	2,616	(283)	2,333	2,501	2,501	168
Total expenditures	 2,616	(283)	2,333	2,501	2,501	168
Excess (deficiency) of revenues over expenditures	(2,607)	283	(2,324)	(2,501)	(2,501)	177
OTHER FINANCING SOURCES (USES)						
Transfers in	 	2,302	2,302	2,302	2,302	
Total other financing sources (uses)	-	2,302	2,302	2,302	2,302	
Excess (deficiency) of revenues and other						
sources over expenditures and other uses	(2,607)	2,585	(22)	(199)	(199)	177
Fund balance at beginning of year	 607	(351)	256	256	256	
Fund balance at end of year	(2,000)	2,234	234	57	57	177

Sustainability	Actual- Adjustments Budget Budget					Variance (3) Positive
	Actual	(1) (2)	Basis	Original	Final	(Negative)
EXPENDITURES						_
Other Urban Growth Mangement	3,829	158	3,987	3,487	3,987	
Total expenditures	3,829	158	3,987	3,487	3,987	
Excess (deficiency) of revenues						
over expenditures	(3,829)	(158)	(3,987)	(3,487)	(3,987)	
Transfers in	6,093		6,093	5,573	5,573	520
Transfers out	(685)	(2,302)	(2,987)	(2,302)	(2,987)	
Total other financing sources (uses)	5,408	(2,302)	3,106	3,271	2,586	520
Excess (deficiency) of revenues and other						
sources over expenditures and other uses	1,579	(2,460)	(881)	(216)	(1,401)	520
Fund balance at beginning of year	1,528	(113)	1,415	1,415	1,415	
Fund balance at end of year	\$ 3,107	(2,573)	534	1,199	14	520

<sup>(1)</sup> Includes adjustments to expenditures for current year encumbrances, payments against prior year encumbrances, accrued payroll, compensated absences, and amounts budgeted as operating transfers.

<sup>(2)</sup> Includes adjustments to revenues/transfers required for adjusted budget basis presentation.

<sup>(3)</sup> Variance is actual-budget basis to final budget.

Required Supplementary Information
Notes to Schedule of Revenues, Expenditures, and Changes in
Fund Balances – Budget and Actual-Budget Basis
September 30, 2011

## **BUDGET BASIS REPORTING**

#### a -- General

The City of Austin prepares its annual operating budget based on the modified accrual basis. Encumbrances constitute the equivalent of expenditures for budgetary purposes. In order to provide a meaningful comparison of actual results to the budget, the Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual-Budget Basis for the General Fund presents the actual and actual-budget basis amounts in comparison with original and final budgets.

The General fund, as reported in the financial statements is comprised of five separately budgeted funds. The Budgetary General Fund which represents the General Fund as budgeted by the City plus the Economic Inc entives Reserve, New Central Library, Neighborhood Housing and Community Development, and Sustainability activities. The last four activities were previously reported as Special Revenue funds prior to the implementation of GASB Statement No. 54. These activities no longer meet the Special Revenue test and must be reported in the General Fund in accordance with GAAP.

The Budgetary General F und budget includes other revenues and requirements, which are presented in the general city responsibilities category. The expenditure budget for these general city requirements includes the following: tuition reimbursement (\$340,000), accrued payroll (\$2,247,680), expenditures for workers' compensation (\$5,353,014), liability reserve (\$2,000,000), and public safety (\$2,394,022).

## **b** -- Budget Amendments

The original revenue budget of the General Fund was amended during the fiscal year 2011 to increase emergency medical services and public health. The original expenditure budget of the General Fund was amended during fiscal year 2011 primarily for increased public safety and public health costs. The original and final budget is presented in the accompanying financial statements.

## **BUDGET BASIS REPORTING, continued**

## c -- Reconciliation of GAAP Basis and Budget Basis Amounts

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

Excess (deficiency) of revenues and other sources				
over expenditures and other uses - GAAP basis	\$	6,209		
Adjustments - increases (decreases) due to:				
Unbudgetd revenues:				
Budgetary General Fund	(1,571)		(1,571)	
Worker's compensation adjustment				
Budgetary General Fund	(4,137)		(4,137)	
Net compensated absences accrual				
Budgetary General Fund	(146)		(146)	
Outstanding encumbrances established				
in current year				
Budgetary General Fund	(3,018)			
Economic Incentives Reserve	(459)			
Neighborhood Housing and				
Community Development	(38)			
Sustainability	(263)		(3,778)	
Payments against prior year encumbrances				
Budgetary General Fund	1,936			
Neighborhood Housing and				
Community Development	271			
Sustainability	105		2,312	
Other				
Budgetary General Fund	(6,562)			
Economic Incentives Reserve	11,033			
Neighborhood Housing and				
Community Development	2,352			
Sustainability	(2,302)		4,521	
Excess (deficiency) of revenues and other sources				
over expenditures and other uses - GAAP basis		\$	3,410	

## RETIREMENT PLANS-TREND INFORMATION

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

Valuation Date, December 31	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
City Employees						
2008	1,481,377	2,246,903	765,526	65.9%	448,740	170.6%
2009	1,672,470	2,330,937	658,467	71.8%	442,539	148.8%
2010	1,711,600	2,460,700	749,100	69.6%	438,900	170.7%
Police Officers						
2008	464,230	693,202	228,972	67.0%	122,735	186.6%
2009	518,112	733,635	215,523	70.6%	122,928	175.3%
2010	546,957	776,231	229,274	70.5%	127,732	179.5%
Fire Fighters (2)						
2005	493,567	580,054	86,487	85.1%	65,885	131.3%
2007	584,420	586,802	2,382	99.6%	76,556	3.1%
2009	589,261	664,185	74,924	88.7%	78,980	94.9%

<sup>(1)</sup> UAAL – Unfunded Actuarial Accrued Liability (Excess)

Information on where to obtain financial statements and supplementary information for each plan can be found in Footnote 7.

### OTHER POST EMPLOYMENT BENEFITS-TREND INFORMATION

Under GAAP, the City is required to have an actuarial valuation of its other post employ ment benefits program every other year. The Schedule of Funding Progress for other post employment benefits is as follows (in thousands):

Fiscal Year Ended September 30	Valuation Date, October 1	Val	uarial ue of ssets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
2009	2006	\$		1,035,766	1,035,766	0.0%	629,822	164.5%
2010	2008			1,134,864	1,134,864	0.0%	620,526	182.9%
2011	2010			1,404,692	1,404,692	0.0%	668,679	210.1%

<sup>(1)</sup> UAAL – Unfunded Actuarial Accrued Liability (Excess)

Supplementary information for the OPEB plan can be found in Footnote 8.

<sup>(2)</sup> The actuarial study for the Fire Fighters' plan is performed biannually.

# APPENDIX C

Forms of Bond Counsel's Opinions





111 Congress Avenue, Suite 1700 Austin, Texas 78701 512.320.9200 Phone 512.320.9292 Fax andrewskurth.com

WE HAVE ACTED as Bond Counsel for the City of Austin, Texas (the "City"), in connection with an issue of bonds (the "Bonds") described as follows:

CITY OF AUSTIN, TEXAS, PUBLIC IMPROVEMENT BONDS, SERIES 2012A, dated September 1, 2012, in the aggregate principal amount of \$74,280,000, maturing on September 1 in 2013 and in each year from 2023 through and including 2026 and 2027 through and including 2032. The Bonds are issuable in fully registered form only, in denominations of \$5,000 or integral multiples thereof, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the ordinance (the "Ordinance") adopted by the City Council of the City authorizing their issuance.

WE HAVE ACTED as Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income under federal income tax law. In such capacity we have examined the Constitution and laws of the State of Texas; federal income tax law; and a transcript of certain certified proceedings pertaining to the issuance of the Bonds, as described in the Ordinance. The transcript contains certified copies of certain proceedings of the City; certain certifications and representations and other material facts within the knowledge and control of the City, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds. We have also examined executed Bond No. T-1.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

## BASED ON SUCH EXAMINATION, it is our opinion as follows:

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; the Bonds constitute valid and legally binding obligations of the City enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization,

moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law; and

(2) The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, within the limits prescribed by law, upon taxable property located within the City, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds.

ALSO BASED ON OUR EXAMINATION AS DESCRIBED ABOVE, it is our further opinion that, subject to the restrictions hereinafter described, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes under existing law and is not subject to the alternative minimum tax on individuals or, except as hereinafter described, corporations. The opinion set forth in the first sentence of this paragraph is subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted in the Ordinance to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. The Code and the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinions of Bond Counsel are based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof for federal income tax purposes.

INTEREST ON the Bonds owned by a corporation (other than an S corporation, a regulated investment company, a real estate investment trust (REIT), a real estate mortgage investment conduit (REMIC), or a financial asset securitization investment trust (FASIT)) will be included in such corporation's adjusted current earnings for purposes of calculating such corporation's alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by the Code is computed. Purchasers of Bonds are directed to the discussion entitled "TAX MATTERS FOR SERIES 2012A BONDS, CERTIFICATES AND CONTRACTUAL OBLIGATIONS" set forth in the Official Statement.

EXCEPT AS DESCRIBED ABOVE, we express no opinion as to any federal, state or local tax consequences under present law, or future legislation, resulting from the ownership of, receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to, among others, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualified for the earned income credit. For the foregoing reasons, prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.



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\_\_\_\_\_, 2012

WE HAVE ACTED as Bond Counsel for the City of Austin, Texas (the "City"), in connection with an issue of bonds (the "Bonds") described as follows:

CITY OF AUSTIN, TEXAS, PUBLIC IMPROVEMENT BONDS, TAXABLE SERIES 2012B, dated September 1, 2012, in the aggregate principal amount of \$6,640,000, maturing on September 1 in 2013, in each year from 2015 through and including 2029 and in 2032. The Bonds are issuable in fully registered form only, in denominations of \$5,000 or integral multiples thereof, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the ordinance (the "Ordinance") adopted by the City Council of the City authorizing their issuance.

WE HAVE ACTED as Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas. In such capacity we have examined the Constitution and laws of the State of Texas and a transcript of certain certified proceedings pertaining to the issuance of the Bonds, as described in the Ordinance. The transcript contains certified copies of certain proceedings of the City; certain certifications and representations and other material facts within the knowledge and control of the City, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds. We have also examined executed Bond No. T-1.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

## BASED ON SUCH EXAMINATION, it is our opinion as follows:

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; the Bonds constitute valid and legally binding obligations of the City enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions

and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law; and

(2) The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, within the limits prescribed by law, upon taxable property located within the City, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds.

WE EXPRESS NO OPINION as to the treatment of the interest on the Bonds for federal income tax purposes or any other matter.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective.



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\_\_\_\_\_, 2012

WE HAVE ACTED as Bond Counsel for the City of Austin, Texas (the "City") in connection with an issue of certificates of obligation (the "Certificates") described as follows:

CITY OF AUSTIN, TEXAS, CERTIFICATES OF OBLIGATION, SERIES 2012, dated September 1, 2012, in the aggregate principal amount of \$24,645,000, maturing on September 1 in each year from 2013 through and including 2035 and in 2037. The Certificates are issuable in fully registered form only, in denominations of \$5,000 or integral multiples thereof, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Certificates and in the ordinance (the "Ordinance") adopted by the City Council of the City authorizing their issuance.

WE HAVE ACTED as Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Certificates from gross income under federal income tax law. In such capacity we have examined the Constitution and laws of the State of Texas; federal income tax law; and a transcript of certain certified proceedings pertaining to the issuance of the Certificates, as described in the Ordinance. The transcript contains certified copies of certain proceedings of the City; certain certifications and representations and other material facts within the knowledge and control of the City, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Certificates. We have also examined executed Certificate No. T-1.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Certificates. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

## BASED ON SUCH EXAMINATION, it is our opinion as follows:

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Certificates in full compliance with the Constitution and laws of the State of Texas presently in effect; the Certificates constitute valid and legally binding obligations of the City enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Certificates may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency,

reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Certificates have been authorized and delivered in accordance with law;

- (2) The Certificates are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, within the limits prescribed by law, upon taxable property located within the City, which taxes have been pledged irrevocably to pay the principal of and interest on the Certificates; and
- (3) The Certificates are additionally payable from a limited pledge of the surplus revenues (not to exceed \$1,000) of the City's solid waste disposal system in the manner and to the extent provided in the Ordinance.

ALSO BASED ON OUR EXAMINATION AS DESCRIBED ABOVE, it is our further opinion that, subject to the restrictions hereinafter described, interest on the Certificates is excludable from gross income of the owners thereof for federal income tax purposes under existing law and is not subject to the alternative minimum tax on individuals or, except as hereinafter described, corporations. The opinion set forth in the first sentence of this paragraph is subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Certificates in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted in the Ordinance to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Certificates in gross income for federal income tax purposes to be retroactive to the date of issuance of the Certificates. The Code and the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinions of Bond Counsel are based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Certificates in gross income of the owners thereof for federal income tax purposes.

INTEREST ON the Certificates owned by a corporation (other than an S corporation, a regulated investment company, a real estate investment trust (REIT), a real estate mortgage investment conduit (REMIC), or a financial asset securitization investment trust (FASIT)) will be included in such corporation's adjusted current earnings for purposes of calculating such corporation's alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by the Code is computed. Purchasers of Certificates are directed to the discussion entitled "TAX MATTERS FOR SERIES 2012A BONDS, CERTIFICATES AND CONTRACTUAL OBLIGATIONS" set forth in the Official Statement.

EXCEPT AS DESCRIBED ABOVE, we express no opinion as to any federal, state or local tax consequences under present law, or future legislation, resulting from the ownership of, receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations, such as the Certificates, may result in collateral federal income tax consequences to, among others, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who

are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualified for the earned income credit. For the foregoing reasons, prospective purchasers should consult their tax advisors as to the consequences of investing in the Certificates.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.





\_\_\_\_\_\_, 2012

WE HAVE ACTED as Bond Counsel for the City of Austin, Texas (the "City"), in connection with an issue of contractual obligations (the "Contractual Obligations") described as follows:

CITY OF AUSTIN, TEXAS, PUBLIC PROPERTY FINANCE CONTRACTUAL OBLIGATIONS, SERIES 2012, dated September 1, 2012, in the aggregate principal amount of \$27,135,000, maturing on May 1 and November 1 in each year from 2013 through and including 2019. The Contractual Obligations are issuable in fully registered form only, in denominations of \$5,000 or integral multiples thereof, and bear interest, mature and may be transferred and exchanged as set out in the ordinance (the "Ordinance") adopted by the City Council of the City authorizing their issuance.

WE HAVE ACTED as Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Contractual Obligations under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Contractual Obligations from gross income under federal income tax law. In such capacity we have examined the Constitution and laws of the State of Texas; federal income tax law; and a transcript of certain certified proceedings pertaining to the issuance of the Contractual Obligations, as described in the Ordinance. The transcript contains certain certified copies of certain proceedings of the City; certain certifications and representations and other material facts within the knowledge and control of the City, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Contractual Obligations. We also have examined executed Contractual Obligation No. T-1.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Contractual Obligations. Our role in connection with the City's Official Statement prepared or used in connection with the sale of the Contractual Obligations has been limited as described therein.

## BASED ON SUCH EXAMINATION, it is our opinion as follows:

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Contractual Obligations in full compliance with the Constitution and laws of the State of Texas presently in effect; the Contractual Obligations constitute valid and

legally binding obligations of the City enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Contractual Obligations may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Contractual Obligations have been authorized and delivered in accordance with law; and

(2) The Contractual Obligations are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, within the limits prescribed by law, upon taxable property located within the City, which taxes have been pledged irrevocably to pay the principal of and interest on the Contractual Obligations.

ALSO BASED ON OUR EXAMINATION AS DESCRIBED ABOVE, it is our further opinion that, subject to the restrictions hereinafter described, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes under existing law and is not subject to the alternative minimum tax on individuals or, except as hereinafter described, corporations. The opinion set forth in the first sentence of this paragraph is subject to the condition that the Corporation comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Contractual Obligations in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Corporation has covenanted in the Ordinance to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Contractual Obligations in gross income for federal income tax purposes to be retroactive to the date of issuance of the Contractual Obligations. The Code and the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinions of Bond Counsel are based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Contractual Obligations in gross income of the owners thereof for federal income tax purposes.

INTEREST ON the Contractual Obligations owned by a corporation (other than an S corporation, a regulated investment company, a real estate investment trust (REIT), a real estate mortgage investment conduit (REMIC) or a financial asset securitization investment trust (FASIT)) will be included in such corporation's adjusted current earnings for purposes of calculating such corporation's alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by the Code is computed. Purchasers of Contractual Obligations are directed to the discussion entitled "TAX MATTERS FOR SERIES 2012A BONDS, CERTIFICATES AND CONTRACTUAL OBLIGATIONS" set forth in the Official Statement.

EXCEPT AS DESCRIBED ABOVE, we express no opinion as to any federal, state or local tax consequences under present law, or future legislation, resulting from the ownership of, receipt or accrual of interest on, or the acquisition or disposition of, the Contractual Obligations. Prospective purchasers of the Contractual Obligations should be aware that the ownership of tax-exempt obligations, such as the Contractual Obligations, may result in collateral federal income tax consequences to, among others, financial institutions, property and casualty insurance

companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualified for the earned income tax credit. For the foregoing reasons, prospective purchasers should consult their tax advisors as to the consequences of investing in the Contractual Obligations.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.