

**OFFICIAL STATEMENT**

**CITY OF AUSTIN, TEXAS**

**\$31,585,000**

**Public Improvement Bonds, Series 2006**

**\$24,150,000**

**Certificates of Obligation, Series 2006**

**\$14,120,000**

**Public Property Finance Contractual Obligations, Series 2006**

**Dated: August 31, 2006**



## OFFICIAL STATEMENT DATED AUGUST 31, 2006

Ratings: Moody's: "Aa1"

Standard & Poor's: "AA+"

Fitch: "AA+"

(See "OTHER RELEVANT INFORMATION – Ratings")

### NEW ISSUE – Book-Entry-Only

In the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel ("Bond Counsel"), interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and the Bonds are not private activity bonds. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel, including a description of the alternative minimum tax consequences for corporations.

### **\$31,585,000** **CITY OF AUSTIN, TEXAS** **(Travis and Williamson Counties)** **Public Improvement Bonds, Series 2006**

Dated: August 15, 2006

Due: September 1, as shown below

Interest on the \$31,585,000 City of Austin, Texas Public Improvement Bonds, Series 2006 (the "Bonds"), will accrue from the dated date as shown above and will be payable March 1 and September 1 of each year, commencing March 1, 2007, until maturity or prior redemption, and will be calculated on the basis of a 360-day year 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 (see "OBLIGATION INFORMATION – Book-Entry-Only System").

The 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 Bonds (see "OBLIGATION INFORMATION – Security").

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

### MATURITY SCHEDULE

CUSIP Prefix: 052396

<u>Maturity</u> <u>(September 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u> <u>or Yield</u>	<u>Maturity</u> <u>(September 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u> <u>or Yield</u>
2009	\$ 100,000	4.000%	3.550%	2018	\$1,740,000	4.000%	4.120%
2010	100,000	4.000%	3.570%	2019	1,830,000	4.000%	4.170%
2011	100,000	4.000%	3.590%	2020	1,920,000	4.250%	4.310%
2012	100,000	4.000%	3.630%	2021	2,015,000	4.375%	4.375%
2013	100,000	4.000%	3.700%	2022	2,115,000	4.250%	4.340%
2014	100,000	4.000%	3.780%	2023	2,225,000	4.250%	4.360%
2015	1,505,000	5.000%	3.900%	2024	2,335,000	4.500%	4.480%*
2016	1,580,000	5.375%	3.950%	2025	2,450,000	4.300%	4.400%
2017	1,660,000	4.000%	4.030%	2026	9,610,000	4.500%	4.540%

(Plus Accrued Interest from August 15, 2006)

\*Priced to call date.

The City reserves the right, at its option, to redeem Bonds having stated maturities on and after September 1, 2017, in whole or in part in the principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2016, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see "OBLIGATION INFORMATION – Redemption").

The initial reoffering yields were supplied to the City by the Purchasers. The initial reoffering yields shown above will produce compensation to the Purchasers of approximately \$120,023.

The 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 McCall, Parkhurst & Horton L.L.P., Bond Counsel. The opinion of Bond Counsel will be printed on or attached to the Bonds (see APPENDIX C – "Form of Bond Counsel's Opinions").

It is expected that the Bonds will be delivered through the facilities of DTC on or about October 4, 2006.

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## OFFICIAL STATEMENT DATED AUGUST 31, 2006

Ratings: Moody's: "Aaa"

Standard & Poor's: "AAA"

Fitch: "AAA"

(See "BOND INSURANCE" and "OTHER RELEVANT INFORMATION – Ratings")

### NEW ISSUE – Book-Entry-Only

In the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel ("Bond Counsel") interest on the Certificates is excludable from gross income for federal income tax purposes under existing law and the Certificates are not private activity bonds. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel, including a description of the alternative minimum tax consequences for corporations.

## \$24,150,000 CITY OF AUSTIN, TEXAS (Travis and Williamson Counties) Certificates of Obligation, Series 2006

Dated: August 15, 2006

Due: September 1, as shown below

Interest on the \$24,150,000 City of Austin, Texas Certificates of Obligation, Series 2006 (the "Certificates"), will accrue from the dated date as shown above and will be payable March 1 and September 1 of each year, commencing March 1, 2007, until maturity or prior redemption, and will be calculated on the basis of a 360-day year 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 (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 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.



Payment of the principal and interest on the Certificates when due will be guaranteed by a financial guaranty insurance policy to be issued by CIFG simultaneously with the delivery of the Certificates. See "BOND INSURANCE" herein.

### MATURITY SCHEDULE

CUSIP Prefix: 052396

Maturity (September 1)	Amount	Interest Rate	Price or Yield	Maturity (September 1)	Amount	Interest Rate	Price or Yield
2007	\$ 730,000	4.000%	3.600%	2017	\$1,190,000	4.000%	4.030%
2008	765,000	4.000%	3.600%	2018	1,250,000	4.125%	4.150%
2009	805,000	4.000%	3.600%	2019	1,310,000	4.125%	4.260%
2010	845,000	4.000%	3.620%	2020	1,375,000	4.125%	4.320%
2011	890,000	4.000%	3.640%	2021	1,445,000	4.250%	4.370%
2012	930,000	4.000%	3.690%	2022	1,520,000	4.375%	4.410%
2013	980,000	4.000%	3.750%	2023	1,595,000	4.250%	4.430%
2014	1,025,000	4.000%	3.820%	2024	1,675,000	4.375%	4.450%
2015	1,080,000	5.000%	3.880%	2025	1,760,000	4.375%	4.470%
2016	1,135,000	5.000%	3.930%	2026	1,845,000	4.375%	4.490%

(Plus Accrued Interest from August 15, 2006)

The City reserves the right, at its option, to redeem Certificates having stated maturities on and after September 1, 2017, in whole or in part in the principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2016, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see "OBLIGATION INFORMATION – Redemption").

The initial reoffering yields were supplied to the City by the Purchasers. The initial reoffering yields shown above will produce compensation to the Purchasers of approximately \$71,416.60.

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 McCall, Parkhurst & Horton L.L.P., Bond Counsel. The opinion of Bond Counsel will be printed on or attached to the Certificates (see APPENDIX C – "Form of Bond Counsel's Opinions").

It is expected that the Certificates will be delivered through the facilities of DTC on or about October 4, 2006.

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**OFFICIAL STATEMENT DATED AUGUST 31, 2006**

Ratings: Moody's: "Aa1"

Standard & Poor's: "AA+"

Fitch: "AA+"

(See "OTHER RELEVANT INFORMATION – Ratings")

**NEW ISSUE – Book-Entry-Only**

In the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel ("Bond Counsel") interest on the Contractual Obligations is excludable from gross income for federal income tax purposes under existing law and the Contractual Obligations are not private activity bonds. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel, including a description of the alternative minimum tax consequences for corporations.

**\$14,120,000**  
**CITY OF AUSTIN, TEXAS**  
**(Travis and Williamson Counties)**  
**Public Property Finance Contractual Obligations, Series 2006**

Dated: August 15, 2006

Due: May 1 and November 1, as shown below

Interest on the \$14,120,000 City of Austin, Texas Public Property Finance Contractual Obligations, Series 2006 (the "Contractual Obligations"), will accrue from the dated date as shown above and will be payable May 1 and November 1 of each year, commencing May 1, 2007, and will be calculated on the basis of a 360-day year 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 (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 Contractual Obligations (see "OBLIGATION INFORMATION – Security").

Proceeds from the sale of the Contractual Obligations will be used to purchase certain equipment for various City Departments and to pay costs of issuance of the Contractual Obligations.

**MATURITY SCHEDULE**

CUSIP Prefix: 052396

<u>Maturity</u> <u>(May 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u> <u>or Yield</u>	<u>Maturity</u> <u>(November 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u> <u>or Yield</u>
2007	\$ 785,000	4.000%	3.550%	2007	\$ 900,000	4.000%	3.550%
2008	920,000	4.000%	3.570%	2008	940,000	4.000%	3.570%
2009	960,000	4.000%	3.580%	2009	980,000	4.000%	3.580%
2010	1,000,000	4.000%	3.610%	2010	1,025,000	4.000%	3.620%
2011	1,045,000	4.000%	3.640%	2011	1,065,000	4.000%	3.650%
2012	1,090,000	4.000%	3.690%	2012	1,115,000	4.000%	3.710%
2013	1,135,000	4.250%	3.750%	2013	1,160,000	4.250%	3.770%

(Plus Accrued Interest from August 15, 2006)

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

The initial reoffering yields were supplied to the City by the Purchasers. The initial reoffering yields shown above will produce compensation to the Purchasers of approximately \$27,746.75.

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 McCall, Parkhurst & Horton L.L.P., Bond Counsel. The opinion of Bond Counsel will be printed on or attached to the Contractual Obligations (see APPENDIX C – "Form 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, 2006.

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No dealer, broker, salesman or other person has been authorized by the City or by 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 Bonds, the Certificates or the Contractual Obligations (collectively referred to herein as the “Obligations”), by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

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 Service Bureau 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 The PFM Group, 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 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

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

### Appointed Officials

Toby Hammett Futrell.....	City Manager
Laura Huffman .....	Assistant City Manager
Rudy Garza .....	Assistant City Manager
Mike McDonald.....	Acting Assistant City Manager
Bert Lumbreras.....	Assistant City Manager
John Stephens, CPA .....	Chief Financial Officer
Vickie Schubert, CPA .....	Deputy Chief Financial Officer
Leslie Browder, CPA .....	Deputy Chief Financial Officer
David Allan Smith.....	City Attorney
Shirley A. Gentry.....	City Clerk

### BOND COUNSEL

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

### FINANCIAL ADVISOR

The PFM Group  
Austin, Texas

### AUDITORS

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

For additional information regarding the City, please contact:

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## 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 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 data page from this Official Statement or to otherwise use it without the entire Official Statement.

This data page was prepared to present the purchasers of the Bonds, the Certificates and the Contractual Obligations information concerning the Bonds, the Certificates and the Contractual Obligations, the description of the tax base and other pertinent data, all as more fully described herein.

<b>The Issuer</b> .....	<p>The City of Austin, Texas (the “City”), is a political subdivision located in Travis and Williamson 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 Council formulates operating policy for the City while the City Manager is the chief administrative officer.</p> <p>The City is approximately 294 square miles in area (see APPENDIX A – “General Information Regarding the City”).</p>
<b>The Bonds</b> .....	The Bonds are being issued in the principal amount of \$31,585,000 pursuant to the general laws of the State of Texas, particularly Chapter 1331, Texas Government Code and an Ordinance passed by the City Council of the City (see “OBLIGATION INFORMATION – Authority for Issuance”).
<b>The Certificates</b> .....	The Certificates are being issued in the principal amount of \$24,150,000 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”).
<b>The Contractual Obligations</b> .....	The Contractual Obligations are being issued in the principal amount of \$14,120,000 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”).
<b>Security</b> .....	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.
<b>Optional Redemption of Bonds and Certificates</b> .....	The City reserves the right, at its option, to redeem the Bonds and the Certificates having stated maturities on and after September 1, 2017, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2016, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see “OBLIGATION INFORMATION – Redemption”). <b>The Contractual Obligations are not subject to redemption prior to their stated maturities.</b>

**Tax Exemption** ..... In the opinion of Bond Counsel, the interest on the Obligations is excludable from gross income for federal income tax purposes under existing law and the Obligations will not constitute private activity bonds. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel including the alternative minimum tax consequences for corporations.

**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

Fiscal Year Ended	Estimated City Population (1)	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	(000's) Net Funded Tax Debt (2)	Per Capita Net Funded Tax Debt	Ratio of Net Funded Tax Debt to Taxable Valuation	% of Tax Collections
1996	541,889	\$23,303,015,047	\$43,003.30	\$443,247	\$ 817.97	1.90%	99.91%
1997	560,939	25,823,385,257	46,036.00	476,148	848.84	1.84%	99.47%
1998	608,214	27,493,058,735	45,202.94	500,027	822.12	1.82%	99.37%
1999	619,038	32,458,349,755	52,433.53	509,759	823.47	1.57%	99.57%
2000	628,667	35,602,840,326	56,632.27	540,283	859.41	1.52%	99.85%
2001	661,639	41,419,314,286	62,601.08	546,211	825.54	1.32%	99.60%
2002	671,044	47,782,873,096	71,206.77	762,624	1,136.47	1.60%	99.23%
2003	674,719	50,759,650,668	75,230.80	788,366	1,168.44	1.55%	99.60%
2004	683,551	48,964,275,008	71,632.22	810,273	1,185.39	1.65%	98.90%
2005	695,881	49,702,906,522	71,424.93	784,396	1,127.20	1.58%	100.23%
2006	707,952	52,405,611,874	74,024.24	688,809	972.96	1.31%	100.67%(3)
2007	720,522	60,230,045,084 (4)	83,592.24	661,890(5)	918.63(5)	1.10%(5)	N/A

- (1) Source: City of Austin Department of Development and Review based on full purpose area as of December 31.
- (2) Excludes general obligation debt issued for enterprise funds and general fund departments which transfer-in from Operating Budget.
- (3) Estimated Collections as of June 30, 2006.
- (4) Certified Appraised Value, including \$4,623,806,542 in property in the appeals process.
- (5) Projected. Includes the Obligations.

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## **OFFICIAL STATEMENT**

**Relating to**

**\$31,585,000**

**CITY OF AUSTIN, TEXAS**

**Public Improvement Bonds, Series 2006**

**\$24,150,000**

**CITY OF AUSTIN, TEXAS**

**Certificates of Obligation, Series 2006**

**\$14,120,000**

**CITY OF AUSTIN, TEXAS**

**Public Property Finance Contractual Obligations, Series 2006**

### **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 \$31,585,000 Public Improvement Bonds, Series 2006 (the "Bonds"), \$24,150,000 Certificates of Obligation, Series 2006 (the "Certificates") and \$14,120,000 Public Property Finance Contractual Obligations, Series 2006 (the "Contractual Obligations"). The Bonds, the Certificates, and the Contractual Obligations are collectively referred to herein as the "Obligations". The Bonds, the Certificates, and the Contractual Obligations are being offered separately at competitive sales 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 ordinance authorizing the issuance of the Bonds (the "Bond Ordinance"), the ordinance authorizing the issuance of the Certificates of Obligations (the "Certificate Ordinance"), and the ordinance authorizing the issuance of the Contractual Obligations (the "Contractual Obligation 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 a portion of 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. The City is authorized to incur debt by voter authorization by Chapter 1331, Texas Government Code and by the Bond Ordinance as authorized in the City Charter adopted by voters on January 31, 1953, as amended.

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.

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.

## **General**

Each series of Obligations is dated August 15, 2006 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. 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.

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 bondholder 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.

## **Bondholder Remedies**

The Ordinances do not specify events of default with respect to the Obligations. 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* \_\_\_ S.W.3d \_\_\_ (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 any series 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, 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.

### **Redemption**

The City reserves the right, at its option, to redeem the Bonds and the Certificates having stated maturities on and after September 1, 2017, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2016, 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 is to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds and Certificates are in Book-Entry-Only form) shall determine by lot the Bonds or the Certificates, or portions thereof, within such maturity to be redeemed. **The Contractual Obligations are not subject to optional redemption prior to their stated maturities.**

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 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.

### **Defeasance of Obligations**

The Ordinances provide for the defeasance of the Obligations when the payment of the principal of and premium, if any on 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 rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, such Obligations shall no longer be regarded to be outstanding or unpaid. The City has reserved the option, however, to be exercised at the time of the defeasance of the Obligations, to call for

redemption at an earlier date, Obligations which have been defeased to their maturity date, if the City in the proceedings providing for the firm banking and financial arrangements (i) expressly reserves the right to call the Obligations for redemption; (ii) gives notice of the reservation of that right to the owners of the Obligations immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

### **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.**

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

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records.

Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

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

credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

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

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

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

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

#### **Paying Agent/Registrar**

The initial Paying Agent/Registrar for each series of Obligations is Wells Fargo Bank, National Association. Interest on and principal of the Obligations will be payable, and transfer functions will be performed at the corporate trust office of the Paying Agent/Registrar in Dallas, Texas (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. To the extent possible, new Obligations issued in an exchange or transfer will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt thereof to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. 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 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.

## **BOND INSURANCE**

### **CIFG Assurance North America, Inc.**

The information set forth in the following paragraphs has been provided by CIFG Assurance North America, Inc. (“CIFG” or the “Insurer”) for inclusion in this Official Statement. CIFG does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding CIFG set forth under the heading “BOND INSURANCE”. CIFG makes no representation regarding the Certificates or the advisability of investing in the Certificates.

### **General**

CIFG is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. The address of the principal executive offices of the Insurer is 825 Third Avenue, Sixth Floor, New York, New York 10022; its toll-free telephone number is (866) CIFG-212 and its general telephone number is (212) 909-3939 and its website is located at [www.cifg.com](http://www.cifg.com).

The Insurer is a member of the CIFG Group of financial guaranty companies, which also includes CIFG Europe, a French insurance company licensed to do business in the European Union, and CIFG Guaranty, a dedicated French reinsurance corporation. In addition to its capital and surplus as set forth below, the Insurer is supported by a net worth maintenance agreement from CIFG Guaranty, which provides that CIFG Guaranty will maintain the Insurer’s New York statutory capital and surplus at no less than \$80 million, and may cede a substantial portion (not to exceed 90%) of its exposure on each transaction to CIFG Guaranty through a facultative reinsurance agreement.

Each of the Insurer, CIFG Europe and CIFG Guaranty has received an insurer financial strength rating of “AAA” from Fitch, an insurer financial strength rating of “Aaa” from Moody’s, and an insurer financial enhancement rating of “AAA” from Standard and Poor’s, the highest rating assigned by each rating agency. Each such rating should be evaluated independently. The ratings reflect the respective rating agency’s current assessment of each company’s capacity to pay claims on a timely basis and are not recommendations to buy, sell or hold the Certificates. Such ratings may be subject to revision or withdrawal at any time.

The Insurer is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York, its state of domicile, and is licensed to do business in 46 jurisdictions. The Insurer is subject to Article 69 of the New York Insurance Law which, among other things, limits the business of such insurers to financial guaranty insurance and related lines, requires that such insurers maintain a minimum surplus to policyholders, establishes contingency, loss and unearned premium reserve requirements for such insurers, and limits the size of individual transactions and the volume of transactions that may be underwritten by such insurers. Other provisions of the New York Insurance Law applicable to non-life insurance companies such as the Insurer regulate, among other things, permitted investments, payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

**Capitalization.** The following tables set forth the capitalization of the Insurer on the basis of accounting principles generally accepted in the United States (“US GAAP”) and statutory accounting practices prescribed or permitted by the New York State Insurance Department, respectively.

	US GAAP June 30, 2006 (in thousands of US dollars)	US GAAP December 31, 2005 (in thousands of US dollars)
Total Assets .....	\$349,385	\$324,134
Total Liabilities .....	\$229,913	\$202,042
Shareholder’s Equity .....	\$119,472	\$122,092
	Statutory Accounting Principles June 30, 2006 (in thousands of US dollars)	Statutory Accounting Practices December 31, 2005 (in thousands of US dollars)
Admitted Assets .....	\$177,546	\$175,333
Liabilities .....	\$ 70,845	\$ 66,758
Capital and Surplus .....	\$106,701	\$108,575

The following table sets forth the capitalization of CIFG Guaranty on the basis of US GAAP.

	US GAAP December 31, 2005	
	(in thousands of euros)	(in thousands of US dollars) (1)
Assets .....	€ 736,208	\$871,634
Liabilities .....	€ 196,794	\$232,995
Shareholder’s Equity .....	€ 539,414	\$638,639

(1) The translation of euros into dollars is presented solely for the convenience of the reader, using the observed exchange rate at December 31, 2005 of \$1.18395 to €1.00. The convenience translation should not be construed as representation that the euro amounts have been, could have been, or in the future could be, converted into U.S. Dollars at this or any rate of exchange.

For further information concerning the Insurer and CIFG Guaranty, see the audited financial statements of both companies, including the respective notes thereto, prepared in accordance with US GAAP as of December 31, 2005 and 2004 and for each of the three years in the period ended December 31, 2005, and the unaudited interim financial statements of the Insurer as of June 30, 2006 and for the six-month period ended June 30, 2006, which are available on the CIFG Group’s website at [www.cifg.com](http://www.cifg.com). Copies of the most recent audited annual and unaudited interim financial statements of the Insurer prepared in accordance with accounting principles prescribed or permitted by the New York State Insurance Department, are also available on the website and may be obtained, without charge, upon request to the Insurer at its address above, Attention: Finance Department.

## **TAX INFORMATION**

### **Ad Valorem Tax Law**

The appraisal of property within the City is the responsibility of the Travis Central Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under Title 1, V.T.C.A. Tax Code (commonly known as the "Property Tax Code") to appraise all property within the Appraisal District 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 market value of the property, or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District 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.

In a statewide election held on September 13, 2003, voters approved an amendment to Section 1-b, Article VIII of the Texas Constitution, that would authorize a county, city, town or junior college district to establish an ad valorem tax freeze on residence homesteads of the disabled and of the elderly and their spouses. The City is now authorized to freeze ad valorem taxes 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 exemption may not be increased while it remains the residence homestead of that person or that person's spouse who is disabled or sixty-five years of age or older, 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 Texas Legislature by general law may provide for the transfer of all or a proportionate amount of the tax limitation applicable to a person's homestead to 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. The City grants such exemption.

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 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.

#### **Tax Valuation**

January 1, 2006 Appraised Valuation (1)		\$64,543,030,928
Less Local Exemptions to Assessed Values: (2)		
Residential Homestead over 65	\$1,162,201,311	
Homestead 10% Increase Cap	1,173,958,416	
Disabled Veterans	37,765,175	
Agricultural and Historical Exemptions	414,165,042	
Disability Exemption	115,173,978	
Freeport Exemption	<u>1,409,721,921</u>	<u>4,312,985,844</u>
January 1, 2006 Net Taxable Assessed Valuation (1)		<u>\$60,230,045,084</u>

- (1) 2006 Certified Appraised Value includes \$4,623,806,542 in property in the appeals process.
- (2) Exemptions or adjustments to assessed valuation granted in 2006 include (a) exemptions of \$51,000 for resident homestead property of property owners over 65 years of age; (b) exemptions for residents homestead property exceeding a 10 percent increase in valuation from the previous year; (c) exemptions ranging from \$5,000 to \$12,000 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) exemptions of \$51,000 to disabled resident homestead property owners; (g) 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.

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**Statement of Debt** (As of September 30, 2006) (3)

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

Public Improvement Bonds (1)	\$687,565,000	
Certificates of Obligations (1)	125,940,000	
Contractual Obligations (1)	44,615,000	
Assumed Bonds (2)	9,430,000	
The Bonds (3)	31,585,000	
The Certificates (3)	24,150,000	
The Contractual Obligations (3)	<u>14,120,000</u>	
Total		\$937,405,000
Less Self-Supporting Debt:		
Assumed Bonds (2)	\$ 8,449,608	
Airport (4)	377,275	
Austin Energy (4)	1,930,382	
City Hall	31,638,546	
CMTA Mobility (5)	19,535,000	
Communications and Technology Management (4)	16,201,396	
Convention Center (4)	23,933,564	
Financial Services (3)(4)	26,979,593	
Fleet Management (4)	4,791,249	
Golf (4)	6,751,482	
One Texas Center (4)	13,045,000	
Solid Waste (3)(4)	34,530,211	
Transportation (3)(4)	6,849,387	
Water and Wastewater (3)(4)	16,058,672	
Watershed Protection (4)	<u>12,567,907</u>	
		\$223,639,272
Interest and Sinking Fund, All Public Improvement Bonds (6)		<u>15,216,250</u>
Net Debt (7)		\$698,549,478
Ratio Total Debt to 2006 Net Taxable Assessed Valuation		1.79%
Ratio Net Debt to 2006 Net Taxable Assessed Valuation		1.33%

2006 Population (Estimate) – 707,952 (8)  
Per Capita Net Taxable Assessed Valuation – \$74,024.24  
Per Capita Net Debt Outstanding – \$986.72

- 
- (1) Excludes the new money issuances.  
(2) Represents bonds of utility districts annexed by the City.  
(3) Obligations sold August 31, 2006 with delivery October 4, 2006.  
(4) Airport, Austin Energy, Communications and Technology Management, 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, Communications & Technology Mgmt., Convention Center, Financial Services, Fleet Management, 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. Communications and Technology Management, Fleet Management and One Texas Center are internal service funds that generate revenue through charges to user departments.



- (5) 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.
- (6) Represents estimate of cash plus investments at cost on September 30, 2006.
- (7) 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. If excluded, these obligations would lower net debt by \$9,740,101.
- (8) Source: City of Austin Planning/Growth Department. This figure does not include areas annexed for limited purposes.

## **Revenue Debt**

In addition to the above, on a pro forma basis, the City had outstanding (as of August 31, 2006) \$987,093,647 Combined Utility Systems Revenue Bonds payable from a prior and subordinate lien on the combined net revenue of the Electric System and the Water and Wastewater System; \$649,550,000 Electric Utility Obligations payable from a subordinate lien on the net revenues of the Electric Utility System; \$1,089,625,000 Water and Wastewater Obligations payable from a subordinate lien on the net revenue of the Water and Wastewater System, and \$207,522,000 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 (as of August 31, 2006) \$383,100,000 Airport System Revenue Bonds payable from revenue of the City's Airport System. The City also has outstanding (as of August 31, 2006) \$235,660,000 in Convention Center Bonds, payable from hotel/motel occupancy and rental car tax collections.

## **Obligations Subject to Annual Appropriation**

The City has entered into two subleases (the "Subleases") with respect to space to house the Electric Utility and the Water and Wastewater Utility, and \$3,820,000 and \$2,550,000, respectively, of Certificates of Participation are outstanding (as of August 31, 2006) and payable from payments made under such Subleases. The City anticipates funding the required lease payments from the revenue of the respective utility system, although the City may make such payments from any available funds of the City as a whole appropriated for such purposes. The revenue of the Electric System and the Water and Wastewater System are not specifically pledged in such Subleases.

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 will be issued by MLGC to finance Public Finance Reimbursable Project Costs, and are expected to be delivered prior to the delivery of the Obligations.

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## Valuation and Funded Debt History

Fiscal Year Ended	Estimated City Population (1)	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	(000's) Net Funded Tax Debt (2)	Per Capita Net Funded Tax Debt	Ratio of Net Funded Tax Debt to Taxable Valuation	% of Tax Collections
9-30							
1996	541,889	\$23,303,015,047	\$43,003.30	\$443,247	\$ 817.97	1.90%	99.91%
1997	560,939	25,823,385,257	46,036.00	476,148	848.84	1.84%	99.47%
1998	608,214	27,493,058,735	45,202.94	500,027	822.12	1.82%	99.37%
1999	619,038	32,458,349,755	52,433.53	509,759	823.47	1.57%	99.57%
2000	628,667	35,602,840,326	56,632.27	540,283	859.41	1.52%	99.85%
2001	661,639	41,419,314,286	62,601.08	546,211	825.54	1.32%	99.60%
2002	671,044	47,782,873,096	71,206.77	762,624	1,136.47	1.60%	99.23%
2003	674,719	50,759,650,668	75,230.80	788,366	1,168.44	1.55%	99.60%
2004	683,551	48,964,275,008	71,632.22	810,273	1,185.39	1.65%	98.90%
2005	695,881	49,702,906,522	71,424.93	784,396	1,127.20	1.58%	100.23%
2006	707,952	52,405,611,874	74,024.24	688,809	972.96	1.31%	100.67%(3)
2007	720,522	60,230,045,084 (4)	83,592.24	661,890(5)	918.63(5)	1.10%(5)	N/A

(1) Source: City of Austin Department of Development and Review based on full purpose area as of December 31.

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

(3) Estimated Collections as of June 30, 2006.

(4) Certified Appraised Value, including \$4,623,806,542 in property in the appeals process.

(5) Projected. Includes the Obligations.

## Tax Rate, Levy and Collection History

Fiscal Year Ended	Total Tax Rate	Distribution			% Current Collections	% Total Collections
9-30		General Fund	Interest and Sinking Fund	Tax Levy		
1996	\$0.5446	\$0.3177	\$0.2269	\$126,908,220	99.03%	99.91%
1997	0.5251	0.3117	0.2134	135,598,596	98.96%	99.47%
1998	0.5401	0.3304	0.2097	148,490,010	98.80%	99.37%
1999	0.5142	0.3265	0.1877	166,900,834	98.89%	99.57%
2000	0.5034	0.3222	0.1812	179,224,698	99.08%	99.85%
2001	0.4663	0.3011	0.1652	193,138,262	98.98%	99.60%
2002	0.4597	0.3041	0.1556	219,657,867	98.81%	99.23%
2003	0.4597	0.2969	0.1628	233,342,114	98.84%	99.60%
2004	0.4928	0.3236	0.1692	241,295,947	99.06%	98.90%
2005 (2)	0.4430	0.2747	0.1683	220,183,876	99.03%	100.23%
2006	0.4430	0.2841	0.1589	232,156,861	99.48%(1)	100.67%(1)
2007 (3)	0.3986	0.2620	0.1366	240,076,960		

(1) Estimated collections as of June 30, 2006.

(2) 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".)

(3) Proposed Budget recommendation.

## Ten Largest Taxpayers (1)

<u>Name of Taxpayer</u>	<u>Nature of Property</u>	<u>January 1, 2006 Taxable Assessed Valuation</u>	<u>% of Total Taxable Assessed Valuation</u>
Freescall Semiconductor Inc. (2)	Manufacturing	\$ 438,041,518	0.73%
Dell Computer Corporation	Manufacturing	363,424,049	0.60%
IBM Corporation	Manufacturing	261,627,563	0.43%
Southwestern Bell Telephone Company	Telephone Utility	202,135,590	0.34%
Spancion LLC (3)	Manufacturing	172,450,299	0.29%
Applied Materials Inc.	Manufacturing	150,684,058	0.25%
Cousins Properties Texas LP	Real Estate	147,389,000	0.24%
Texas-Sixth Street LP	Real Estate	126,685,780	0.21%
River Place Pointe LP	Real Estate	109,472,921	0.18%
Simon Property Group	Commercial	<u>106,571,158</u>	<u>0.18%</u>
<b>TOTAL</b>		<b><u>\$2,078,481,936</u></b>	<b><u>3.45%</u></b>

(1) Taxable property valuations for the ten largest taxpayers from the July 2006 certified tax roll are lower than last year as a result of a reporting change in personal property from appraised last year to taxable this year. Last year's values for personal property include the Freeport tax exemption. Five of the companies represent computer technology manufacturers.

(2) The Motorola Corporation is now Freescall Semiconductor Inc.

(3) The Advanced Micro Devices corporation is now Spancion LLC.

Source: Travis Central Appraisal District.

## Property Tax Rate Distribution

	<u>Fiscal Year Ended September 30</u>					
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005 (1)</u>	<u>2006</u>	<u>2007 (2)</u>
General Fund	\$ .3041	\$ .2969	\$ .3236	\$ .2747	\$ .2841	\$ .2620
Interest and Sinking Fund	<u>.1556</u>	<u>.1628</u>	<u>.1692</u>	<u>.1683</u>	<u>.1589</u>	<u>.1366</u>
Total Tax Rate	\$ .4597	\$ .4597	\$ .4928	\$ .4430	\$ .4430	\$ .3986

(1) The City approved a tax rate of \$0.5065 which is the effective tax rate. The total tax rate was amended and reduced by 6.35¢ to the level shown 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, resulting 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).

(2) Proposed Budget recommendation.

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# Net Taxable Assessed Valuations, Tax Levies and Collections

Fiscal Year Ended	Valuation	Real Property		Personal Property		Net Taxable	Total	% Current	% Total
<u>9-30</u>	<u>Date</u>	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	<u>Assessed Valuation</u>	<u>Tax Levy</u>	<u>Collections</u>	<u>Collections</u>
1995	1-1-94	\$17,350,805,301	82.79%	\$3,607,783,999	17.21%	\$20,958,589,300	\$117,892,065	99.00%	100.10%
1996	1-1-95	19,478,990,278	83.59%	3,824,024,769	16.41%	23,303,015,047	126,908,220	99.03%	99.91%
1997	1-1-96	21,488,717,069	83.21%	4,334,668,188	16.79%	25,823,385,257	135,598,596	98.96%	99.47%
1998	1-1-97	22,693,966,978	82.54%	4,799,091,757	17.46%	27,493,058,735	148,490,010	98.80%	99.37%
1999	1-1-98	27,225,077,724	83.88%	5,233,272,031	16.12%	32,458,349,755	166,900,834	98.89%	99.57%
2000	1-1-99	30,114,175,223	84.58%	5,488,665,103	15.42%	35,602,840,326	179,224,698	99.08%	99.85%
2001	1-1-00	35,257,000,679	85.23%	6,110,383,576	14.77%	41,419,314,286	193,138,262	98.98%	99.60%
2002	1-1-01	40,775,710,666	85.34%	7,007,162,430	14.66%	47,782,873,096	219,657,867	98.81%	99.23%
2003	1-1-02	44,261,013,540	87.20%	6,498,637,128	12.80%	50,759,650,668	233,342,114	98.84%	99.60%
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%	98.90%
2005	1-1-04	43,662,323,952	87.85%	6,040,582,570	12.15%	49,702,906,522	220,183,876 (2)	99.03%	100.23%
2006	1-1-05	46,542,536,446	88.18%	5,863,075,428	11.19%	52,405,611,874	232,156,861	99.48% (1)	100.67% (1)
2007	1-1-06	53,473,676,409	88.78%	6,756,368,675	11.22%	60,230,045,084	240,076,960	N/A	N/A

(1) Estimated collections through June 30, 2006.

(2) The City approved a tax rate of \$0.5065 which is the effective tax rate. As a result of the voter approved new 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”).

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## **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.

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.

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.

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# **DEBT INFORMATION\***

Fiscal Year Ending 09/30	Public Improvement Bonds	Certificates of Obligation	Contractual Obligations	Assumed MUDs	The Bonds, The Certificates and The Contractual Obligations (a)	Grand Total Requirements	Less Self-Supporting Requirements (b)	Net Total Requirements	Percent Principal Payout
2007	\$83,391,484	\$13,828,428	\$9,975,815	\$1,261,653	\$4,444,746	\$112,902,125	\$29,436,188	\$83,465,937	
2008	77,922,209	13,851,140	9,269,917	1,111,385	5,493,563	107,648,213	29,978,326	77,669,887	
2009	74,437,971	13,926,985	9,178,481	991,463	5,609,363	104,144,262	29,310,576	74,833,686	
2010	75,332,610	12,703,270	8,201,119	997,573	5,616,363	102,850,934	29,117,374	73,733,560	
2011	73,607,891	12,753,635	6,716,332	1,001,480	5,633,463	99,712,801	27,407,568	72,305,233	36.40%
2012	70,062,034	12,489,299	4,373,636	1,003,240	5,635,263	93,563,472	24,760,146	68,803,326	
2013	65,343,049	13,119,449	1,176,656	1,017,960	5,651,863	86,308,976	21,933,263	64,375,713	
2014	62,358,230	10,468,589		1,214,635	4,468,475	78,509,929	16,853,401	61,656,528	
2015	57,545,293	10,131,419		1,213,546	4,698,825	73,589,083	15,496,733	58,092,349	
2016	53,215,490	10,201,544		1,229,024	4,699,575	69,345,633	14,928,859	54,416,773	67.33%
2017	49,761,288	10,251,740		1,011,643	4,692,900	65,717,570	14,567,148	51,150,422	
2018	46,223,256	8,146,688		716,688	4,718,900	59,805,531	10,367,235	49,438,296	
2019	44,693,090	6,180,615			4,747,738	55,621,443	8,831,050	46,790,393	
2020	36,894,878	8,548,885			4,775,500	50,219,263	10,555,949	39,663,313	
2021	29,742,150	7,413,735			4,802,181	41,958,066	8,924,772	33,033,294	91.21%
2022	21,697,801	5,614,394			4,827,613	32,139,808	7,182,693	24,957,114	
2023	14,504,188	2,890,114			4,856,225	22,250,526	4,440,461	17,810,065	
2024	9,168,113	2,538,324			4,883,875	16,590,311	4,136,293	12,454,018	
2025	3,096,225	584,080			4,905,519	8,585,824	2,182,036	6,403,788	
2026					11,968,169	11,968,169	1,775,948	10,192,221	100.00%

\* As of September 30, 2006.

(a) Includes principal and interest on the Bonds, Certificates and Contractual Obligations being issued.

(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 9-30-05) (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 these various taxing bodies.

<u>Taxing Jurisdiction</u>	<u>Total Funded Debt</u>	<u>Estimated % Applicable (2)</u>	<u>Overlapping Funded Debt</u>
City of Austin	\$805,352	100.00%	\$ 805,352
Austin Independent School District	427,200	79.21%	338,385
Travis County	425,637	71.00%	302,202
Round Rock Independent School District	400,335	5.81%	23,259
Leander Independent School District	482,454	1.33%	6,417
Pflugerville Independent School District	264,717	3.94%	10,430
Eanes Independent School District	100,170	1.96%	1,963
Williamson County	426,350	3.46%	14,752
Del Valle Independent School District	105,927	2.74%	2,902
Manor Independent School District	58,940	1.73%	1,020
Austin Community College	98,410	81.70%	80,401
North Austin Municipal Utility District No. 1	7,476	100.00%	7,476
Northwest Austin Municipal Utility District No. 1	11,695	100.00%	11,695
Northwest Travis County Road District No. 3	4,680	100.00%	<u>4,680</u>
<b>TOTAL DIRECT AND OVERLAPPING FUNDED DEBT</b>			<b><u>\$1,610,934</u></b>
Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation (3)			3.24%
Per Capita Overlapping Funded Debt (4)			\$2,314.96

(1) Excludes general obligation debt reported in proprietary funds.

(2) Source: Taxing jurisdiction.

(3) Based on assessed valuation of \$49,702,906,522.

(4) Based on 2005 estimated population of 695,881.

On May 15, 2004, voters of Travis County (in which the City is located) approved the creation of a countywide hospital district, and authorized the hospital district to levy an ad valorem tax at a rate not to exceed 25 cents per \$100 assessed valuation. The hospital district has assumed and is funding health care facilities and services previously provided by the City, and funded from ad valorem taxes assessed to residents of the City and Travis County. In the fiscal year ended September 30, 2005, the City reduced the ad valorem tax rate levied and assessed against property owners of the City as a result of the creation of the countywide hospital district (see "TAX INFORMATION – Tax Rate, Levy and Collection History").

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## Authorized General Obligation Bonds

<u>Purpose</u>	<u>Date</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Unissued</u>
	<u>Authorized</u>	<u>Authorized</u>	<u>Previously</u>	<u>Being Issued</u>	<u>Balance</u>
			<u>Issued</u>		
Brackenridge 2000	10-22-83	\$ 50,000,000	\$40,785,000	\$ 0	\$ 9,215,000
Parks Improvements	09-08-84	9,975,000	9,648,000	0	327,000
Cultural Arts	01-19-85	20,285,000	14,890,000	0	5,395,000
Park and Recreation Facilities	11-03-98	75,925,000	66,255,000	9,670,000	0
Library, Cultural Arts and Museum	11-03-98	46,390,000	39,475,000	6,915,000	0
Street Improvements	11-07-00	150,000,000	75,000,000	15,000,000	60,000,000
TOTAL				<u>\$31,585,000</u>	<u>\$74,937,000</u>

## Anticipated Issuance of General Obligation Bonds

The City does not anticipate the issuance of additional general obligation bonds before the fall of 2007. A general obligation bond election will be held in November 2006. Citizens will vote on seven propositions that, if all are approved, would authorize the City to issue \$567,400,000 in bonds for various public improvements and funding of affordable housing programs. 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. 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 adopts the constitutional provisions and also contains a limitation that 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.

## FISCAL MANAGEMENT

### The Capital Improvements Program 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.

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

### 2006-2007 Capital Budget

The 2006-2007 five-year Capital Improvement Program (CIP) plan was reviewed by the Planning Commission, the Bond Oversight Committee and other boards and commissions. 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 2006-2007 of \$440.7 million in enterprise funds and \$127.7 million in general government funds.



The first year of the five-year plan was used to determine the new appropriations required for inclusion in the 2006-07 Capital Budget. Total new proposed appropriation for General Government CIP Funds is \$44.4 million and total new proposed appropriation for Enterprise CIP Funds is \$665.8 million. Appropriation by department is listed below.

Summary of 2006-2007 Proposed Capital Budget (millions):	
Austin Energy	\$201.5
Aviation	21.6
Austin Water Utility	412.9
Convention Center	4.1
Solid Waste Services	8.2
Watershed Protection	<u>17.5</u>
Enterprise Appropriations	\$665.8
Communications & Technology Management	\$5.3
Financial & Administrative Services	7.3
Fire	4.5
Fleet	0.3
Library	3.0
Neighborhood Housing & Community Development	2.1
Neighborhood Planning & Zoning	0.4
Parks and Recreation	5.1
Public Works	<u>16.4</u>
General Government Appropriations	\$44.4
TOTAL PROPOSED NEW APPROPRIATIONS	<u>\$710.2</u>

## Operating Budget

The City's Home Rule Charter and Texas 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, which were last amended in September 2002. Among other items, these policies require that a General Fund Emergency Reserve Fund of at least \$15,000,000 shall be budgeted. Additionally, a General Fund Contingency Reserve Fund of 1% of total budgeted departmental expenditures, but not less than \$2,000,000, shall be budgeted annually. The 2005-2006 proposed budget included revisions to the Financial Management Policies that increased the General Fund Emergency Reserve Funds from \$15,000,000 to \$40,000,000. The Contingency Reserve Fund of 1% will remain unchanged. In addition, a General Fund Reserve for Budget Stabilization will be budgeted, initially at \$49.1 million. 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.

## 2006–2007 Budget (Amounts are in thousands)

The 2006-2007 operating budget was presented on July 27, 2006, and was prepared in accordance with guidelines provided by the City Council. The proposed budget includes a tax rate of \$0.3986 per \$100 assessed valuation, which is above the effective tax rate of \$0.3986 but below the nominal rate of \$0.4430. The following is a summary of the proposed 2006-2007 General Fund Budget.

Beginning Balance, October 1, 2006 (Budget Basis) (000's omitted)	\$	0
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Summary of Budgeted General Fund Resources

Revenue:

General Property Taxes	\$156,259
City Sales Tax	150,663
Other Taxes	4,873
Gross Receipts/Franchise Fees	30,454
Miscellaneous	<u>74,650</u>

Total Revenue	\$417,169
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Transfers In:

Electric Light and Power System	\$ 84,500
Water and Wastewater System	21,971
Other Transfers	<u>1,620</u>

Total Transfers In	<u>\$108,091</u>
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Total General Fund Resources	<u>\$525,260</u>
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Summary of Budgeted General Fund Requirements

Departmental Appropriations:

Administrative Services	\$ 10,134
Urban Growth Management	18,945
Public Safety	345,679
Public Works	300
Public Health and Human Services	30,943
Public Recreation and Culture	<u>52,410</u>

Total Departmental Appropriations	\$458,411
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Transfers Out:

Support Services Fund	\$ 23,009
Other Funds	<u>34,972</u>

Total Transfers Out	\$ 58,071
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Other Requirements	<u>\$ 8,778</u>
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Total General Fund Requirements	<u>\$525,260</u>
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Use of Beginning Balance	\$ 0
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Ending Balance	<u>\$ 0</u>
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One-Time Retirement Increase – 1%	\$ 1,009
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One-Time Critical Equipment	\$ 15,692
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Transfer to/from Budget Stabilization Reserve	\$(16,701)
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Adjusted Ending Balance	<u>\$ 0</u>
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Budgeted Reserve Requirements

Emergency Reserve	\$ 40,000
Contingency Reserve	5,089
Budget Stabilization Reserve Fund	<u>33,408</u>

Total Budgeted Reserve Requirements	<u>\$78,497</u>
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**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, V.T.C.A 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.

## **GASB Statement No. 34**

In June 1999, the Governmental Accounting Standards Board ("GASB") issued Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" ("GASB 34"). The objective of GASB 34 is to enhance the clarity and usefulness of the general purpose external financial reports of state and local governments to its citizenry, legislative and oversight bodies, and investors and creditors. The City adopted GASB 34 as of October 1, 2001. While the adoption of GASB 34 altered the presentation of the City's financial information, City staff does not believe that adoption of GASB 34 will have any material adverse impact on the City's financial position, results of operation or cash flows. See APPENDIX B – Excerpts from the Annual Financial Report.

## **INVESTMENTS**

The City invests its available funds in investments authorized by Texas 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; (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 the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; (12) no-load mutual funds registered with the Securities and Exchange Commission

that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and (13) local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Act) as amended, whose assets consist exclusively of the obligations that are described above. A public funds investment pool must be continuously ranked no lower than AAA, AAA-m or at an equivalent rating by at least one nationally recognized rating service. The City may also invest bond proceeds in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

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, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement must describe the investment objectives for the particular fund using the following priorities: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under State law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of that person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly, the investment officers of the City shall submit an investment report detailing: (1) the investment position

of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to (a) adopted investment strategy statements and (b) State law. No person may invest City funds without express written authority of the City Council or the Chief Financial Officer 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, 2006, the City's investable funds were invested in the following categories.

<u>Type of Investment</u>	<u>Percentage</u>
U. S. Treasuries	11.6%
U. S. Agencies	56.1%
Money Market Funds	2.0%
Local Government Investment Pools	29.3%
Commercial Paper	1.0%

The dollar weighted average maturity for the combined City investment portfolios is 342 days. The City prices the portfolios weekly utilizing a market pricing service.

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**GENERAL FUND REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE**  
(in 000's)

	Fiscal Year Ended September 30				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Revenues:</b>					
Taxes (1)	\$251,750	\$262,190	\$264,511	\$277,774	\$264,786
Franchise Fees	31,453	29,589	28,962	32,964	28,973
Fines, Forfeitures and Penalties	17,000	17,704	16,966	16,976	17,529
Licenses, Permits and Inspections	17,631	14,670	14,737	15,317	17,399
Charges for Services	14,984	15,579	15,403	15,565	23,064
Interest and Other	<u>10,584</u>	<u>6,028</u>	<u>19,815</u>	<u>19,168</u>	<u>10,691</u>
Total Revenues	\$343,402	\$345,760	\$360,394	\$377,764	\$362,442
<b>Expenditures:</b>					
Administration	\$ 9,426	\$ 9,282	\$ 8,909	\$ 8,199	\$ 8,699
Urban Growth Management	11,569	10,882	11,638	10,246	15,205
Public Safety	210,281	237,590	254,684	262,086	296,335
Public Services and Utilities	9,520	9,191	9,380	8,669	473
Public Health	41,437	43,655	46,061	15,728	26,715
Public Recreation and Culture	47,460	46,696	45,193	43,255	45,145
Social Services Management	8,071	10,448	9,985	9,579	0
Nondepartmental Expenditures	<u>57,857</u>	<u>62,493</u>	<u>47,029</u>	<u>46,983</u>	<u>52,044</u>
Total Expenditures	\$395,621	\$430,237	\$432,879	\$404,745	\$444,616
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	\$ (52,219)	\$ (84,477)	\$ (72,485)	\$ (26,981)	\$ (82,174)
<b>Other Financing Sources (Uses):</b>					
Capital Leases	\$ 0	\$ 0	\$ 785	\$ 634	\$ 932
Transfers from Other Funds	86,283	137,084	92,417	95,894	94,451
Transfers to Other Funds	<u>(29,992)</u>	<u>(9,424)</u>	<u>(21,129)</u>	<u>(48,766)</u>	<u>(14,154)</u>
Net Other Financing Sources	\$ 56,291	\$127,660	\$ 72,073	\$ 47,762	\$ 81,229
Excess (Deficiency) of Total Revenues and Other Services Over Expenditures and Other Uses	\$ 4,072	\$ 43,183	\$ (412)	\$ 20,781	\$ (945)
Residual Equity Transfer In (Out)	(500)	0	0	(7,700)	0
Fund Balances at Beginning of Year	<u>44,510</u>	<u>50,435 (2)</u>	<u>93,618</u>	<u>93,206</u>	<u>106,287</u>
Fund Balances at End of Year	<u>\$ 48,082</u>	<u>\$ 93,618</u>	<u>\$ 93,206</u>	<u>\$106,287</u>	<u>\$105,342</u>

(1) Consists of property, sales and mixed drinks tax.

(2) Beginning fund balance adjusted for implementation of new accounting principle.

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## 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:

<u>Fiscal Year</u> <u>Ended 9-30</u>	<u>Per Capita</u> <u>Sales and Use Tax</u>	<u>(in 000's)</u> <u>Sales and Use Tax</u>	<u>% of</u> <u>Ad Valorem Tax Levy</u>
1994	\$149.33	\$ 75,780	66.75%
1995	153.77	80,475	68.26%
1996	154.43	83,681	65.94%
1997	157.15	88,150	65.01%
1998	160.44	97,581	65.72%
1999	172.59	106,839	64.01%
2000	194.31	122,157	68.16%
2001	186.23	123,218	63.80%
2002	172.03	115,441	52.55%
2003	163.70	110,454	47.34%
2004	173.44	117,725	48.79%
2005	177.64	123,617	56.14%
2006 (1)	196.14	138,860	59.81%
2007 (2)	209.10	150,663	62.76%

(1) Estimate.

(2) Estimate used in FY 2007 Proposed Budget.

### Transfers From Utility Funds

The City owns and operates a Waterworks 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.

<u>Fiscal Year</u> <u>Ended 9-30</u>	<u>(in 000's)</u> <u>Transfers</u>	<u>% of General</u> <u>Fund Requirements</u>
1994	\$ 67,914	29.7%
1995	71,111	28.5%
1996	73,583	26.0%
1997	71,450	24.6%
1998	72,721	23.4%
1999	74,204	21.7%
2000	78,352	21.5%
2001	85,824	21.7%
2002	88,924	21.7%
2003	92,417	20.3%
2004	95,894	21.1%
2005	94,116	20.9%
2006 (1)	97,658	20.3%
2007 (2)	106,470	20.3%

(1) Estimate.

(2) Estimate used in FY 2007 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 condensed summary of the revenues, expenses, transfers and retained earnings of the City's enterprise funds for the year ended September 30, 2005.

### **THE ELECTRIC UTILITY SYSTEM**

The City owns and operates an Electric Utility System (also referred to herein as "Austin Energy") which provides the City, adjoining areas of Travis County and certain adjacent areas of Williamson County with electric services. 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 1,537 full-time regular employees as of September 30, 2005.

#### **Strategic Plan**

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

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

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

Third, an Energy Resource strategy directs Austin Energy to first seek cost-effective renewable energy and conservation solutions to meet customers' new energy needs before resorting to traditional fossil fuel sources. In keeping with the risk management approach, Austin Energy will not prematurely commit to unproven technologies; however, it will pursue a leading-edge position that will allow Austin Energy to readily identify, evaluate and deploy emerging renewable technologies.

Five objectives were identified to support the strategies including:

- Maintain Financial Integrity - Austin Energy plans to achieve an "AA" (Standard & Poor's) Credit Rating by 2010 on its separate lien revenue bonds. Austin Energy provides a return to its citizen owners in the form of financial support for local government.
- Create and Sustain Economic Development - Austin Energy will create and sustain economic development by providing contract opportunities for local businesses, attracting new businesses, and supporting the development of a clean energy industry. Austin Energy plans to exceed the City of Austin M/WBE goals by 2008.
- Customer Satisfaction - Austin Energy will develop a better understanding of our customers by monitoring indicators and conducting customer surveys. Austin Energy's target is a customer satisfaction score of 83/100 by 2010.  
Additionally, Austin Energy understands the link between customer satisfaction and employee satisfaction, and includes an Employee Satisfaction goal in this strategy. Austin Energy will prepare its employees to work successfully in a competitive environment by providing the skill development and information necessary to make informed business decisions. Austin Energy targets an employee satisfaction index showing a 10% improvement in positive responses on the City's Listening to the Workforce Survey by 2010.
- Exceptional System Reliability - Austin Energy will pursue best operating and maintenance practices for its utility assets power plants to ensure unit availability and reliability. Austin Energy will target specific metrics to reduce the frequency (SAIFI) and duration (SAIDI) of power outages. The targets are to be met by 2005.
  - SAIFI (system average interruption frequency index) = 0.8 interruptions per year



- SAIDI (system average interruption duration index) = 60 minutes per year
- Renewable Portfolio Standard - Austin Energy will continue its nationally recognized renewable resources and Green Building programs. By 2020, Austin Energy will own or have contracts for a Renewable Portfolio equal to 20% of its sales, as well as 15% increase in demand side management impacts. Austin Energy will demonstrate its commitment to solar energy by implementing a Solar Rebate Program and conducting a study to determine the comprehensive value of solar energy.

### **Conventional System Improvements**

In September 2005, the 2006-10 Capital Improvements Spending Plan was approved by the City Council in the amount of \$695,601,000. Austin Energy's five-year spending plan provides continued funding for distribution and street lighting additions including line extensions for new service, system modifications for increased load, and relocations or replacements of distribution facilities in the central business district and along major thoroughfares. It also includes funding for transmission, generation and other general additions. Funding for the total Capital Plan is expected to be provided from current revenues and commercial paper.

### **Rate Regulation**

The City's rates, except for wholesale transmission, are regulated by the City Council. Ratepayers can appeal rate changes to the Public Utilities Commission of Texas (the "PUCT") under section 33.101 of the Texas Public Utilities Regulatory Act ("PURA") by the filing of a petition with the PUCT containing the requisite number of valid signatures from residential ratepayers who take service outside the City limits. Texas courts have held that the PUCT may apply the same ratemaking standards to the City as are applied to utilities over which the PUCT has original jurisdiction.

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

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

SB 7 amended PURA to provide for retail deregulation of the electric utility industry in Texas. SB 7 opened retail competition for Investor Owned Utilities ("IOUs") beginning January 1, 2002. SB 7 allowed local authorities to choose when to bring retail competition to their Municipally Owned Utilities ("MOU"), and leaves key municipal utility decisions (like local rate setting and utility policies) in the hands of those who have a stake in the local community. Once a resolution to "opt in" for retail competition is adopted by the municipal utility's governing body, the decision is irrevocable.

General Market Framework: Beginning on January 1, 2002, IOUs were required to unbundle their regulated (wires) operations from their competitive operations. There is a strong ISO established with responsibility over the operations and planning for the ERCOT bulk electric system. The PUCT has established clear and enforceable market power protections: no utility can control more than 20% of ERCOT generation and wholesale market participants must follow a detailed code of conduct. Starting on January 1, 2002, a "Price-to-Beat" for the incumbent IOU rates includes a 6% reduction through 2007 or until 40% of IOU residential and small commercial customers choose a new supplier. IOUs may adjust the Price to Beat twice annually to account for increases in the cost of natural gas.

### MOUs That Do Not Choose Retail Competition

- There is no retail choice for MOU customers. MOU cannot sell at retail outside its area.
- Current regulatory scheme continues.

- Continued MOU access to buy and sell power in the wholesale market.

#### MOUs Choosing Retail Competition On or After January 1, 2002

(City councils or governing boards make an affirmative choice to bring retail competition to their MOU)

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

#### MOU Local Control Preserved

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

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

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

#### Other Key MOU Provisions

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

### **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.

### **Service Area**

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

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

### **Federal Rate Regulation**

Austin Energy is not subject to Federal regulation in the establishment of rates, the issuance of securities or the operation, maintenance or expansion of Austin Energy under current Federal statutes and regulations. Austin Energy submits various reports to FERC and voluntarily utilizes the FERC System of Accounts in maintaining its books of accounts and records. On April 24, 1996, the FERC issued a Final Rule (the “Rule”) proposing significant changes

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

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

Austin Energy is not subject to the FERC's jurisdiction under section 205 and 206 of the Federal Power Act. Nevertheless, Austin Energy participates in a stakeholder organization established under Texas law that is similar to the RTOs envisioned in Order 2000 and which predates Order 2000 by several years. Since 1995, the PURA has required open access to the transmission network in ERCOT under comparable terms and conditions for all users of the transmission network. ERCOT is a stakeholder organization that includes stakeholders from all segments of the Texas electric market. The ISO formed by ERCOT in 1996 and mandated by State law in 1999 carries out many of the functions of the RTO discussed in Order 2000. 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 are currently being developed by the FERC. Under PURA section 39.151(j), Austin Energy is obligated to comply with all scheduling, operating, planning, reliability, and settlement policies, rules, guidelines, and procedures established by the ERCOT ISO. Hence, Austin Energy does not expect that substantively new reliability requirements will be imposed by the FERC.

### **Environmental Regulation General**

Austin Energy's Environmental Policy commits that Austin Energy shall maintain its status as a leader in environmental stewardship and continually improve its environmental performance. 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 Care and Protection Section consists of a staff of educated and trained environmental compliance professionals who are responsible for establishing and maintaining compliance programs throughout the utility. Environmental Care and Protection has determined the existing Federal, State and local regulations and routinely track changes to regulations, which affect Austin Energy processes. Austin Energy has prepared documentation which details roles and responsibilities for environmental compliance throughout the organization. Environmental Care and Protection staff and facility personnel monitor conformance with the environmental requirements and report deficiencies to facility management. Environmental Services is also responsible for conducting environmental training for the organization.

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

Congress enacted the Clean Air Act Amendments of 1990, which included permitting requirements for power production facilities. All of Austin Energy's large generating units have been issued Federal Operating Permits and Federal Acid Rain Permits for the individual units by the Texas Commission on Environmental Quality ("TCEQ") and the United States Environmental Protection Agency ("USEPA"). References to the TCEQ in this Official Statement are intended to include agencies whose duties and responsibilities have been assumed by the TCEQ.

In 1999, as part of SB 7, the Texas Legislature imposed new environmental regulations on power plants constructed prior to 1971 (30 Texas Administration Code ("TAC") 116, Electric Generating Facility Permits, and 30 TAC 101.330, Emissions Banking and Trading of Allowances). All of Austin Energy's then operational units were "grandfathered"

from State permitting requirements at the time of the passage of the Texas Clear Air Act in 1971. The SB 7 permitting program instituted a “cap and trade” program for NOx emissions. “Grandfathered” units were allocated allowances of NOx based on an emission rate of 0.14 lbs. of NOx per mmBtu times the 1997 heat input to the unit. Austin Energy’s SB 7 permitted units must have enough SB 7 emission allowances available to cover the actual emissions from these units on a yearly basis. If the total NOx emissions from these plants exceed the total system allocation, Austin Energy must purchase the additional allowances needed to cover its emissions. The emission-trading program will also allow Austin Energy to sell in the open market emission allowances derived from excess NOx reductions. Since the NOx emission rate from the Decker Unit 2 is considered very low compared to similar units, this unit was voluntarily included in this same permitting program. By making this voluntary move, Austin Energy significantly reduced the costs of complying with this program. A total of 1741 tons of NOx were allocated to the “Grandfathered” units and Decker Unit 2.

In addition to the NOx reductions made to comply with SB 7, Austin Energy has made voluntary commitments to cap the emissions of NOx from Decker, Holly Street and the new units at the Sand Hill Energy Center to a total of 1500 tons per year. This commitment was made in order to assist with the Early Action Compact or EAC made between the governmental bodies of the Austin Area and USEPA. Austin Energy’s total NOx emissions were 1232 tons for the latest compliance reporting year ending May 2005. This total is expected to be approximately 1000 tons for the compliance year ending in May of 2006.

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

Austin Energy and the co-owner, LCRA are now in the process of designing and procuring SO2 scrubbers for FPP Units 1 and 2. These scrubbers will reduce the emissions of SO2 from these units by at least 95%. These scrubbers should also reduce the emissions of mercury from these units as well.

Austin Energy has joined the California Climate Action Registry which requires Austin Energy to measure green house gases from its point and non-point sources. The emissions will be reported each year and will be certified by a third party auditor.

### **Environmental Regulation Water**

Wastewater discharges are regulated pursuant to the Clean Water Act National Pollution Discharge Elimination System (“NPDES”). Stormwater run-off is similarly regulated. The USEPA has granted the TCEQ authority to implement these programs in Texas as the Texas Pollution Discharge Elimination System (TPDES). Austin Energy’s larger power generation facilities, Decker, Holly Street and Sand Hill Energy Center, have TPDES and Stormwater Permits, which require monitoring and limitations of discharges. USEPA has also finalized regulations for cooling water intake structures on existing facilities. These regulations will affect Decker and Sand Hill Energy Center. Austin Energy will conduct studies over the next several years to determine the most cost effective methods for compliance with these new regulations.

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

### **Environmental Other**

Since 2001, Austin Energy has funded a program for removing distribution electrical equipment at risk for having polychlorinated biphenyls (PCBs) from its service area beyond what is ordinarily removed due to equipment failures or line improvements. Austin Energy crews inspect and test overhead transformers and remove equipment at risk for

having PCBs. Austin Energy has increased the inspections of its underground distribution system and is replacing rusted pad-mounted transformers that pose a risk for spills. Furthermore, substation equipment and soils are routinely tested prior to construction activities in the event that there is contamination from historical activities. Austin Energy has completed the decommissioning and remediation of the Seaholm Power Plant, and has been recognized by USEPA that Seaholm will be the first facility in the nation to receive a certificate of Ready for Reuse under the Toxic Substance Control Act related to PCBs. This certification is given to contaminated industrial facilities that have been cleaned and made available for public use. Additionally, Austin Energy has been selected by the TCEQ to receive its annual Environmental Excellence Award for Innovative Technology in the methods employed for the remediation activities performed during the decommissioning.

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

## **Nuclear Regulation**

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

STP is protected by provisions of the Price-Anderson Act, a comprehensive statutory arrangement providing limitations on nuclear liability and governmental indemnities even though the statutory protections for many non-commercial reactors. The Price-Anderson Act originally expired on August 1, 2002, but was renewed on August 8, 2005 as part of the National Energy Legislation. The new Price-Anderson Act expires on December 31, 2025. The limit of liability under the Price-Anderson Act for licensees of nuclear power plants remains at \$10.76 billion per unit per incident. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is \$100.59 million per unit, subject to adjustment for inflation, for the number of operating nuclear units and for each licensed reactor, payable at \$15 million per year per reactor for each nuclear incident. The City and each of the other participants of STP are subject to such assessments, which will be borne on the basis of their respective ownership interests in STP. For purposes of the assessments, STP has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the NRC, in accordance with the financial protection requirements of the Price-Anderson Act.

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

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

The owners of STP currently maintain \$2.75 billion of nuclear property insurance, which is above the legally required amount of \$1.06 billion, but is less than the total amount available for such losses. The \$2.75 billion of nuclear property insurance consists of \$500 million in primary property damage insurance and \$2.25 billion of excess property damage insurance, both subject to a retrospective assessment being paid by all members of Nuclear Electric Insurance Limited (NEIL). In the event that property losses as a result of an accident at any nuclear plant insured by NEIL exceed the accumulated fund available to NEIL, a retrospective assessment could occur. The maximum aggregate assessment under current policies for both primary and excess property damage insurance is \$26.8 million during any one-policy year.

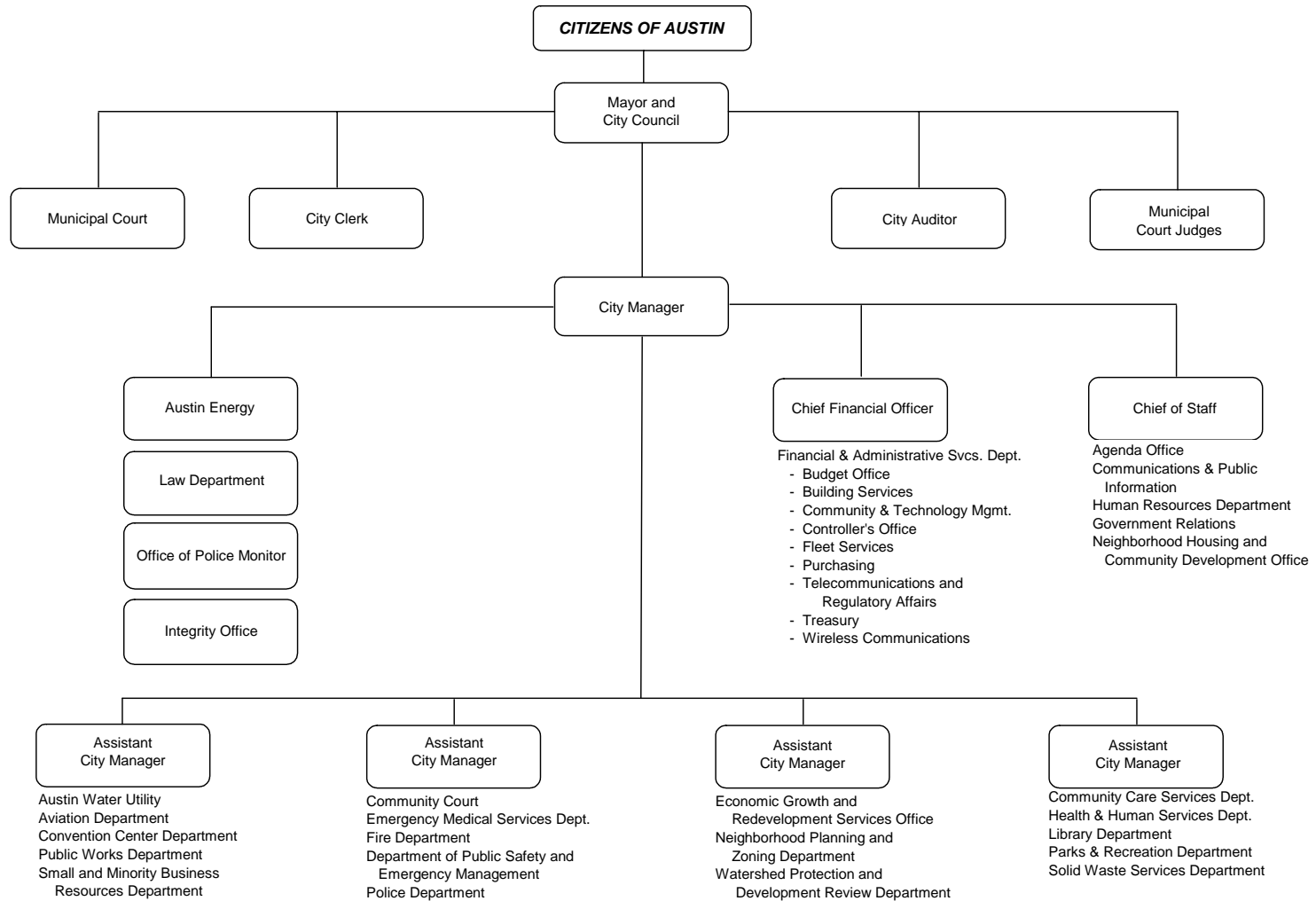
Finally, the NRC maintains its regulations setting forth minimum amounts required to demonstrate reasonable financial assurance of funds for decommissioning of nuclear reactors. Beginning in 1990, each Holder of an operating license was required to submit to the NRC a report indicating how reasonable assurance would be provided. The City provided the

required report to the NRC which was based on the minimum amount for decommissioning as required by the NRC regulations of \$105 million per unit (January 1986 dollars). This minimum is required to be adjusted annually in accordance with the adjustment factor formula set forth in the regulations. The report provided by the City based reasonable assurance on the minimum amount (January 1986 dollars) as adjusted by the adjustment factor formula set forth in the regulations. The City has established an external irrevocable trust for decommissioning with JPMorgan Chase Bank, N.A.. The City has been collecting for decommissioning through its rates since Fiscal Year 1989. The decommissioning account balance at December 31, 2005 was \$108 million. For Fiscal Year 2006, Austin Energy estimates that it will continue to collect approximately \$5 million for decommissioning expense. In current dollars (at December 31, 2005), the minimum amount for decommissioning is \$342.4 million per unit. See "INVESTMENTS – Legal Investments".

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# CITY OF AUSTIN, TEXAS

## Organization Chart



## **THE CITY**

### **Administration**

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

By charter, the City Council appoints a City Manager for an indefinite term who acts as the chief administrative and executive officer of the City. The duties include, among others, the supervision of all City departments, the preparation and administration of an annual budget and the preparation of a report on the finances and administrative activities of the City. Toby Hammett Futrell was appointed City Manager on May 1, 2002.

### **City Manager – Toby Hammett Futrell**

Ms. Futrell received her Masters of Business Administration from Southwest Texas State University and a Bachelor of Liberal Studies from St. Edward's University. Her career with the City of Austin organization spans more than 25 years and started with an entry-level position in the Health and Human Services Department. In 1996, Ms. Futrell was appointed Assistant City Manager and assumed the position of Deputy City Manager in February 2000, prior to becoming City Manager.

### **Chief Financial Officer – John Stephens, CPA**

Mr. John Stephens received his B.A. and M.A. in Spanish from University of Texas at Arlington, and M.A. in linguistics from University of Michigan – Ann Arbor. He taught Spanish and English as a Second Language for approximately ten years before receiving a M.B.A. from University of Texas – Austin in 1983. Mr. Stephens served as Auditor, Senior Staff Accountant and Controller prior to his appointment as Chief Financial Officer.

### **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. In addition, the City owns a hospital which is operated by The Daughters of Charity Health Services of Austin under the terms of a long term lease.

### **Employees**

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

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

### **Annexation Program**

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



There are currently two processes for the annexation of territory into the City of Austin. The three-year Municipal Annexation Plan (“MAP”) process applies to annexation areas that include 100 or more properties with a house on each lot. Areas that do not meet this criterion follow the exempt area process. Both 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 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.

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 those 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 the net revenues, if any, derived from the operation of its water and sanitary sewer systems. Texas law generally requires that districts be annexed in their entirety. Upon dissolution, the City assumes the district’s outstanding bonds and other obligations and levies and collects on taxable property within the corporate limits of the City ad valorem taxes sufficient to pay principal of and interest on such assumed bonds.

The City also assumes liabilities when it annexes land in Emergency Services Districts (“ESD”) and that territory is disannexed from the ESD. This liability, however, is limited to a pro-rata share of debt and 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. The City annexed over 20,000 acres of territory for limited purposes in 1984 and has developed annual Strategic Annexation Programs since 1987. These programs prioritized areas to be considered for annexation 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 1996.

<u>Calendar Year</u>	<u>Full Purpose Acres (1)</u>	<u>Limited Purpose Acres</u>
1996	3,163	0
1997 (2)	15,083	0
1998	2,660	1,698
1999	90	588
2000	4,057	4,184
2001	3,908	15
2002	2,019	1,957
2003	3,253	0
2004	1,114	7,030
2005	1,914	1,234

(1) Includes acres converted from limited purpose to full purpose status.

(2) The 1997 annexation program included ten area municipal utility districts.

## **Recent Annexation**

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

Approximately \$50 million in TAV was annexed for full purposes in 2004. Over 6,000 acres northwest of the City, known as the Robinson Ranch area, and the 748 acre Ribelin Ranch area, were annexed for limited purposes in June 2004. The Onion Creek area, annexed for full purposes in 2003, added over 1,200 acres, 3,000 residents and \$190 million in TAV to the City. Total estimated TAV annexed in 2003 equaled over \$375 million.

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

The Del Valle area, located near Austin-Bergstrom International Airport (“ABIA”), was converted to full purpose annexation status in September 2001, and added approximately 2,000 residents to the City. Sections of the Avery Ranch Area were also converted to full purpose status. Other areas annexed in 2001 included over 700 acres of privately owned preserve land, some developed single family, multi family and office tracts and other undeveloped acreage.

## **Future Annexation**

In the next few years a number of areas previously annexed for limited purposes will be converted to full purpose status. Areas covered by strategic partnership agreements (“SPAs”) will also be annexed as well as areas included in the City’s Municipal Annexation Plan (“MAP”). The most significant of the identified future annexation areas are shown below:

- Grand Avenue Parkway – full purpose annexation of commercial frontage along IH 35 is scheduled for late 2006; and
- Wildhorse Ranch – limited purpose area with conversions to full purpose is expected to begin in late 2006; and
- Anderson Mill MUD and adjacent areas – annexation of northwest Austin area postponed until December 2008 per terms of the amended SPA; and
- Lost Creek MUD and adjacent areas – southwest Austin area included in 2005 MAP with annexation scheduled for December 2008; and
- North Acres area – northeast Austin area included in 2005 MAP with full purpose annexation scheduled for December 2008; and
- Peninsula area – properties near Lake Austin included in 2005 MAP with full purpose annexation scheduled for December 2008; and
- Springwoods MUD and adjacent areas – annexation postponed until December 2007 or later per terms of the amended SPA (includes assumption of debt for drainage improvements and completion/maintenance of drainage projects).

## **Pension Plans**

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

The Police Officers contribute 9.0% and the City contributes 18% of payroll. The Municipal employees and the City each contribute 8.0%. The Firefighters (who are not members of the Social Security System) contribute 15.7% of payroll, the City contributes 18.05%.

The contributions to the pension funds are designed to fund current service costs and to amortize the unfunded actuarial accrued liability of the Police Officer’s Fund over 38.3 years and the Firefighter’s Fund over 115.9 years.

The actuarial accrued liability for the Municipal Employees Fund as of December 31, 2005, was \$1,794,181,675. The actuarial accrued liability for the Police Officers' Fund as of December 31, 2005, was \$494,640,356. The actuarial accrued liability for the Firefighters' Pension Fund as of December 31, 2005, was \$580,053,954. Actuarial studies were performed for the Municipal Employees Fund, Firefighter's Pension Fund and the Police Officer's Fund as of December 31, 2005. The Municipal Employees Fund had an infinite funding period at year end 2005, and various methods of restoring actuarial soundness are currently being evaluated. See Note 8 to the City's Financial Statements for additional information on the Pension Plans.

### **Other Post-Employment Benefits**

In addition to providing pension benefits, the City provides certain health care and insurance benefits to its retirees. Any retiree who is eligible to receive retirement benefits under any of the City's three pension plans is eligible for these benefits. Post retirement benefits include health insurance and \$1,000 of life insurance for the retired employee only. 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 recognized the cost of providing these benefits as payroll expenses/expenditures in an operating fund with corresponding revenue in the Employee Benefits Funds. The estimated cost of providing these benefits for 2,554 retirees was \$13.3 million in 2005 and \$13.7 million in 2004 for 2,448 retirees.

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

### **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 \$13.9 million for claims and damages at the end of fiscal year 2005. 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 of the Ordinances, the City has made the following agreement for the benefit of the respective 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 certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

*Annual Reports* – The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all the quantitative financial information and operating data with respect to the City of the general type included (i) in the portions of the financial statements of the City appended to the Official Statement as APPENDIX B, but for the most recently concluded fiscal year end and (ii) in the main text

of the Official Statement under the subcaptions: “Tax Valuation” with respect to the appraised value as of January 1 during the fiscal year as to which such annual report relates, “Valuation and Funded Debt History,” “Tax Rates, Levy and Collection History,” “Ten Largest Taxpayers,” “Property Tax Rate Distribution,” “Current Investments,” “General Fund Revenues and Expenditures and Changes in Fund Balance,” “Municipal Sales Tax,” and “Transfers From Utility Funds”. The City will update and provide this information as of the end of such fiscal year or for the twelve month period then ended within six months after the end of each fiscal year ending in or after 2005 unless otherwise noted above. The City will provide the update information to each nationally recognized municipal securities information repository (“NRMSIR”) and to any state information depository (“SID”) that is designated by the State of Texas and approved by the United States Securities and Exchange Commission (the “SEC”).

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

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

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

Any such filing may be made by the City solely by transmitting such filing to the Municipal Advisory Council of Texas (the “MAC”) as provided at <http://www.disclosureusa.org>, unless the SEC has withdrawn the interpretive advice stated in its letter to the MAC dated September 7, 2004.

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

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

*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 Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

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

*Compliance with Prior Undertakings* – The City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

## **TAX MATTERS**

### **Opinion**

On the date of initial delivery of each series of the Obligations, McCall, Parkhurst & Horton L.L.P., Bond Counsel, will render their opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date hereof (“Existing Law”), (1) interest on each series of the Obligations for federal income tax purposes will be excludable from the “gross income” of the holders thereof and (2) the Obligations will not be treated as “specified private activity bonds”, the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the “Code”). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations. See APPENDIX C - Form of Bond Counsel’s Opinions.

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the City, including information and representations contained in the City’s federal tax certificate, and (b) covenants of the City contained in the documents authorizing each series of the Obligations relating to certain matters, including arbitrage and the use of the proceeds of the Obligations and the property financed therewith. Although it is expected that each series of the Obligations will qualify as tax-exempt obligations for federal income tax purposes as of the date of issuance, the tax-exempt status of any series of the Obligations could be affected by future events. However, future events beyond the control of the City, as well as the failure to observe the aforementioned representations or covenants, could cause the interest on any series of the Obligations to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Obligations in order for interest on the Obligations to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Obligations to be included in gross income retroactively to the date of issuance of the Obligations. The opinion of Bond Counsel is conditioned on compliance by the City with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Obligations.

Bond Counsel’s opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel’s opinion is not a guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Obligations.

A ruling was not sought from the Internal Revenue Service by the City with respect to the Obligations or the projects financed with the proceeds of the Obligations. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the owners of the Obligations, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the Issuer as the taxpayer and the owners of the Obligations may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

## **Federal Income Tax Accounting Treatment of Original Issue Discount**

The initial public offering price to be paid for one or more maturities of any series of the Obligations (referred to herein as the “Original Issue Discount Bonds”), may be less than the principal amount thereof or one or more periods for the payment of interest on of the Obligations may not be equal to the accrual period or be in excess of one year. In such event, the difference between (i) the “stated redemption price at maturity” of each Original Issue Discount Bond and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The “stated redemption price at maturity” means the sum of all payments to be made on each series of the Obligations, less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Obligations and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

## **Collateral Federal Income Tax Consequences**

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of each series of Obligations. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSIONS CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE

## **PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE ANY OF THE OBLIGATIONS.**

Interest on the Obligations will be includable as an adjustment for “adjusted current earnings” to calculate the alternative minimum tax imposed on corporations by section 55 of the Code. Section 55 of the Code imposes a tax equal to 20 percent for corporations, or 26 percent for noncorporate taxpayers (28 percent for taxable income exceeding \$175,000), of the taxpayer’s “alternative minimum taxable income,” if the amount of such alternative minimum tax is greater than the taxpayer’s regular income tax for the taxable year.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Obligations, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Obligations, if such obligation was acquired at a “market discount” and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to “market discount bonds” to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A “market discount bond” is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the “revised issue price” (i.e., the issue price plus accrued original issue discount). The “accrued market discount” is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

### **State, Local and Foreign Taxes**

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Obligations under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

## **OTHER RELEVANT INFORMATION**

### **Ratings**

The Obligations have received ratings of “AA+” by Standard & Poor’s Rating Services, a Division of The McGraw-Hill Companies (“S&P”), “AA+” by Fitch Ratings, Inc. (“Fitch”) and “Aa1” by Moody’s Investors Service, Inc. (“Moody’s”). The presently outstanding tax supported debt of the City is rated “AA+” by S&P, “AA+” by Fitch and “Aa1” by Moody’s. Additionally, the Certificates will be rated “AAA” by S&P, “AAA” by Fitch and “Aaa” by Moody’s as a result of a municipal bond insurance policy delivered by CIFG (see “BOND INSURANCE”). 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**

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

### **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 “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 issuance of each series of 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 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” herein, including the alternative minimum tax consequences for corporations. 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 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 description 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. In connection with the transactions described in this Official Statement, Bond Counsel represents only the City.

### **Financial Advisor**

The PFM Group (“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.

### **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.

This Official Statement, and the execution and delivery of this Official Statement was authorized by the Ordinances adopted by the City Council on August 31, 2006.

/s/Will Wynn

Mayor  
City of Austin, Texas

ATTEST:

/s/Shirley A. Gentry

City Clerk  
City of Austin, Texas

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## APPENDIX A

### General Information Regarding the City

The following information has been presented for informational purposes only.

#### AUSTIN'S GOVERNMENT, ECONOMY AND OUTLOOK

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

Austin, the capital of Texas, is the fourth largest city in the State (behind Houston, Dallas, and San Antonio), with a population of 695,881 in 2005. Over the past ten years, Austin's population has increased by approximately 154,000 residents, an increase of 28.4 percent. Geographically, Austin consists of approximately 294 square miles. According to the 2000 Census, Austin has a median household income of \$42,689 and a per capita income of \$24,163.

Austin is frequently recognized as a great place to live, work and play, with one of the most recent commendations in *Forbes* magazine, which listed Austin as one of its "top ten places for business". For the third straight year, *Forbes* magazine ranked Austin in the top 3 among 150 metro areas as the "best place for business and careers" based on criteria including business costs, living costs, crime rates, job growth and employment rates. Austin was featured as a world-wide, high-tech leader in *Expansion Management* magazine because of its status as the most wired city in the U.S., an abundance of high-tech workers and Freescale Semiconductor's decision to locate its headquarters in Austin. Intel ranks Austin as the No. 3 "Unwired City" in the U.S. based on the number of commercial or free "Wi-Fi" points in the City. Austin was also cited as one of Kiplinger's "top seven cool cities". For the second year in a row, *Hispanic* magazine rates Austin the best place to live in America, citing low crime rates, affordable home prices, and a "happening cultural scene" that embraces the City's 30 percent Hispanic population.

Austin has long attracted a diverse population, and the reasons that draw people to the City are varied. The area has a natural beauty and a first-rate parks department that administers a number of public outdoor recreational facilities, including neighborhood parks, greenbelts, athletic fields, golf courses, tennis courts, a veloway for bicyclists and in-line skaters, miles of hike and bike trails and striped bike lanes, a youth entertainment complex and swimming pools. The long awaited second phase of Town Lake Park and the Mexican American Cultural Center are under construction. Both projects concluded successful construction bid processes in 2005 and have anticipated completion dates in the spring of 2007.

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

The educational opportunities in Austin have long drawn people to the City. Among U.S. cities with a population over 250,000, Austin is one of the most highly educated cities, with approximately 38.6 percent of adults holding a bachelor's or advanced degree. With its seven institutions of higher learning and more than 117,176 students, education is a significant aspect of life in the Austin area. The University of Texas at Austin (UT), the largest public university in the nation, is known as a world-class center of education and research.

During the 1990s, over 280,000 jobs were created in Austin; unemployment dropped to less than 2 percent in 2000. Following September 11, 2001, Austin and the Central Texas area faced a significant economic downturn, resulting in a significant number of job layoffs and high unemployment rates. Due to the influence of the technology sector in the Austin area, the economic downturn had a more severe impact locally than across Texas.

The Austin area economy is beginning to see a sustained improvement over conditions from the previous years. The unemployment rate for the Austin Metropolitan Statistical Area (MSA) has improved from 4.7 percent in December 2004 to 3.9 percent in December 2005. The statewide average unemployment rate for Texas was 6.0 percent in 2004 and 5.3 percent in 2005. Freescale Semiconductor, the former semiconductor division of Motorola, completed a spin off from the parent company and chose Austin as the permanent location of its global headquarters. Freescale employs approximately 5,600 people in the Austin area. An agreement between the City and Home Depot was finalized in early 2005. By the end of 2005, Home Depot made several improvements to its technology center and added 300 employees, representing \$18.6 million in new payroll and monthly electric revenue of more than \$80,000.

Sales tax revenue has shown a steady improvement in the last two years. Sales tax growth has averaged a 6.6 percent increase over fiscal year 2004 and 5.0 percent in fiscal year 2005 compared to prior years, with both years showing 11 months of positive growth as compared to only two months in 2003. The growth rate is the fourth highest among major Texas cities. As a sign of sustained improvement, initial sales tax revenue for fiscal year 2006 has continued to increase from comparative periods in fiscal year 2005.

Single family residential building permits increased by approximately 2,750 permits from fiscal year 2004, which represents an approximate 19.2 percent increase over the previous year. Assessed valuation within the City increased approximately \$739 million, or 1.5 percent from the prior year. Property tax revenue decreased by approximately \$23.1 million compared to the previous year due to the creation of the Travis County Hospital District, approved by the voters in May 2004. As required under State law, title to the City-owned Brackenridge Hospital and Austin Women's Hospital effectively passed from the City with the formation of the District. The City of Austin reduced the fiscal year 2005 property tax rate in proportion to the amount of services that were transferred to the District. Property taxes for 2005 and subsequent years may be negatively impacted by lawsuits filed against the appraisal district; the suits challenge the appraisal district's property valuations for many businesses. If the challenges are successful, they could result in decreased tax revenue in future years for the local taxing jurisdictions, including the City. These financial statements include the impact of estimated refunds for the pending lawsuits.

Total passenger traffic for the City's airport increased by 6% in calendar year 2005 as compared to the previous year. In October 2005, JetBlue Airways announced its plans to provide service to Central Texas, making Austin the only city in the state to offer air service by JetBlue. In January 2006, the long sought after discount airline began operating out of Austin-Bergstrom International Airport, with nonstop service to New York's John F. Kennedy International Airport and Boston Logan International Airport. Overall collections from the hotel occupancy tax for fiscal year 2005 increased significantly from fiscal year 2004, with an increase of 18.7 percent. Vehicle rental taxes earned in fiscal year 2005 increased by 6.5 percent.

City management implemented cost savings efforts beginning in 2002 and throughout the 2003 and 2004 budget years. During the 2004 budget process, a structurally balanced budget was achieved. As part of this process, an emphasis was placed on permanent reductions rather than one-time reductions that would have to be re-addressed in the future. Overall, 519 job positions were eliminated, with 344 coming from the General Fund. In 2005, the City continued to preserve structural balance by focusing on ongoing reductions and setting the stage for moving forward in a sustainable budget environment. A series of revenue initiatives were implemented, which included several new permit and inspections fees; expenditures were reduced, including the elimination of 37 positions in the General Fund and the Support Services Fund. Other budgetary accomplishments include maintaining the effective tax rate, ensuring that no public facilities closed, maintaining utility transfer rates per covenants with the bond rating agencies, and placing no reliance on "one-time" funds to be utilized as revenue funding sources.

Economic indicators indicate that the conditions are good for the continuing economic recovery in Austin and surrounding areas. For the future, Austin's strengths continue to be the ones that led to growth in the past: a highly capable workforce, innovation and entrepreneurship, the presence of a world-class research university and several other institutions of higher learning, strong community assets and a superior quality of life.

A bond election will be held in November 2006. Citizens will vote on seven propositions that, if all are approved, would authorize the City to issue \$567,400,000 in bonds for various public improvements and funding affordable housing programs.

## **MAJOR INITIATIVES AND ACHIEVEMENTS**

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

### **Hurricane Katrina and Rita Responses**

Beginning Labor Day weekend and ending September 29, 2005, the City provided emergency shelter, basic needs resources and transition services to more than 28,000 evacuees from Louisiana and Texas. With less than 24 hours notice, Austin was told to prepare for as many as 6,000 Hurricane Katrina evacuees. With no time to spare, a disaster response team worked to create a city within a city. Inside of one week, the team transformed the Austin Convention Center into an emergency response shelter and a basic needs resource center. The City eventually helped thousands of evacuees to transition into more permanent housing. With typical Austin flare, these services were provided with a passion and a commitment that could not be replicated anywhere else. By the time the first Katrina evacuees arrived at Austin-Bergstrom International Airport, the team, joined by community volunteers, created an emergency shelter at the Austin Convention Center. It included health screenings, sleeping quarters, a pharmacy, a family reunion service, one-on-one case management that customized social services and housing assistance for every guest at the center. Proactive disease surveillance ensured the overall health of the shelter population; a store, a beauty shop, and recreational and library services ensured a quality of life even during a crisis.

No sooner had the final Hurricane Katrina guests been transitioned into housing, Austin engaged in a second emergency response. There is no question that these back-to-back emergency responses tested the strength of the City's organization as Austin became the destination for over 23,000 Texans fleeing Hurricane Rita. The same disaster response team provided vouchers and temporary housing for those that could not go home immediately; identified and responded to the needs of evacuees located in more than 40 shelters city-wide; provided specialized care and sheltering for 500 special needs/mental health patients at the Convention Center, allowed more than 750 animals to be cared for in the shelters so that owners could keep their pets with them, and provided transportation for those who could return home immediately.

Eligible costs associated with both hurricane relief efforts will be funded with grants to the City of Austin from the State of Texas Governor's Division of Emergency Management, passed through by the Federal Emergency Management Agency.

### **Economic Growth and Development**

Downtown Austin has virtually undergone a development renaissance and offers a vibrant and diverse array of shops, restaurants, live music venues, museums, and theater for its residents and visitors. This vitality also shows up in our citizen survey results, which reflect a higher level of satisfaction than last year. The 2<sup>nd</sup> Street Retail District is off to a strong start, with 80 percent of the available retail space leased or in development. The first shops opened in the district in June 2005.

Other planned projects, including continued redevelopment on 2<sup>nd</sup> Street, will enable Austin to realize its potential as a downtown residential market. The development of "Block 21" located directly across the street from City Hall, will be a major mixed-use development with street-level retail store fronts and a hotel. The project creates an opportunity for Austin City Limits to relocate to the heart of the warehouse district and will allow Austin Children's Museum to expand into a new permanent home. In 2006, the City designated the site of the Green Water Treatment Plant, located on the shores of Town Lake, as the location for the future central library. The City is currently negotiating with a developer for redevelopment of the circa 1950 Art Deco Seaholm Power Plant and adjacent property to create a high quality, mixed-use cultural attraction.

Following a successful referendum on its long-range transit plan in November 2004, the Capital Metropolitan Transportation Authority will be implementing new transit services, including rapid bus service in 2007 and urban commuter rail in 2008. In May 2005, the City Council adopted a Transit-Oriented Development Ordinance (TOD) designed to specifically support transit and increase use of publicly funded transit investments. Key features of the ordinance include moderate to high density, pedestrian orientation, mixed use, strong transit connection, public and private partnerships and market responsive development.

The redevelopment of Robert Mueller Municipal Airport is underway. In December 2004, the City completed and approved the Master Development Agreement (MDA), with a master developer to convert the old airport site into a vibrant mixed-use community. The MDA calls for the development of a full range of land use in order to promote a viable transit-oriented community for residents and employers. The City has established goals in order to achieve community-based values in a number of areas including affordable housing, green building and publicly accessible greenways and parks. The first major project, a new Children's Hospital, has already begun and is expected to open in 2007. Construction of the retail center is expected to start this summer and will draw customers throughout the region upon planned completion in 2007.

The first issuance of bonds by Mueller Local Government Corporation, a non-profit local government corporation created by the City to assist in the redevelopment of the former Airport property, is anticipated to occur in September 2006. The bonds, in the aggregate principal amount of \$12,000,000, will finance public infrastructure projects, as provided for in the MDA.

The City Council passed a performance-based incentive package for Samsung Semiconductor in August 2005. If Austin is chosen as the site for the Samsung's 300mm chip production facility, this project has the potential to anchor Austin's high-tech community for years to come. The new semiconductor wafer fabrication will create 900 jobs, and could place more than \$54 million of new payroll into the economy. Samsung could invest more than \$4 billion in new equipment and buildings to run the production.

### **Environment and Quality of Life**

Many of the City's accomplishments in 2005 assist in the achievements of the City's vision of being the most livable city in the country.

Austin is ranked the third safest city in the nation for its low violent crime rate – behind Honolulu and San Jose. Violent crime is down 5.2 percent from 2004. Changes in enforcement to reduce the number of traffic fatalities yielded positive results in 2005. The number of traffic fatalities decreased by approximately 16 percent, from 73 in 2004 to 59 in 2005. It was the third lowest total in ten years.

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

Solid Waste Service completed a highly successful pilot of single stream recycling and received the City Council's approval to move forward city-wide. Full implementation is currently planned by early calendar year 2008, after a new materials recovery facility becomes operational. Conclusions drawn from the pilot program indicate fewer tons of waste going into landfills, more convenient recycling for customers, fewer vehicles and trips, and reduced employee injuries.

Other initiatives, such as the adoption of affordable housing goals in the University Neighborhood Overlay Zoning District and creating strategies to help mitigate gentrification under the Community Preservation and Revitalization program, add to the quality of life. In April 2005, on the 5<sup>th</sup> anniversary of the City's S.M.A.R.T. Housing™ (Safe, Mixed Income, Accessible, Reasonably Priced and Transit Oriented) policy, the International City/County Managers' Association named it a best practice. Five years ago, the City of Austin established the S.M.A.R.T. Housing™ initiative to stimulate the creation of reasonably priced homes within the city limits of Austin. This initiative provides development fee waivers and other benefits for projects that meet all S.M.A.R.T. Housing™ standards, including at least 10 percent of the units meeting the "reasonably priced" standard by serving families at or below 80 percent of the Austin area median family income. Throughout 2005, the City also worked collaboratively with the community to develop strategies to retain and attract African Americans so that Austin maintains a diverse economy and culture, including the participation of minority chambers of commerce in evaluating the minority hiring and contracting practices of companies as part of the City's economic incentive program. In the Health and Human Services arena, the renovation and opening of the Montopolis Community Health Center increased access to care in one of Travis County's poorest and most underserved areas. The Far North Community Health Center opened to help reduce chronic disease among the African American population.

## Utility Projects

Austin Energy's strategic plan sets a national standard for renewable energy and energy efficiency. Austin Energy's renowned GreenChoice Program remains the No. 1 utility-sponsored green power program in the nation for sales since 2002, outperforming 600 other programs nationwide. In January 2005, Austin Energy announced it was doubling the capacity of GreenChoice. With the additional capacity, Austin Energy is on track to achieve its goal of generating 20 percent of Austin's electricity needs from renewables by the year 2020. More than 7,500 homeowners and 350 businesses are GreenChoice customers and 90% of the companies have opted to buy renewable energy exclusively. The December 12, 2005 issue of Business Week cited twenty "individual achievers", including Great Britain's Prime Minister Tony Blair, as "individuals who stand out for their efforts to cut gases that cause global warming". Austin Energy's deputy general manager Roger Duncan, was praised in the article for his efforts to promote renewable energy.

Austin Energy is also leading a nationwide campaign to convince automakers to mass produce plug-in hybrids, electric-drive hybrid vehicles with an all electric operating range. Plug-in hybrids combine batteries and internal combustion engines in an efficient manner. Plug-in hybrids can be fueled through an electric wall outlet or at the gas station and are more gas-efficient than hybrids. Campaign participants include cities, utilities, environmental groups, national security organizations and businesses.

In 2001, Austin Water launched the Austin Clean Water Program. The program is in response to a mandate from the U.S. Environmental Protection Agency to eliminate overflows from its wastewater collection system by the end of June 2009. Austin Water remains on schedule to complete the necessary requirements that are currently estimated to cost \$300 million. In other initiatives during the past year, Austin Water established a notification process for customers of high water usage before the customer receives his or her utility bill, as well as a single point of contact to help customers resolve problems related to water and wastewater utility incidents.

All three rating agencies upgraded the bond ratings of Austin Energy and Austin Water in May 2006. The upgrade was based on their strong confidence in the Utility's management team and its long range strategic financial plan.

<u>Type</u>	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fitch</u>
Combined Utility System:			
Prior First Lien	A1	AA-	AA-
Prior Subordinate Lien	A1	A+	AA-
Electric:			
Separate Lien	A1	A+	AA-
Water and Wastewater:			
Separate Lien	A1	A	AA-

## Status of City Services

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

Austin residents assign a very high level of importance to public safety services, including 9-1-1, EMS, Fire, and Police. Generally, satisfaction with most public safety services is high, although neighborhood policing and traffic enforcement rank very low as compared to other public safety services. Residents are generally satisfied with the services provided by the Parks and Recreation Department and the Library; notably the City's cultural programs, availability and appearance of parks and preserves, library youth programs, and the Austin History Center. Survey results continue to show that Austin citizens consider the environment as one of their top priorities. In 2005, satisfaction with almost all services related to environmental sustainability improved, including the City's preservation of green space, efforts to improve air quality and alternative modes of transportation. Residents are most satisfied with the quality of drinking water, consistent with 2004 findings. Satisfaction with traffic flow on major city streets improved slightly compared to 2004 survey results, yet citizens still remain dissatisfied with road conditions and traffic flow overall.

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

- Mobility issues (parking, traffic congestion, construction, etc.)
- Quality of life (more green space, arts, etc.)
- Growth management
- Cost of living

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

- Tax-related issues (including rates, fees and charges)
- Road conditions and new roads
- Pollution
- Mass transit
- Poverty
- Public education

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

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

## **Employment Characteristics**

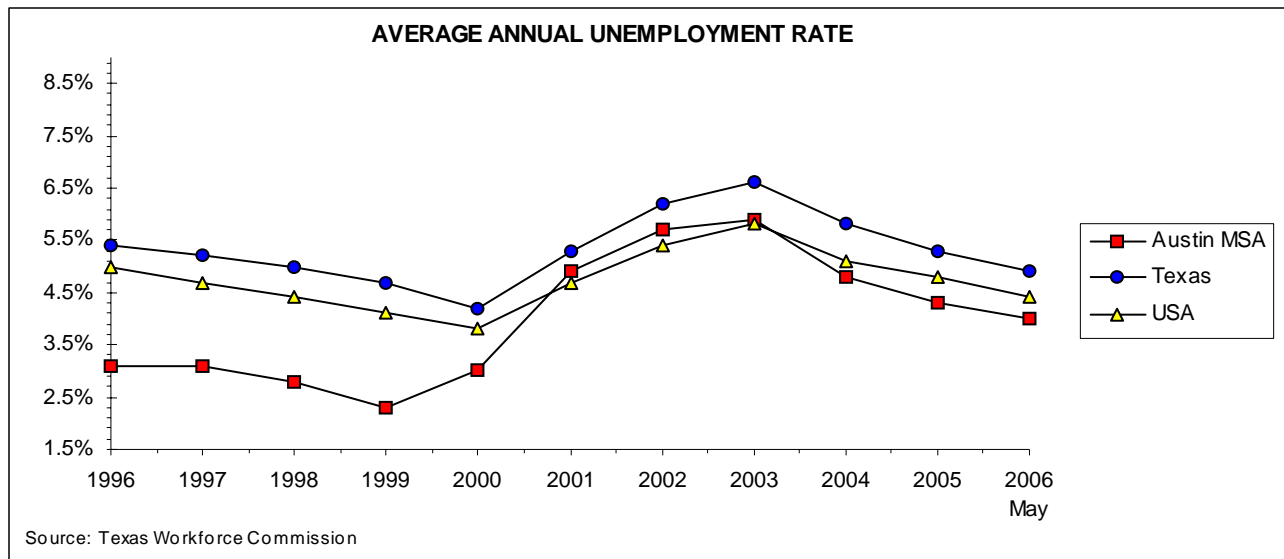
	<u>1990</u>		<u>2000</u>		<u>2004</u>		<u>2005</u>		<u>May, 2006</u>	
<u>Industrial Classification</u>		<u>% of Total</u>		<u>% of Total</u>		<u>% of Total</u>		<u>% of Total</u>		<u>% of Total</u>
Manufacturing	48,200	12.2%	84,000	12.3%	57,000	8.7%	57,500	8.4%	56,700	7.9%
Government	112,700	28.5%	137,100	20.1%	144,900	22.0%	146,800	21.5%	157,900	22.1%
Trade, transportation & utilities	60,400	15.3%	116,000	17.0%	114,200	17.3%	118,600	17.3%	144,800	20.2%
Services and miscellaneous	136,100	34.4%	267,100	39.1%	263,800	40.0%	281,300	41.1%	272,500	38.1%
Finance, insurance and real estate	24,700	6.2%	35,400	5.2%	40,900	6.2%	40,200	5.9%	41,500	5.8%
Natural resources, mining & construction	<u>13,600</u>	<u>3.4%</u>	<u>42,700</u>	<u>6.3%</u>	<u>38,700</u>	<u>5.8%</u>	<u>39,800</u>	<u>5.8%</u>	<u>42,500</u>	<u>5.9%</u>
Total	<u>395,700</u>	<u>100.0%</u>	<u>682,300</u>	<u>100.0%</u>	<u>659,500</u>	<u>100.0%</u>	<u>684,200</u>	<u>100.0%</u>	<u>715,900</u>	<u>100.0%</u>

(a) Austin-Round Rock MSA includes Travis, Bastrop, Caldwell, Hays and Williamson Counties. Information is updated periodically, data contained herein is the latest provided. Numbers for 2006 are an estimate based on Texas Workforce Commission, Bureau of Labor Statistics and U.S. Department of Labor data as of May, 2006.

Source: 2005 Comprehensive Annual Financial Report, Texas Workforce Commission.

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## Average Annual Unemployment Rate



	<u>Austin MSA</u>	<u>Texas</u>	<u>U.S.</u>
1996	3.1%	5.4%	5.0%
1997	3.1%	5.2%	4.7%
1998	2.8%	5.0%	4.4%
1999	2.3%	4.7%	4.1%
2000	3.0%	4.2%	3.8%
2001	4.9%	5.3%	4.7%
2002	5.7%	6.2%	5.4%
2003	5.9%	6.6%	5.8%
2004	4.8%	5.8%	5.1%
2005	4.3%	5.3%	4.8%
2006 May	4.0%	4.9%	4.4%

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

Source: 2005 Comprehensive Annual Financial Report, Texas Workforce Commission.

## City Sales Tax Collections (In Millions)

<u>Period</u>	<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>
1-1-02	\$ 8.723	1-1-03	\$ 8.249	1-1-04	\$ 8.883	1-1-05	\$ 9.076	1-1-06	\$10.334
2-1-02	13.405	2-1-03	11.463	2-1-04	12.382	2-1-05	13.171	2-1-06	14.818
3-1-02	8.345	3-1-03	8.218	3-1-04	8.693	3-1-05	9.049	3-1-06	10.051
4-1-02	8.322	4-1-03	7.981	4-1-04	8.534	4-1-05	8.660	4-1-06	9.930
5-1-02	10.746	5-1-03	10.644	5-1-04	10.867	5-1-05	11.795	5-1-06	12.950
6-1-02	9.253	6-1-03	8.519	6-1-04	9.384	6-1-05	9.718	6-1-06	10.725
7-1-02	9.287	7-1-03	7.908	7-1-04	8.980	7-1-05	8.936	7-1-06	11.981
8-1-02	10.289	8-1-03	10.414	8-1-04	11.474	8-1-05	12.004		
9-1-02	8.695	9-1-03	8.510	9-1-04	9.157	9-1-05	9.938		
10-1-02	8.884	10-1-03	8.832	10-1-04	9.214	10-1-05	10.182		
11-1-02	10.157	11-1-03	10.686	11-1-04	11.340	11-1-05	11.735		
12-1-02	8.859	12-1-03	8.817	12-1-04	9.354	12-1-05	10.532		

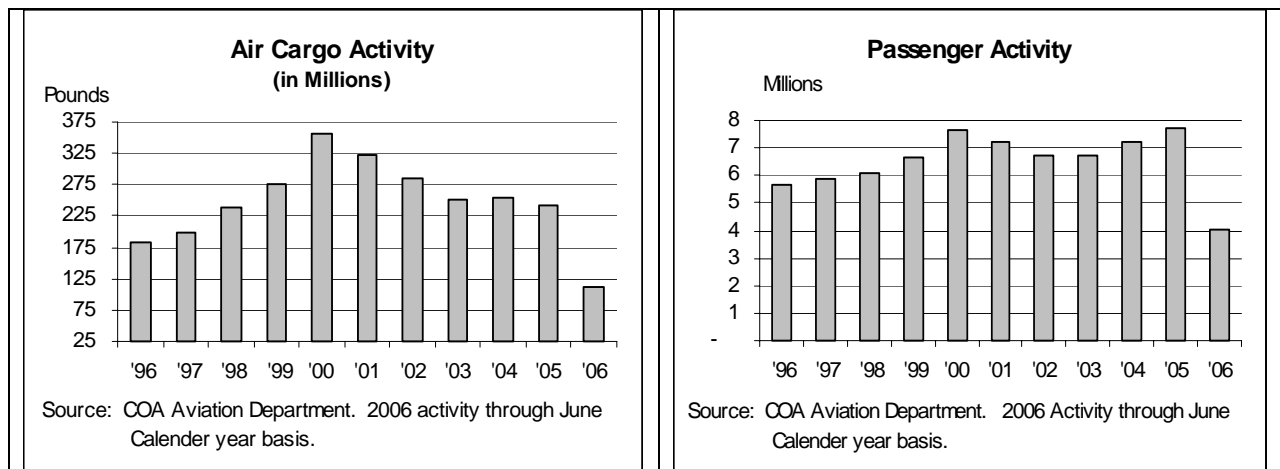
Source: City of Austin, Budget Office.

### Ten Largest Employers (As of September 30, 2005)

<u>Employer</u>	<u>Product or Service</u>	<u>Employees</u>
State Government	State Government	67,700
Dell Computer Corporation	Computers	24,600
The University of Texas at Austin	Education and Research	21,905
City of Austin	City Government	11,102
Austin Independent School District	Education and Research	10,714
Federal Government	Federal Government	10,300
Seton Healthcare Network	Hospital	7,722
IBM Corporation	Office Machines	6,300
Freescale Semiconductor, Inc.	Electronic Components	5,600
St. David's Healthcare Partnership	Hospital	5,127

Source: 2005 Comprehensive Annual Financial Report.

### Transportation



### Austin-Bergstrom International Airport

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

The City of Austin's Austin-Bergstrom International Airport, which opened for passenger service on May 23, 1999, is served by eight major airlines with scheduled air service: American, America West, Continental, Delta, Frontier, Northwest, Southwest, and United. Non-stop service is available to 29 U.S. destinations and 2 international 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 an one quarter percent increase in the sales tax thus returning to one percent effective October 1, 1995.

## Growth Indicators

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

### Population

Year	Austin (1)		Travis County (1)		Texas (2)		United States (2)	
	Population	% Change	Population	% Change	Population	% Change	Population	% Change
1950	132,459	50.6%	160,980	45.0%	7,711,194	20.2%	151,326,000	14.5%
1960	186,545	40.8%	212,136	31.8%	9,579,677	24.2%	179,323,000	18.5%
1970	253,539	35.9%	295,516	39.3%	11,198,655	16.9%	203,302,000	13.4%
1980	345,496	36.3%	419,573	42.0%	14,228,383	27.1%	222,100,000	9.3%
1990	450,830	0.2%	576,407	0.5%	16,986,510	-2.7%	249,632,692	0.8%
1991	466,530	3.5%	585,731	1.6%	17,349,000	2.1%	252,177,000	1.0%
1992	474,715	1.8%	594,560	1.5%	17,615,745	1.5%	255,020,000	1.1%
1993	478,254	0.8%	600,427	1.0%	17,805,566	1.1%	257,592,000	1.0%
1994	507,468	6.1%	636,991	6.1%	18,291,000	2.7%	261,212,000	1.4%
1995	523,352	3.1%	656,979	3.1%	18,724,000	2.4%	262,755,000	0.6%
1996	541,889	3.5%	681,654	3.8%	19,128,000	2.2%	265,410,000	1.0%
1997	560,939	3.5%	703,717	3.2%	19,439,337	1.6%	267,792,000	0.9%
1998	608,214	8.4%	725,669	3.1%	19,759,614	1.7%	271,685,044	1.5%
1999	619,038	1.8%	744,857	2.6%	20,044,141	1.4%	272,690,813	0.4%
2000	628,667	1.6%	749,426	0.6%	20,044,141	0.0%	272,690,813	0.0%
2001	661,639	5.2%	837,206	11.7%	20,851,820	4.0%	281,421,906	3.2%
2002	671,044	1.4%	848,484	1.4%	21,779,893	4.5%	288,368,698	2.5%
2003	674,719	0.6%	865,497	2.0%	22,118,509	1.6%	290,809,777	0.9%
2004	683,551	1.3%	882,806	2.0%	22,490,022	1.7%	293,655,404	1.0%
2005	695,881	1.8%	906,919	2.7%	22,678,651	0.8%	295,734,134	0.7%

(1) All years are estimates from the City's Neighborhood Planning and Zoning Department based on full purpose area as of September 30. Census years are modified to conform to U.S. Bureau of the Census data.

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

### Connections and Permits

Year	Utility Connections			Building Permits		
	Electric	Water	Gas	Taxable	Federal, State and Municipal	Total
1990	275,840	137,936	111,114	\$ 309,999,799	\$48,312,493	\$ 358,312,292
1991	281,926	142,721	131,713	327,777,503	33,619,419	361,396,922
1992	286,413	141,210	139,529	435,053,697	5,162,800	440,216,497
1993	291,896	146,396	143,088	607,717,144	70,976,449	678,693,593
1994	298,662	148,148	142,373	840,043,119	19,643,501	859,686,620
1995	306,670	149,867	147,023	870,446,315	11,087,831	881,534,146
1996	319,518	151,757	148,124	1,246,232,619	89,945,847	1,336,178,466
1997	326,816	156,397	156,752	1,023,114,762	2,574,539	1,025,689,301
1998	342,263	168,907	165,274	1,434,660,615	46,722,845	1,481,383,460
1999	348,721	173,038	173,150	1,501,435,229	54,399,189	1,555,834,418
2000	344,134	176,096	172,063	1,797,039,075	34,334,286	1,831,373,361
2001	349,671	178,608	172,177	1,625,508,854	71,189,116	1,696,697,970
2002	359,358	182,977	193,278	1,261,868,130	38,727,017	1,300,595,147
2003	363,377	184,659	199,042	1,189,489,091	17,084,652	1,206,573,743
2004	369,458	188,441	203,966	1,280,385,298	20,533,975	1,300,919,273
2005	372,735	192,511	207,686	1,405,871,887	40,484,950	1,446,356,837

Source: 2005 Comprehensive Annual Financial Report.

## Wealth and Income Indicators

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

### Effective Buying Income and Retail Sales

<u>Area</u>	<u>Median</u>	<u>Per Capita EBI</u>	<u>% of Households by EBI Group*</u>				<u>Per Capita Retail Sales</u>
	<u>Household EBI</u>		<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	
City of Austin	\$40,335	\$21,939	20.5%	22.3%	18.9%	38.3%	\$38,664
Austin-Round Rock MSA	46,248	22,372	16.5%	19.3%	18.8%	45.4%	27,449
Texas	38,804	18,333	22.6%	22.4%	18.6%	36.4%	15,430
USA	39,324	19,289	21.5%	22.5%	19.3%	36.7%	13,336

\*Group A, \$0 - \$19,999    Group B, \$20,000 - 34,999    Group C, \$35,000 - 49,999    Group D, \$50,000 and over  
Source: 2005 Survey of Buying Power, Sales and Marketing Management.

## Housing Units

The average two-bedroom apartment in the Austin MSA was \$861 per month, with an occupancy rate of 95.0% for the second quarter 2006.

### Residential Sales Data

<u>Year</u>	<u>Number of Sales</u>	<u>Total Volume</u>	<u>Average Price</u>
1995	11,459	\$1,439,915,043	\$125,658
1996	12,597	1,672,441,903	132,765
1997	12,439	1,762,198,574	141,667
1998	15,583	2,334,200,698	149,791
1999	18,135	2,963,915,274	163,436
2000	18,621	3,561,039,919	191,238
2001	18,392	3,556,546,121	193,375
2002	18,716	3,695,947,381	197,475
2003	19,793	3,899,018,519	196,990
2004	22,567	4,487,464,528	198,851
2005	26,882	5,654,180,694	210,333
2006 June	14,596	3,337,900,968	228,686

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

<u>Year</u>	<u>Occupancy Rate</u>
1996	92.2%
1997	94.7%
1998	93.4%
1999	92.8%
2000	96.0%
2001	81.2%
2002	77.1%
2003	76.5%
2004	76.7%
2005	83.1%
2006 June	82.6%

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

## Education

The Austin Independent School District had an enrollment of 79,500 for the sixth six-weeks of the 2006 school year. This reflects an increase of 2.0% in enrollment from the end of the 2005 school year. The District includes 107 campus buildings.

<u>School Year</u>	<u>Average Daily Membership</u>	<u>Average Daily Attendance</u>
1993/94	70,665	66,086
1994/95	72,298	67,706
1995/96	73,795	68,953
1996/97	74,315	70,361
1997/98	75,693	71,241
1998/99	75,915	71,491
1999/00	76,268	71,583
2000/01	76,447	71,518
2001/02	76,347	71,638
2002/03	77,009	72,494
2003/04	77,313	73,085
2004/05	77,937	73,572
2005/06 (1)	79,500	74,860

---

(1) Sixth Six-Weeks.

Source: Austin Independent School District.

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

The University of Texas at Austin had an enrollment of 49,696 for the fall semester of 2005 and is a major research university with many nationally ranked academic programs at the graduate level. It is also known for its library collections and research resources. The present site has expanded more than 300 acres since classes began on the original 40 acres near downtown Austin. Additionally, University-owned property located in other areas of Austin includes the Pickle Research Center and the Brackenridge Tract, partially used for married student housing. The McDonald Observatory on Mount Locke in West Texas, the Marine Science Institute at Port Aransas and the Institute for Geophysics (Galveston) on the Gulf Coast operate as specialized research units of The University of Texas at Austin.

## Tourism

The impact of tourism on the Austin economy is significant. Total travel expenditures in the Austin-Round Rock MSA were \$2.993 billion in 2004. There are more than 22,000 hotel rooms available within the Austin Metropolitan Area, as of August 2005. The substantial increase in supply of rooms contributed to decreasing occupancy rates in the last three years. Through the first five months of 2006 the downtown hotel occupancy rate in Austin was nearly 79 percent, with an average room rate of \$146, compared to \$130 during the same time period last year.

Existing City convention and meeting facilities include a Convention Center, which is supported by hotel/motel occupancy tax collections and revenues of the facility and the new Lester E. Palmer Events Center with 70,000 square feet of exhibit space. Other facilities in Austin include the Frank Erwin Center, a 17,000-seat arena at The University of Texas, the Texas Exposition and Heritage Center and the Austin Opera House. The Texas Exposition and Heritage Center offers 6,000 seat arena seating and 20,000 square feet of banquet/exhibit hall facilities. The Austin Opera House has a concert seating capacity of 1,700 and 9,000 square feet of exhibit space.

## **APPENDIX B**

### **Excerpts From the Annual Financial Report**

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

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

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Austin, Texas ("City"), as of and for the year ended September 30, 2005, which collectively comprise the City's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with United States generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 6, 2006 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

KPMG LLP

Austin, Texas  
March 6, 2006

R. Mendoza & Company, P.C.

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The Management's Discussion and Analysis (MD&A) section of the City of Austin's (the City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information furnished in our letter of transmittal.

The financial statements are presented in conformance with the Governmental Accounting Standards Board Statement No. 1 through Statement No. 41.

## **FINANCIAL HIGHLIGHTS**

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

The assets of the City exceeded its liabilities at the end of the fiscal year 2005, resulting in \$3.8 billion of net assets. Net assets associated with governmental activities are approximately \$1.5 billion, or 39% of the total net assets of the City. Net assets associated with business-type activities are approximately \$2.3 billion, or 61% of the total net assets of the City. The largest portion of net assets consists of investment in capital assets, net of related debt, which is \$2.9 billion, or 76% of total net assets.

Unrestricted net assets, which may be used to meet the City's future obligations, consist of \$444 million, or 12% of the City's total net assets. Unrestricted net assets for governmental activities are approximately \$66 million, or 4% of total governmental net assets; unrestricted net assets for business-type activities are approximately \$379 million, or 16% of total business-type net assets.

Total net assets for the City of Austin increased \$166 million, or 4.5% during fiscal year 2005. Of this amount, governmental activities increased \$56.4 million, or 4% from the previous year and business-type activities increased \$109.6 million, or 4.8% from the previous year.

Total revenues for the City increased \$265.7 million; revenues for governmental activities increased \$77.5 million; revenues for business-type activities increased \$188.2 million. Total expenses for the City increased \$107 million; expenses for governmental activities increased \$151 million; expenses for business-type activities decreased \$44 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 of the City include electric utility, water, wastewater, airport, convention and others.

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

### **b -- Fund Financial Statements**

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

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

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

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

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

- Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the City's three major funds, Electric, Water and Wastewater and Austin-Bergstrom International Airport (Airport), as well as the nonmajor enterprise funds.
- 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, CTECC, Employee Benefits, Fleet Maintenance, Information Systems, Liability Reserve, Support Services, Wireless Communication and Workers' Compensation. Because these services benefit governmental operations more than business-type functions, they have been included in governmental activities in the government-wide financial statements.

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

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

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside 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:

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

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

### **c -- Notes to the Financial Statements**

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

### **d -- Other Information**

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

**FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS**

**a -- Net Assets**

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

	Net Assets as of September 30 (in thousands)					
	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current assets	\$ 509,638	498,993	1,050,684	934,090	1,560,322	1,433,083
Capital assets	2,047,541	2,032,289	5,294,494	5,174,870	7,342,035	7,207,159
Other noncurrent assets	3,636	3,233	644,206	624,169	647,842	627,402
Total assets	2,560,815	2,534,515	6,989,384	6,733,129	9,550,199	9,267,644
Current liabilities	206,878	207,830	419,022	416,793	625,900	624,623
Noncurrent liabilities	859,019	888,181	4,217,019	4,072,592	5,076,038	4,960,773
Total liabilities	1,065,897	1,096,011	4,636,041	4,489,385	5,701,938	5,585,396
Net assets:						
Invested in capital assets, net of related debt	1,360,509	1,333,779	1,563,831	1,569,489	2,924,340	2,903,268
Restricted	68,848	53,481	410,975	197,174	479,823	250,655
Unrestricted	65,561	51,244	378,537	477,081	444,098	528,325
Total net assets	\$ 1,494,918	1,438,504	2,353,343	2,243,744	3,848,261	3,682,248

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by \$3.8 billion at the end of the current fiscal year. The largest portion of the City's net assets are invested in capital assets, net of related debt (e.g. land, building, and equipment), which are \$2.9 billion, or 76% of the total amount of the City's net assets. 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, \$479 million of the City's net assets, represents resources that are subject to external restrictions that determine how they may be used in the future. The remaining balance, \$444 million of unrestricted net assets, may be used to meet the government's future obligations.

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

**FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued**

**b -- Changes in Net Assets**

Total net assets of the City increased by \$166 million in the current year. Governmental net assets increased \$56.4 million. The increase is attributable to total program expenses exceeding revenues by \$14.8 million, transfers from other funds of \$73.9 million and an asset transfer in the amount of \$2.6 million to the Travis County Hospital District. Business-type net assets increased by \$109.6 million, due to revenues exceeding program expenses by \$220.9 million, an asset transfer to the Travis County Hospital District in the amount of \$37.4 million and transfers to other funds of \$73.9 million.

**Changes in Net Assets  
September 30  
(in thousands)**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Program revenues:						
Charges for services	\$ 142,957	74,661	1,459,431	1,279,565	1,602,388	1,354,226
Operating grants and contributions	67,494	52,068	--	--	67,494	52,068
Capital grants and contributions	5,702	2,546	48,544	47,570	54,246	50,116
General revenues:						
Property tax	220,304	240,536	--	--	220,304	240,536
Sales tax	123,617	117,725	--	--	123,617	117,725
Franchise fees and gross receipts tax	69,120	63,509	--	--	69,120	63,509
Grants and contributions not restricted to specific programs	83,365	81,937	--	--	83,365	81,937
Interest and other	24,753	26,799	23,932	16,582	48,685	43,381
Total revenues	<u>737,312</u>	<u>659,781</u>	<u>1,531,907</u>	<u>1,343,717</u>	<u>2,269,219</u>	<u>2,003,498</u>
Program expenses:						
General government	73,233	46,607	--	--	73,233	46,607
Public safety	320,942	292,678	--	--	320,942	292,678
Transportation, planning and sustainability	17,247	15,879	--	--	17,247	15,879
Public health	104,361	48,733	--	--	104,361	48,733
Public recreation and culture	58,962	56,408	--	--	58,962	56,408
Urban growth management	77,340	64,631	--	--	77,340	64,631
Unallocated depreciation expense - infrastructure	58,722	35,833	--	--	58,722	35,833
Interest on debt	41,331	40,199	--	--	41,331	40,199
Electric	--	--	804,658	774,702	804,658	774,702
Water	--	--	142,061	155,472	142,061	155,472
Wastewater	--	--	122,176	137,227	122,176	137,227
Airport	--	--	87,538	77,541	87,538	77,541
Convention	--	--	38,844	52,336	38,844	52,336
Environmental and health services	--	--	45,739	100,351	45,739	100,351
Public recreation	--	--	9,408	9,298	9,408	9,298
Urban growth management	--	--	60,562	48,193	60,562	48,193
Total expenses	<u>752,138</u>	<u>600,968</u>	<u>1,310,986</u>	<u>1,355,120</u>	<u>2,063,124</u>	<u>1,956,088</u>
Excess (deficiency) before special items and transfers	(14,826)	58,813	220,921	(11,403)	206,095	47,410
Special items - Travis County Hospital District asset transfer	(2,639)	(7,700)	(37,443)	(3,000)	(40,082)	(10,700)
Transfers	73,879	39,264	(73,879)	(39,264)	--	--
Increase (decrease) in net assets	56,414	90,377	109,599	(53,667)	166,013	36,710
Beginning net assets	1,438,504	1,348,127	2,243,744	2,297,411	3,682,248	3,645,538
Ending net assets	<u>\$ 1,494,918</u>	<u>1,438,504</u>	<u>2,353,343</u>	<u>2,243,744</u>	<u>3,848,261</u>	<u>3,682,248</u>

**FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued**

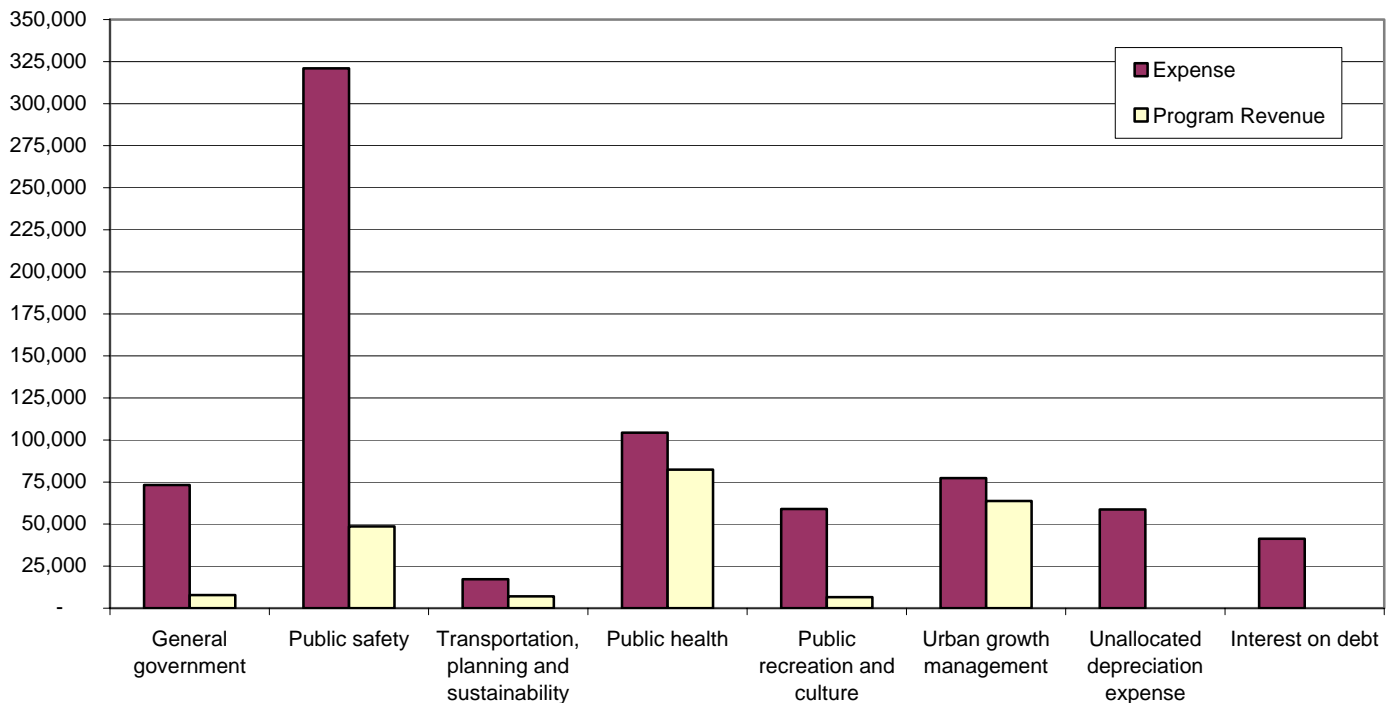
**c -- Program Revenues and Expenses -- Governmental Activities**

Governmental activities increased the City's net assets by \$56.4 million in fiscal year 2005, a 4% increase of governmental net assets from the previous year. Key factors of this increase are as follows:

- The City's property tax revenue decreased by \$20 million from the previous year, primarily as a result of a decrease in the City's tax rate from 49.28 cents to 44.3 cents per \$100 valuation. The tax rate dropped due to the creation of the Travis County Hospital District and the transfer of services and taxing authority from the City to the Hospital District.
- Rental income associated with the lease of Brackenridge Hospital decreased by \$13.5 million due to the conveyance of the lease to the Hospital District.
- Charges for services increased \$68 million. Beginning fiscal year 2005, the Hospital District entered into an interlocal agreement with the City to operate the Federally Qualified Health Centers and Medical Assistance Programs.
- Grants and contributions restricted to specific programs increased \$18.6 million, primarily as a result of higher intergovernmental revenues for public safety.
- Sales tax and franchise and gross receipt taxes increased by \$11.5 million from the previous year. This represents an increase of \$5.9 million or 5% for sales tax; an increase of \$5.6 million or 8.8% for franchise and gross receipt taxes.
- Transfers increased by \$34.6 million. In the previous fiscal year, \$36.6 million was transferred to the Primary Care Fund to support indigent health care costs. The Hospital District assumed this funding in fiscal year 2005.
- Net assets increased \$8.3 million as a result of reporting the Internal Service Funds within the governmental financial statements.
- Assets were transferred to the Travis County Hospital District in the amount of \$2.6 million.

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

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

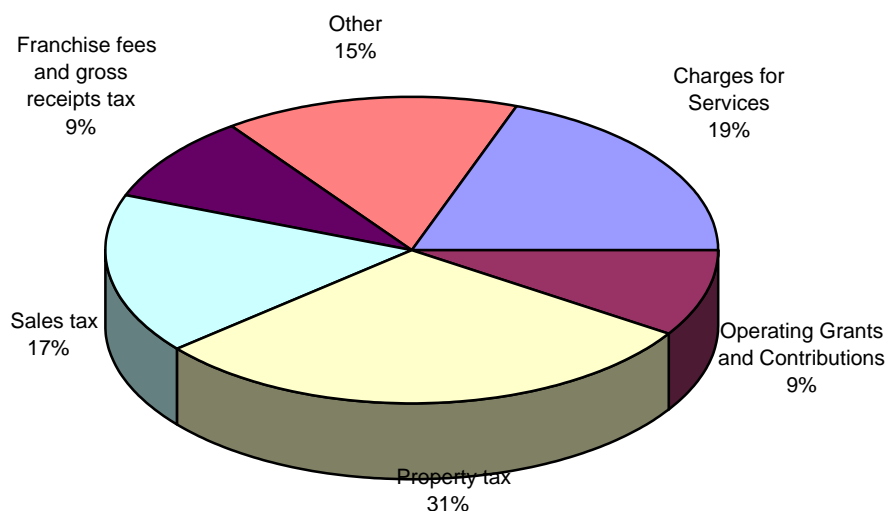




**FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued**

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

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



**d -- Program Revenues and Expenses -- Business-type Activities**

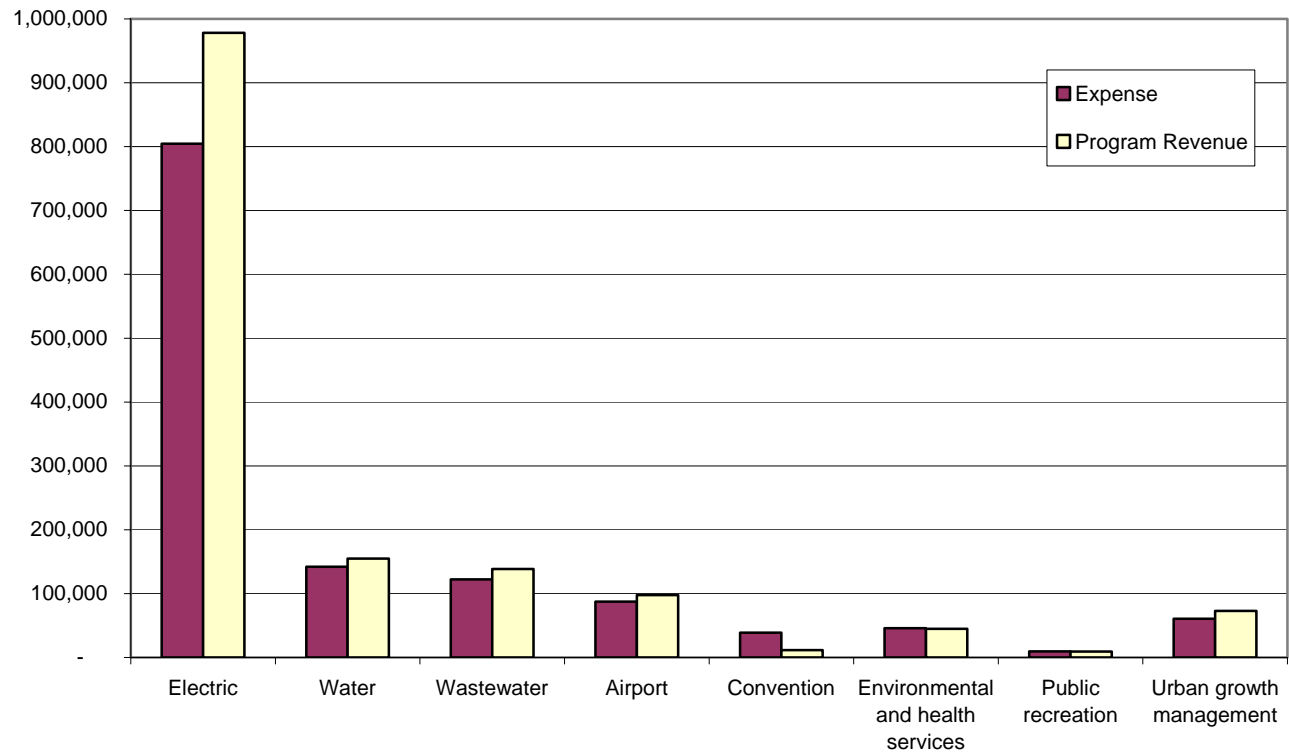
Business-type activities increased the City's net assets by approximately \$109.6 million, accounting for a 3% increase in the City's total net assets. Key factors include:

- Electric net assets increased approximately \$110 million. This increase is due primarily to an increase in electric consumption due to weather conditions and customer growth. Revenues increased by \$37 million; costs to be recovered in future years had a net change of \$75 million. This change is attributed to the fiscal 2004 defeasance of bond principal, which decreased cost to be recovered in accordance with FASB Statement No. 71.
- Water and Wastewater net assets increased approximately \$7 million. This increase is due primarily to a rate increase. Water operating revenue for 2005 increased by 17.7% from the prior year; wastewater revenue increased by 12.7% from the prior year.
- Airport net assets increased approximately \$13 million. Passenger facility charges increased by \$3.4 million due to increase in passenger traffic, which was 6% higher than the previous calendar year. Net income increased \$9.4 million, other nonoperating expense increase \$7 million, and capital contributions increased \$9.4 million.
- Convention net assets decreased approximately \$574 thousand. Revenue was 7% more than the prior year due to increased demand for convention space and events. Expenses increased due to an increase in operations and maintenance costs.
- Environmental and health services activities are comprised of nonmajor enterprise funds that include the Solid Waste Services Fund, Primary Care Fund, and Hospital Fund. Net assets decreased by approximately \$37 million. The decrease is primarily attributed to the transfer of Brackenridge and Austin Women's Hospital assets to the Travis County Hospital District.
- Urban growth management activities are comprised of nonmajor enterprise funds that include the Drainage Fund and Transportation Fund. Net assets increased by approximately \$15 million. The increase is primarily attributed to an increase in revenue of \$9 million due to a rate increases and capital contributions. Operating expenses increased in the Transportation Fund by approximately \$8 million.

As shown in the following chart, the electric utility, with expenses of \$805 million, is the City's largest business-type activity, followed by water (\$142 million), wastewater (\$122 million), airport (\$88 million), urban growth management (\$61 million), environmental and health services (\$46 million), convention (\$39 million), and public recreation (\$9 million). For the fiscal year, operating revenues exceeded operating expenses for all business-type activities except convention, environmental and health services, and public recreation.

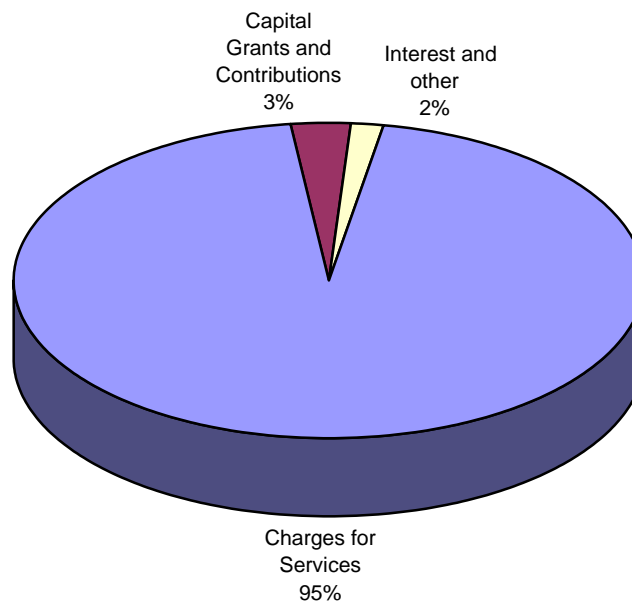
**FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued**

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



For all business-type activities, charges for services provide the largest percentage of revenues (95%), followed by capital grants and contributions (3%) and interest and other revenues (2%).

**Government-wide Revenue by Source – Business-type Activities**



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

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

### **a -- Governmental funds**

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

At the end of the year, the City of Austin's governmental funds reported combined ending fund balances of \$309.6 million, an increase of \$367 thousand from the previous year. Approximately \$228 million represents unreserved ending balance, which is available for future use. The remainder of fund balance is reserved and only available for commitments for the purchase of goods and services, receivables, property held for resale and certain debt service amounts. Reserved fund balance decreased \$21 million in comparison to the prior year, primarily due to a decrease in the reservation for encumbrances of \$26.4 million.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$98.8 million, while total fund balance was \$105 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 22% of total General Fund expenditures of \$444.6 million, and total fund balance represents 24% of expenditures. The unreserved and undesignated fund balance of the General Fund is \$53.7 million, which may be designated by City Council for specified uses in the future.

The General Fund fund balance decreased by \$1 million during the fiscal year; undesignated fund balance increased by \$5.8 million. Significant differences from the previous year include:

- Property tax revenues decreased \$23 million, primarily due to the transfer of services and taxing authority to the newly created Travis County Hospital District.
- Expenditures increased \$40 million, due primarily to increased public safety personnel costs.
- Revenue increases included \$7.9 million for emergency medical services and \$2 million in development and building safety permit fees.
- Sales tax revenues increased \$5.9 million.
- Transfers to other funds decreased \$35 million. A transfer of \$36.6 million to the Primary Care Fund to support indigent health care costs was eliminated due to the creation of the Hospital District.

### **b -- Proprietary funds**

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Overall, net assets of the City's enterprise funds, including consolidation of the internal service funds activities, increased by \$109.6 million.

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

## OTHER INFORMATION

### a -- General Fund budgetary highlights

The original budget of the General Fund was amended several times during fiscal year 2005 for increased public safety costs, capital improvements, and transfers in.

During the year, revenues were \$7.4 million more than budgeted. The difference resulted from higher than anticipated development revenue and interest income.

Actual General Fund budget-basis expenditures were \$591 thousand less than budgeted. Public health, public recreation and culture and urban growth management expenditures were a combined \$1.2 million under budget. Public safety expenditures exceeded budget by \$750 thousand, primarily due to increased overtime costs. The total fund balance at year-end amounted to \$67.6 million, which was \$35.6 million higher than the final budget amount.

### b -- Capital Assets

The City's capital assets for governmental and business-type activities as of September 30, 2005, total \$7.3 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, equipment, vehicles, infrastructure, assets not classified, construction work in progress, nuclear fuel, and plant held for future use. The total increase in the City's capital assets for the current fiscal year was \$135 million (2 percent), with an increase of almost 1 percent for governmental activities and an increase of 2.3 percent for business-type activities. Additional information on capital assets can be found in Note 7. Capital asset balances are as follows:

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

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land and improvements	\$ 243	233	287	280	530	513
Other assets not depreciated	18	18	1	1	19	19
Building and improvements	319	260	1,373	1,402	1,692	1,662
Equipment	53	33	2,644	2,546	2,697	2,579
Vehicles	27	32	42	37	69	69
Infrastructure	1,047	1,009	--	--	1,047	1,009
Completed assets not classified	13	120	37	180	50	300
Construction work in progress	328	327	856	680	1,184	1,007
Nuclear fuel, net of amortization	--	--	23	18	23	18
Plant held for future use	--	--	31	31	31	31
Total net assets	<u>\$ 2,048</u>	<u>2,032</u>	<u>5,294</u>	<u>5,175</u>	<u>7,342</u>	<u>7,207</u>

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

- Governmental capital assets increased \$16 million, net of accumulated depreciation. The majority of this increase was due to infrastructure additions.
- Business-type capital assets increased \$119 million, net of accumulated depreciation. This increase was largely due to Water and Wastewater Fund expenditures for Ullrich Water Treatment Plant improvements, South Austin Wastewater Treatment Plant improvements, and for projects associated with the Austin Clean Water Program.

**OTHER INFORMATION, continued**

**c -- Debt Administration**

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

<b>Outstanding Debt</b> <b>General Obligation and Revenue Debt</b> <b>(in millions)</b>						
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
General obligation bonds and other tax supported debt, net	\$ 841	863	106	104	947	967
Commercial paper notes, net	--	--	357	316	357	316
Revenue notes	--	--	28	28	28	28
Revenue bonds, net	--	--	3,038	2,983	3,038	2,983
Capital lease obligations	1	1	9	13	10	14
<b>Total</b>	<b>\$ 842</b>	<b>864</b>	<b>3,538</b>	<b>3,444</b>	<b>4,380</b>	<b>4,308</b>

During fiscal year 2005, the City's total outstanding debt increased by \$72 million. The City issued new debt and refinanced portions of existing debt to take advantage of lower borrowing costs. Debt issues include the following:

- Bond debt for governmental activities decreased \$22 million due to the payment of existing debt. Issuance of new debt will be used primarily for sidewalk projects; right of way acquisition and utility relocation; libraries; Motorola office purchase; Colony Park recreation center; developer reimbursements; mobile data system; and a court settlement agreement.
- Outstanding debt for business-type functions increased \$94 million. In 2005, new debt was issued primarily for transportation capital equipment; solid waste services landfill upgrades; telecommunications network equipment; golf capital equipment; and vehicle capital equipment. The City issued Water and Wastewater Fund separate lien revenue refunding bonds to refund commercial paper and existing debt.

The general obligation bond and revenue bond ratings remained unchanged while the tax-exempt commercial paper ratings were upgraded during the year. Ratings at September 30, 2005 of the City's obligations for various debt instruments are as follows:

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

(1) No underlying rating

**OTHER INFORMATION, continued**

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

The local economy continues to grow steadily, as job growth and local sales tax revenues had strong increases from the previous year. The forecast for the upcoming year indicates the City is poised to continue its trend of economic growth, as consumer spending, tourism and job growth are predicted to show continuing increases over the next several years. Nationwide, the U.S. economy continues to grow, as the Gross Domestic Product annual growth rate was 3.5 percent for 2005. Predictions indicate that the U.S. economy will continue to grow, although higher oil prices may affect the rate of sustainable growth.

For the upcoming 2006 budget, the City will strategically reinvest in the services provided to the community. Years of budget reductions have created vulnerabilities in the service delivery to the citizens of Austin. The budget will stress a variety of tactical budget add-backs in order to deliver the services the citizens of Austin need and expect. Although indications are favorable that the Austin area economy will continue to improve, several key factors may have a significant impact to the economic climate. A downturn in the U.S. economy, including higher-than anticipated inflation or fast-rising oil and fuel prices, could have a significant negative impact to the local economy. City management will continue to view the economic recovery in a conservative manner and will be prepared to take any corrective actions to help mitigate unfavorable economic events.

The assessed valuation within the City increased by 6% for fiscal year 2006. The property tax rate for fiscal year 2006 is 44.3 cents per \$100 valuation. The tax rate consists of 28.41 cents for the General Fund, 15.89 cents for debt service. Each 1 cent of the property tax rate is equivalent to \$5,277,072 of tax levy, as compared to \$4,994,185 in the previous year. Rate increases for the Water and Wastewater Fund are: 3.6% for Water, 7% for Wastewater.

**e -- Requests for Information**

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



**Statement of Net Assets**  
**September 30, 2005**  
(In thousands)

**City of Austin, Texas**  
**Exhibit A-1**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>2005 Total (†)</b>
<b>ASSETS</b>			
Current assets:			
Cash	\$ 112	60	172
Pooled investments and cash	342,547	210,098	552,645
Pooled investments and cash - restricted	--	283,791	283,791
Total pooled investments and cash	342,547	493,889	836,436
Investments, at fair value	13,664	1,266	14,930
Investments, at fair value - restricted	--	255,340	255,340
Cash held by trustee	5,753	--	5,753
Cash held by trustee - restricted	--	8,501	8,501
Working capital advances	--	3,415	3,415
Property taxes receivable	11,007	--	11,007
Less allowance for uncollectible taxes	(1,328)	--	(1,328)
Net property taxes receivable	9,679	--	9,679
Accounts and other receivables	181,287	201,290	382,577
Less allowance for doubtful accounts	(81,220)	(8,985)	(90,205)
Net accounts receivable	100,067	192,305	292,372
Interest receivable - restricted	40	--	40
Receivables from other governments	16,343	322	16,665
Notes receivable, net of allowance	8,766	--	8,766
Internal balances	(1,350)	1,350	--
Internal balances - restricted	(2,407)	2,407	--
Inventories, at cost	2,397	53,558	55,955
Real property held for resale	9,351	--	9,351
Prepaid items	615	1,538	2,153
Other assets	1,281	26,164	27,445
Other receivables - restricted	2,780	10,569	13,349
Total current assets	509,638	1,050,684	1,560,322
Noncurrent assets:			
Investments, at fair value - restricted	--	65,000	65,000
Investments held by trustee - restricted	--	105,101	105,101
Interest receivable - restricted	2	1,263	1,265
Capital assets			
Land and other nondepreciable assets	260,946	288,481	549,427
Property, plant, and equipment in service	2,154,379	6,516,150	8,670,529
Less accumulated depreciation	(695,770)	(2,420,118)	(3,115,888)
Net property, plant, and equipment in service	1,458,609	4,096,032	5,554,641
Construction in progress	327,986	856,489	1,184,475
Nuclear fuel, net of amortization	--	22,747	22,747
Plant held for future use	--	30,745	30,745
Total capital assets	2,047,541	5,294,494	7,342,035
Intangible assets, net of amortization	--	85,102	85,102
Other long-term assets	--	1,002	1,002
Deferred costs and expenses, net of amortization	3,634	386,738	390,372
Total noncurrent assets	2,051,177	5,938,700	7,989,877
<b>Total assets</b>	<b>\$ 2,560,815</b>	<b>6,989,384</b>	<b>9,550,199</b>

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

(Continued)

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



**Statement of Net Assets**  
**September 30, 2005**  
(In thousands)

**City of Austin, Texas**  
**Exhibit A-1**  
**(Continued)**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>2005 Total (†)</b>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 24,940	81,084	106,024
Accounts and retainage payable from restricted assets	--	43,529	43,529
Accrued payroll	16,909	8,320	25,229
Accrued compensated absences	32,829	15,064	47,893
Claims payable	14,185	--	14,185
Accrued interest payable from restricted assets	--	50,147	50,147
Interest payable on other debt	3,687	1,636	5,323
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	59,832	4,548	64,380
General obligation bonds payable and other tax supported debt payable from restricted assets, net of discount and inclusive of premium	--	4,786	4,786
Revenue bonds payable	--	24,141	24,141
Revenue bonds payable payable from restricted assets	--	112,495	112,495
Capital lease obligations payable	432	3,377	3,809
Customer and escrow deposits payable from restricted assets	--	18,288	18,288
Nuclear fuel expense payable from restricted assets	--	28,589	28,589
Deferred credits and other liabilities	54,064	23,018	77,082
<b>Total current liabilities</b>	<b>206,878</b>	<b>419,022</b>	<b>625,900</b>
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	39,248	4,736	43,984
Claims payable	14,633	--	14,633
Capital appreciation bond interest payable	--	188,430	188,430
Commercial paper notes payable, net of discount	--	356,923	356,923
Revenue notes payable	--	28,000	28,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	780,805	96,408	877,213
Revenue bonds payable, net of discount and inclusive of premium	--	2,901,081	2,901,081
Pension obligation payable	6,006	5,755	11,761
Capital lease obligations payable	528	5,990	6,518
Accrued landfill closure and postclosure costs	--	7,935	7,935
Decommissioning expense payable from restricted assets	--	109,718	109,718
Deferred credits and other liabilities	17,778	507,968	525,746
Other liabilities payable from restricted assets	21	4,075	4,096
<b>Total noncurrent liabilities</b>	<b>859,019</b>	<b>4,217,019</b>	<b>5,076,038</b>
<b>Total liabilities</b>	<b>1,065,897</b>	<b>4,636,041</b>	<b>5,701,938</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,360,509	1,563,831	2,924,340
Restricted for:			
Debt service	9,552	102,035	111,587
Strategic reserve	--	167,320	167,320
Capital projects	57,924	83,119	141,043
Renewal and replacement	--	44,159	44,159
Passenger facility charges	--	11,759	11,759
Convention Center operating reserve	--	2,583	2,583
Perpetual Care:			
Expendable	332	--	332
Nonexpendable	1,040	--	1,040
Unrestricted	65,561	378,537	444,098
<b>Total net assets</b>	<b>\$ 1,494,918</b>	<b>2,353,343</b>	<b>3,848,261</b>

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

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

**Statement of Activities**  
**For the year ended September 30, 2005**  
(In thousands)

**City of Austin, Texas**  
**Exhibit A-2**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	2005 Total
Governmental activities							
General government	\$ 73,233	7,334	421	--	(65,478)	--	(65,478)
Public safety	320,942	37,825	10,771	--	(272,346)	--	(272,346)
Transportation, planning, and sustainability	17,247	2,689	24	4,342	(10,192)	--	(10,192)
Public health	104,361	59,948	21,412	1,035	(21,966)	--	(21,966)
Public recreation and culture	58,962	3,208	3,060	325	(52,369)	--	(52,369)
Urban growth management	77,340	31,953	31,806	--	(13,581)	--	(13,581)
Unallocated depreciation expense (1)	58,722	--	--	--	(58,722)	--	(58,722)
Interest on debt	41,331	--	--	--	(41,331)	--	(41,331)
Total governmental activities	752,138	142,957	67,494	5,702	(535,985)	--	(535,985)
Business-type activities							
Electric	804,658	972,846	--	5,269	--	173,457	173,457
Water	142,061	140,356	--	14,481	--	12,776	12,776
Wastewater	122,176	129,314	--	9,338	--	16,476	16,476
Airport	87,538	82,220	--	15,566	--	10,248	10,248
Convention	38,844	11,169	--	290	--	(27,385)	(27,385)
Environmental and health services	45,739	44,550	--	337	--	(852)	(852)
Public recreation	9,408	9,117	--	113	--	(178)	(178)
Urban growth management	60,562	69,859	--	3,150	--	12,447	12,447
Total business-type activities	1,310,986	1,459,431	--	48,544	--	196,989	196,989
Total	\$ 2,063,124	1,602,388	67,494	54,246	(535,985)	196,989	(338,996)
General revenues:							
Property tax					220,304	--	220,304
Sales tax					123,617	--	123,617
Franchise fees and gross receipts tax					69,120	--	69,120
Grants and contributions not restricted to specific programs					83,365	--	83,365
Interest and other					24,753	23,932	48,685
Special item - Travis County Hospital District-asset transfer					(2,639)	(37,443)	(40,082)
Transfers-internal activities					73,879	(73,879)	--
Total general revenues and transfers					592,399	(87,390)	505,009
Change in net assets					56,414	109,599	166,013
Beginning net assets					1,438,504	2,243,744	3,682,248
Ending net assets					\$ 1,494,918	2,353,343	3,848,261

(1) Excludes direct depreciation expense for the various programs.

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



**Governmental Funds  
Balance Sheet  
September 30, 2005  
(In thousands)**

**City of Austin, Texas  
Exhibit B-1**

	2005		
	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash	\$ 91	4	95
Pooled investments and cash	92,438	148,871	241,309
Investments, at fair value	--	13,664	13,664
Cash held by trustee	--	5,057	5,057
Property taxes receivable	6,619	4,388	11,007
Less allowance for uncollectible taxes	(803)	(525)	(1,328)
Net property taxes receivable	5,816	3,863	9,679
Accounts and other receivables	125,498	53,779	179,277
Less allowance for doubtful accounts	(80,751)	(339)	(81,090)
Net accounts receivable	44,747	53,440	98,187
Receivables from other governments	--	16,343	16,343
Notes receivable, net of allowance	--	8,766	8,766
Due from other funds	302	43,711	44,013
Advances to other funds	--	7,757	7,757
Inventories, at cost	1,322	--	1,322
Real property held for resale	--	9,351	9,351
Prepaid items	553	2	555
Other assets	55	1,226	1,281
Total assets	145,324	312,055	457,379
<b>LIABILITIES AND FUND BALANCES</b>			
Accounts payable	4,976	12,558	17,534
Accrued payroll	13,244	695	13,939
Accrued compensated absences	416	4	420
Due to other funds	618	44,200	44,818
Deferred revenue	16,211	6,502	22,713
Advances from other funds	1,234	396	1,630
Deposits and other liabilities	3,283	43,484	46,767
Total liabilities	39,982	107,839	147,821
Fund balances			
Reserved:			
Encumbrances	4,629	35,114	39,743
Inventories and prepaid items	1,875	--	1,875
Notes receivable	--	8,766	8,766
Advances receivable	--	7,757	7,757
Real property held for resale	--	9,351	9,351
Debt service	--	13,199	13,199
Permanent funds	--	1,040	1,040
Unreserved, designated:			
Emergencies	15,000	--	15,000
Contingencies	4,258	--	4,258
Future use	858	--	858
Budget stabilization	25,000	--	25,000
Unreserved, undesignated:			
General Fund	53,722	--	53,722
Special revenue	--	27,994	27,994
Capital projects	--	100,663	100,663
Permanent funds	--	332	332
Total fund balances	105,342	204,216	309,558
<b>Total liabilities and fund balances</b>	<b>\$ 145,324</b>	<b>312,055</b>	<b>457,379</b>

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

**Governmental Funds**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Assets**  
**September 30, 2005**  
**(In thousands)**

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**City of Austin, Texas**  
**Exhibit B-1.1**

Total fund balances - Governmental funds \$ 309,558

Amounts reported for governmental activities in the statement of  
net assets are different because:

Capital assets used in governmental activities are not financial  
resources and, therefore, are not reported in the funds. 2,013,977

Other long-term assets are not available as current-period  
resources and are not reported in the funds. 4,450

Long-term liabilities are not payable in the current period and  
are not reported in the funds. (893,251)

Internal service funds are used by management to charge the costs  
of capital project management, employee benefits, fleet maintenance,  
information systems, liability reserve, support services, wireless  
communication, and workers' compensation to individual funds.  
The assets and liabilities of the internal service funds are included  
in governmental activities in the statement of net assets.

60,184

Total net assets - Governmental activities

\$ 1,494,918

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

**Governmental Funds**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**For the year ended September 30, 2005**  
**(In thousands)**

**City of Austin, Texas**  
**Exhibit B-2**

	2005		
	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Property taxes	\$ 136,927	83,767	220,694
Sales taxes	123,617	--	123,617
Franchise fees and other taxes	33,215	35,953	69,168
Fines, forfeitures and penalties	17,529	4,403	21,932
Licenses, permits and inspections	17,399	--	17,399
Charges for services/goods	23,064	77,035	100,099
Intergovernmental	--	88,661	88,661
Property owners' participation and contributions	--	6,152	6,152
Interest and other	10,691	12,501	23,192
<b>Total revenues</b>	<b>362,442</b>	<b>308,472</b>	<b>670,914</b>
<b>EXPENDITURES</b>			
Current:			
General government	42,019	2,025	44,044
Public safety	310,313	14,502	324,815
Transportation, planning and sustainability	1,205	7,418	8,623
Public health	27,286	74,631	101,917
Public recreation and culture	47,630	5,685	53,315
Urban growth management	16,163	59,979	76,142
Debt service:			
Principal	--	50,608	50,608
Interest	--	41,233	41,233
Fees and commissions	--	10	10
Capital outlay	--	81,507	81,507
<b>Total expenditures</b>	<b>444,616</b>	<b>337,598</b>	<b>782,214</b>
Excess (deficiency) of revenues over expenditures	(82,174)	(29,126)	(111,300)
<b>OTHER FINANCING SOURCES (USES)</b>			
Issuance of tax supported debt	--	26,940	26,940
Issuance of refunding bonds	--	148,125	148,125
Bond premiums	--	13,750	13,750
Payment to refunding bond escrow agent	--	(161,875)	(161,875)
Capital leases	932	--	932
Transfers in	94,451	47,953	142,404
Transfers out	(14,154)	(44,455)	(58,609)
<b>Total other financing sources (uses)</b>	<b>81,229</b>	<b>30,438</b>	<b>111,667</b>
Net change in fund balances	(945)	1,312	367
Fund balances at beginning of year	106,287	202,904	309,191
<b>Fund balances at end of year</b>	<b>\$ 105,342</b>	<b>204,216</b>	<b>309,558</b>

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

**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, 2005**  
**(In thousands)**

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**City of Austin, Texas**  
**Exhibit B-2.1**

Net change in fund balances - Governmental funds \$ 367

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. (16,154)

Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds. 51,904

Revenues in the governmental funds are recognized when measurable and available, but are deferred in the statement of activities until earned, regardless of when collected. (3,707)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 23,668

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds. (4,203)

Special item - Governmental assets transferred to Travis County Hospital District (2,639)

The net revenue of certain activities of internal service funds is reported with governmental activities. 7,178

Change in net assets - Governmental activities \$ 56,414

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

**Proprietary Funds**  
**Statement of Net Assets**  
**September 30, 2005**  
**(In thousands)**

	<b>Electric</b>	<b>Water and Wastewater</b>	<b>Airport</b>
<b>ASSETS</b>			
Current assets:			
Cash	\$ 18	11	6
Pooled investments and cash	133,244	3,611	39
Pooled investments and cash - restricted	102,915	24,501	98,358
Total pooled investments and cash	236,159	28,112	98,397
Investments, at fair value	--	--	--
Investments, at fair value - restricted	179,193	45,977	25,881
Cash held by trustee	--	--	--
Cash held by trustee - restricted	2,844	5,657	--
Working capital advances	3,291	--	--
Accounts receivable	137,248	44,536	5,089
Less allowance for doubtful accounts	(3,644)	(900)	(150)
Net accounts receivable	133,604	43,636	4,939
Receivables from other governments	--	--	--
Due from other funds	--	--	--
Due from other funds - restricted	--	27	617
Inventories, at cost	52,209	1,043	--
Prepaid expenses	1,365	130	9
Other assets	26,158	2	--
Other receivables - restricted	--	1,904	448
Total current assets	634,841	126,499	130,297
Noncurrent assets:			
Advances to other funds	2,720	--	--
Advances to other funds - restricted	--	134	1,457
Investments, at fair value - restricted	65,000	--	--
Investments held by trustee - restricted	105,101	--	--
Interest receivable - restricted	1,263	--	--
Capital assets			
Land and other nondepreciable assets	39,907	140,112	59,188
Property, plant, and equipment in service	3,324,769	2,191,595	623,781
Less accumulated depreciation	(1,444,715)	(763,551)	(117,488)
Net property, plant, and equipment in service	1,880,054	1,428,044	506,293
Construction in progress	200,248	550,757	35,327
Nuclear fuel, net of amortization	22,747	--	--
Plant held for future use	30,745	--	--
Total capital assets	2,173,701	2,118,913	600,808
Intangible assets, net of amortization	--	85,102	--
Other long-term assets	1,002	--	--
Deferred costs and expenses, net of amortization	198,424	180,963	4,269
Total noncurrent assets	2,547,211	2,385,112	606,534
<b>Total assets</b>	<b>\$ 3,182,052</b>	<b>2,511,611</b>	<b>736,831</b>

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



	Nonmajor Enterprise Funds	2005 Total	Governmental Activities- Internal Service Funds
<b>ASSETS</b>			
Current assets:			
Cash	25	60	17
Pooled investments and cash	73,204	210,098	101,238
Pooled investments and cash - restricted	58,017	283,791	--
Total pooled investments and cash	131,221	493,889	101,238
Investments, at fair value	1,266	1,266	--
Investments, at fair value - restricted	4,289	255,340	--
Cash held by trustee	--	--	696
Cash held by trustee - restricted	--	8,501	--
Working capital advances	124	3,415	--
Accounts receivable	14,417	201,290	1,320
Less allowance for doubtful accounts	(4,291)	(8,985)	(222)
Net accounts receivable	10,126	192,305	1,098
Receivables from other governments	322	322	--
Due from other funds	160	160	188
Due from other funds - restricted	--	644	--
Inventories, at cost	306	53,558	1,075
Prepaid expenses	34	1,538	60
Other assets	4	26,164	--
Other receivables - restricted	8,217	10,569	2,780
Total current assets	156,094	1,047,731	107,152
Noncurrent assets:			
Advances to other funds	--	2,720	--
Advances to other funds - restricted	172	1,763	--
Investments, at fair value - restricted	--	65,000	--
Investments held by trustee - restricted	--	105,101	--
Interest receivable - restricted	--	1,263	2
Capital assets			
Land and other nondepreciable assets	49,274	288,481	676
Property, plant, and equipment in service	376,005	6,516,150	50,264
Less accumulated depreciation	(94,364)	(2,420,118)	(24,509)
Net property, plant, and equipment in service	281,641	4,096,032	25,755
Construction in progress	70,157	856,489	7,133
Nuclear fuel, net of amortization	--	22,747	--
Plant held for future use	--	30,745	--
Total capital assets	401,072	5,294,494	33,564
Intangible assets, net of amortization	--	85,102	--
Other long-term assets	--	1,002	--
Deferred costs and expenses, net of amortization	3,082	386,738	6
Total noncurrent assets	404,326	5,943,183	33,572
<b>Total assets</b>	<b>560,420</b>	<b>6,990,914</b>	<b>140,724</b>

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

(Continued)

**Proprietary Funds**  
**Statement of Net Assets**  
**September 30, 2005**  
**(In thousands)**

	<b>Electric</b>	<b>Water and Wastewater</b>	<b>Airport</b>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 73,161	2,281	2,090
Accounts and retainage payable from restricted assets	9,191	26,787	2,177
Accrued payroll	3,645	1,921	531
Accrued compensated absences	6,823	3,682	882
Claims payable	--	--	--
Due to other funds	--	--	--
Accrued interest payable from restricted assets	24,408	21,175	2,076
Interest payable on other debt	394	995	3
General obligation bonds payable and other tax supported debt	--	--	58
General obligation bonds payable and other tax supported debt payable from restricted assets	363	3,490	--
Revenue bonds payable	--	24,141	--
Revenue bonds payable from restricted assets	75,906	20,469	13,790
Capital lease obligations payable	1,946	1,166	170
Customer and escrow deposits payable from restricted assets	11,761	3,351	756
Nuclear fuel expense payable from restricted assets	28,589	--	--
Deferred credits and other liabilities	17,859	3,728	1,040
Total current liabilities	254,046	113,186	23,573
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	2,404	910	--
Claims payable	--	--	--
Advances from other funds	--	4,709	--
Capital appreciation bond interest payable	92,470	95,960	--
Commercial paper notes payable, net of discount	157,481	199,442	--
Revenue notes payable	--	--	28,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	2,021	18,231	401
Revenue bonds payable, net of discount and inclusive of premium	1,100,602	1,242,341	338,525
Pension obligation payable	2,565	1,319	459
Capital lease obligations payable	3,254	2,566	151
Accrued landfill closure and postclosure costs	--	--	--
Decommissioning expense payable from restricted assets	109,718	--	--
Deferred credits and other liabilities	75,170	430,536	1,851
Other liabilities payable from restricted assets	--	2,928	1,147
Total noncurrent liabilities	1,545,685	1,998,942	370,534
<b>Total liabilities</b>	<b>1,799,731</b>	<b>2,112,128</b>	<b>394,107</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	912,533	289,985	224,013
Restricted for:			
Debt service	52,465	24,802	20,479
Strategic reserve	167,320	--	--
Capital projects	6,301	--	62,096
Renewal and replacement	32,350	--	10,000
Passenger facility charges	--	--	11,759
Convention Center operating reserve	--	--	--
Unrestricted	211,352	84,696	14,377
<b>Total net assets</b>	<b>\$ 1,382,321</b>	<b>399,483</b>	<b>342,724</b>
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	2,924	2,757	1,134
Total net assets - Business-type activities	\$ 1,385,245	402,240	343,858

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

(Continued)

	Nonmajor Enterprise Funds	2005 Total	Governmental Activities- Internal Service Funds
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	3,552	81,084	7,406
Accounts and retainage payable from restricted assets	5,374	43,529	--
Accrued payroll	2,223	8,320	2,970
Accrued compensated absences	3,677	15,064	4,803
Claims payable	--	--	14,185
Due to other funds	160	160	27
Accrued interest payable from restricted assets	2,488	50,147	--
Interest payable on other debt	244	1,636	244
General obligation bonds payable and other tax supported debt	4,490	4,548	3,151
General obligation bonds payable and other tax supported debt payable from restricted assets	933	4,786	--
Revenue bonds payable	--	24,141	--
Revenue bonds payable from restricted assets	2,330	112,495	--
Capital lease obligations payable	95	3,377	67
Customer and escrow deposits payable from restricted assets	2,420	18,288	--
Nuclear fuel expense payable from restricted assets	--	28,589	--
Deferred credits and other liabilities	391	23,018	1,086
Total current liabilities	28,377	419,182	33,939
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	1,422	4,736	1,163
Claims payable	--	--	14,633
Advances from other funds	5,490	10,199	411
Capital appreciation bond interest payable	--	188,430	--
Commercial paper notes payable, net of discount	--	356,923	--
Revenue notes payable	--	28,000	--
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	75,755	96,408	21,532
Revenue bonds payable, net of discount and inclusive of premium	219,613	2,901,081	--
Pension obligation payable	1,412	5,755	--
Capital lease obligations payable	19	5,990	12
Accrued landfill closure and postclosure costs	7,935	7,935	--
Decommissioning expense payable from restricted assets	--	109,718	--
Deferred credits and other liabilities	411	507,968	--
Other liabilities payable from restricted assets	--	4,075	21
Total noncurrent liabilities	312,057	4,227,218	37,772
<b>Total liabilities</b>	<b>340,434</b>	<b>4,646,400</b>	<b>71,711</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	137,300	1,563,831	7,562
Restricted for:			
Debt service	4,289	102,035	--
Strategic reserve	--	167,320	--
Capital projects	14,722	83,119	5,646
Renewal and replacement	1,809	44,159	--
Passenger facility charges	--	11,759	--
Convention Center operating reserve	2,583	2,583	--
Unrestricted	59,283	369,708	55,805
<b>Total net assets</b>	<b>219,986</b>	<b>2,344,514</b>	<b>69,013</b>
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	2,014	8,829	
Total net assets - Business-type activities	222,000	2,353,343	
The accompanying notes are an integral part of the financial statements.			

**Proprietary Funds**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**For the year ended September 30, 2005**  
**(In thousands)**

	<b>Electric</b>	<b>Water and Wastewater</b>	<b>Airport</b>
<b>OPERATING REVENUES</b>			
Utility services	\$ 972,846	269,670	--
User fees and rentals	--	--	68,282
Billings to departments	--	--	--
Employee contributions	--	--	--
Operating revenues from other governments	--	--	--
Other operating revenues	--	--	--
<b>Total operating revenues</b>	<b>972,846</b>	<b>269,670</b>	<b>68,282</b>
<b>OPERATING EXPENSES</b>			
Operating expenses before depreciation	614,219	116,478	41,320
Depreciation and amortization	104,843	61,098	17,526
<b>Total operating expenses</b>	<b>719,062</b>	<b>177,576</b>	<b>58,846</b>
<b>Operating income (loss)</b>	<b>253,784</b>	<b>92,094</b>	<b>9,436</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest and other revenues	16,688	1,197	3,549
Interest on revenue bonds and other debt	(92,122)	(81,269)	(21,963)
Interest capitalized during construction	--	--	1,640
Passenger facility charges	--	--	13,938
Amortization of bond issue cost	(664)	(545)	(228)
Cost (recovered) to be recovered in future years	14,967	(2,919)	--
Other nonoperating expense	(8,296)	(2,344)	(8,533)
<b>Total nonoperating revenues (expenses)</b>	<b>(69,427)</b>	<b>(85,880)</b>	<b>(11,597)</b>
<b>Income (loss) before contributions and transfers</b>	<b>184,357</b>	<b>6,214</b>	<b>(2,161)</b>
Capital contributions	5,269	23,819	15,566
Special item - Travis County Hospital District-asset transfer	--	--	--
Transfers in	--	--	--
Transfers out	(79,145)	(22,743)	--
<b>Change in net assets</b>	<b>110,481</b>	<b>7,290</b>	<b>13,405</b>
<b>Total net assets - beginning</b>	<b>1,271,840</b>	<b>392,193</b>	<b>329,319</b>
<b>Total net assets - ending</b>	<b>\$ 1,382,321</b>	<b>399,483</b>	<b>342,724</b>
Reconciliation to government-wide Statement of Activities			
Change in net assets	110,481	7,290	13,405
Adjustment to consolidate internal service activities	519	416	392
Change in net assets - Business-type activities	<b>\$ 111,000</b>	<b>7,706</b>	<b>13,797</b>

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

	Nonmajor Enterprise Funds	2005 Total	Governmental Activities- Internal Service Funds
<b>OPERATING REVENUES</b>			
Utility services	--	1,242,516	--
User fees and rentals	134,695	202,977	--
Billings to departments	--	--	221,422
Employee contributions	--	--	26,856
Operating revenues from other governments	--	--	2,765
Other operating revenues	--	--	5,187
<b>Total operating revenues</b>	<b>134,695</b>	<b>1,445,493</b>	<b>256,230</b>
<b>OPERATING EXPENSES</b>			
Operating expenses before depreciation	125,633	897,650	226,485
Depreciation and amortization	14,161	197,628	11,025
<b>Total operating expenses</b>	<b>139,794</b>	<b>1,095,278</b>	<b>237,510</b>
<b>Operating income (loss)</b>	<b>(5,099)</b>	<b>350,215</b>	<b>18,720</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest and other revenues	2,498	23,932	614
Interest on revenue bonds and other debt	(15,819)	(211,173)	(782)
Interest capitalized during construction	3,211	4,851	--
Passenger facility charges	--	13,938	--
Amortization of bond issue cost	(191)	(1,628)	(5)
Cost (recovered) to be recovered in future years	--	12,048	--
Other nonoperating expense	(1,828)	(21,001)	(6,640)
<b>Total nonoperating revenues (expenses)</b>	<b>(12,129)</b>	<b>(179,033)</b>	<b>(6,813)</b>
<b>Income (loss) before contributions and transfers</b>	<b>(17,228)</b>	<b>171,182</b>	<b>11,907</b>
Capital contributions	3,890	48,544	6,382
Special item - Travis County Hospital District-asset transfer	(37,443)	(37,443)	--
Transfers in	31,386	31,386	--
Transfers out	(3,377)	(105,265)	(9,916)
<b>Change in net assets</b>	<b>(22,772)</b>	<b>108,404</b>	<b>8,373</b>
<b>Total net assets - beginning</b>	<b>242,758</b>	<b>2,236,110</b>	<b>60,640</b>
<b>Total net assets - ending</b>	<b>219,986</b>	<b>2,344,514</b>	<b>69,013</b>
Reconciliation to government-wide Statement of Activities			
Change in net assets	(22,772)	108,404	
Adjustment to consolidate internal service activities	(132)	1,195	
Change in net assets - Business-type activities	(22,904)	109,599	

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

**Proprietary Funds**  
**Statement of Cash Flows**  
**For the year ended September 30, 2005**  
**(In thousands)**

	<b>Electric</b>	<b>Water and Wastewater</b>	<b>Airport</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received from customers	\$ 1,003,992	266,237	67,864
Cash payments to suppliers for goods and services	(459,763)	(61,526)	(21,240)
Cash payments to employees for services	(103,273)	(55,073)	(20,412)
Cash payments to claimants/beneficiaries	--	--	--
Cash received from other governments	--	--	--
Taxes collected and remitted to other governments	(28,184)	--	--
<b>Net cash provided (used) by operating activities</b>	<b>412,772</b>	<b>149,638</b>	<b>26,212</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Transfers in	--	--	--
Transfers out	(79,145)	(22,743)	--
Interest paid on revenue notes and other debt	(53)	(17)	--
Increase in deferred assets	(355)	--	--
Decrease in due to other governments	--	--	--
Loans to other funds	(140)	--	--
Loans from other funds	--	475	578
Loan repayments to other funds	--	--	--
Loan repayments from other funds	438	33	46
<b>Net cash provided (used) by noncapital financing activities</b>	<b>(79,255)</b>	<b>(22,252)</b>	<b>624</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Proceeds from the sale of commercial paper notes	62,596	153,810	--
Proceeds from the sale of general obligation bonds and other tax supported debt	--	--	--
Proceeds from the sale of revenue bonds	--	--	847
Proceeds from long-term loans	--	--	--
Principal paid on long-term debt	(92,428)	(48,288)	(7,932)
Proceeds from the sale of capital assets	11	--	597
Purchased interest received	--	1,787	--
Interest paid on revenue bonds and other debt	(70,898)	(65,208)	(22,574)
Passenger facility charges	--	--	13,938
Acquisition and construction of capital assets	(117,688)	(199,711)	(22,015)
Contributions from municipality	--	--	--
Contributions from state and federal governments	--	--	16,062
Contributions in aid of construction	5,367	11,230	--
Bond issuance costs	--	153	--
Bond discounts	(100)	--	--
Cash paid for nuclear fuel inventory	(14,335)	--	--
<b>Net cash provided (used) by capital and related financing activities</b>	<b>\$ (227,475)</b>	<b>(146,227)</b>	<b>(21,077)</b>

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

	Nonmajor Enterprise Funds	2005 Total	Governmental Activities- Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received from customers	135,772	1,473,865	252,587
Cash payments to suppliers for goods and services	(62,998)	(605,527)	(84,127)
Cash payments to employees for services	(64,105)	(242,863)	(81,001)
Cash payments to claimants/beneficiaries	--	--	(57,357)
Cash received from other governments	1,349	1,349	--
Taxes collected and remitted to other governments	--	(28,184)	--
<b>Net cash provided (used) by operating activities</b>	<b>10,018</b>	<b>598,640</b>	<b>30,102</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Transfers in	31,386	31,386	--
Transfers out	(3,377)	(105,265)	(9,916)
Interest paid on revenue notes and other debt	(3)	(73)	--
Increase in deferred assets	--	(355)	--
Decrease in due to other governments	(3,000)	(3,000)	--
Loans to other funds	(230)	(370)	--
Loans from other funds	1,423	2,476	--
Loan repayments to other funds	--	--	(895)
Loan repayments from other funds	1,179	1,696	410
<b>Net cash provided (used) by noncapital financing activities</b>	<b>27,378</b>	<b>(73,505)</b>	<b>(10,401)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Proceeds from the sale of commercial paper notes	--	216,406	--
Proceeds from the sale of general obligation bonds and other tax supported debt	--	--	2,330
Proceeds from the sale of revenue bonds	--	847	--
Proceeds from long-term loans	17	17	--
Principal paid on long-term debt	(8,819)	(157,467)	(2,727)
Proceeds from the sale of capital assets	--	608	--
Purchased interest received	112	1,899	--
Interest paid on revenue bonds and other debt	(16,181)	(174,861)	(706)
Passenger facility charges	--	13,938	--
Acquisition and construction of capital assets	(25,516)	(364,930)	(7,552)
Contributions from municipality	--	--	774
Contributions from state and federal governments	--	16,062	--
Contributions in aid of construction	3,452	20,049	--
Bond issuance costs	--	153	--
Bond discounts	--	(100)	--
Cash paid for nuclear fuel inventory	--	(14,335)	--
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(46,935)</b>	<b>(441,714)</b>	<b>(7,881)</b>

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

(Continued)

**Proprietary Funds**  
**Statement of Cash Flows**  
**For the year ended September 30, 2005**  
**(In thousands)**

	<b>Electric</b>	<b>Water and Wastewater</b>	<b>Airport</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of investment securities	\$ (183,211)	(90,688)	(39,842)
Proceeds from sale and maturities of investment securities	188,279	85,541	41,262
Interest on investments	11,415	1,162	2,932
<b>Net cash provided (used) by investing activities</b>	<b>16,483</b>	<b>(3,985)</b>	<b>4,352</b>
Net increase (decrease) in cash and cash equivalents	122,525	(22,826)	10,111
Cash and cash equivalents, October 1	116,496	56,606	88,292
<b>Cash and cash equivalents, September 30</b>	<b>239,021</b>	<b>33,780</b>	<b>98,403</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Operating income (loss)	253,784	92,094	9,436
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	104,843	58,598	17,526
Amortization	--	2,500	--
Change in assets and liabilities:			
Increase in working capital advances	41	--	--
(Increase) decrease in accounts receivable	(12,117)	(5,849)	(330)
Increase (decrease) in allowance for doubtful accounts	691	48	--
Increase in receivables from other governments	--	--	--
Decrease in due from other funds	--	--	--
(Increase) decrease in inventory	1,648	(105)	--
(Increase) decrease in prepaid expenses and other assets	(1,179)	7	64
Decrease in deferred costs and other expenses	9,911	--	--
Decrease in other long-term assets	350	--	--
Increase (decrease) in accounts payable	24,106	800	735
Increase (decrease) in accrued payroll and compensated absences	491	278	(536)
Increase in claims payable	--	--	--
Increase in advances from other funds	--	--	--
Increase in pension obligations payable	1,305	671	229
Increase (decrease) in deferred credits and other liabilities	24,942	(713)	(1,054)
Increase in customer deposits	3,956	1,309	142
<b>Total adjustments</b>	<b>158,988</b>	<b>57,544</b>	<b>16,776</b>
<b>Net cash provided (used) by operating activities</b>	<b>\$ 412,772</b>	<b>149,638</b>	<b>26,212</b>

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



(Continued)

	Nonmajor Enterprise Funds	2005 Total	Governmental Activities- Internal Service Funds
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of investment securities	(15,940)	(329,681)	--
Proceeds from sale and maturities of investment securities	16,124	331,206	--
Interest on investments	2,481	17,990	614
<b>Net cash provided (used) by investing activities</b>	<b>2,665</b>	<b>19,515</b>	<b>614</b>
Net increase (decrease) in cash and cash equivalents	(6,874)	102,936	12,434
Cash and cash equivalents, October 1	138,120	399,514	89,517
<b>Cash and cash equivalents, September 30</b>	<b>131,246</b>	<b>502,450</b>	<b>101,951</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Operating income (loss)	(5,099)	350,215	18,720
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	14,161	195,128	11,025
Amortization	--	2,500	--
Change in assets and liabilities:			
Increase in working capital advances	--	41	--
(Increase) decrease in accounts receivable	985	(17,311)	(2,761)
Increase (decrease) in allowance for doubtful accounts	(18)	721	--
Increase in receivables from other governments	1,349	1,349	--
Decrease in due from other funds	--	--	(188)
(Increase) decrease in inventory	339	1,882	682
(Increase) decrease in prepaid expenses and other assets	111	(997)	293
Decrease in deferred costs and other expenses	--	9,911	1
Decrease in other long-term assets	--	350	--
Increase (decrease) in accounts payable	(4,092)	21,549	1,836
Increase (decrease) in accrued payroll and compensated absences	617	850	(30)
Increase in claims payable	--	--	1,378
Increase in advances from other funds	--	--	33
Increase in pension obligations payable	745	2,950	--
Increase (decrease) in deferred credits and other liabilities	696	23,871	(887)
Increase in customer deposits	224	5,631	--
<b>Total adjustments</b>	<b>15,117</b>	<b>248,425</b>	<b>11,382</b>
<b>Net cash provided (used) by operating activities</b>	<b>10,018</b>	<b>598,640</b>	<b>30,102</b>

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

(Continued)

**Proprietary Funds**  
**Statement of Cash Flows**  
**For the year ended September 30, 2005**  
**(In thousands)**

	Electric	Water and Wastewater	Airport
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>			
Decrease in deferred assets/expenses	\$ 2,458	3,535	--
Increase in capital appreciation bond interest payable	10,132	11,429	--
Capital assets contributed from (to) other funds	20	--	6
Transfer of assets to hospital district	--	--	--
Increase in contributed facilities	--	12,493	--
Net decrease in the fair value of investments	5,994	484	--
Amortization of bond issue costs	(620)	(545)	(228)
Amortization of bond discounts and premiums	(1,994)	(1,620)	298
Amortization of deferred loss on refundings	9,744	4,834	638
Loss on disposal of assets	(8,308)	(2,345)	(1,368)
Deferred gain (loss) on bond refunding	--	(16,813)	(13,803)
Bond issuance costs, discounts, premiums, and accrued interest written off due to refunding	--	(1,324)	10,726
Deferred costs (recovered) to be recovered	14,967	(2,919)	--
Contributions from other funds	--	--	--
Increase (decrease) in deferred credits and other liabilities	9,777	6,498	--
Capital lease obligations	3	19	--
General obligation bonds and other tax supported debt proceeds receivable	--	1,815	--
Bonds issued for the advance refundings of debt	1,022	364,300	305,558
Bond issuance costs on advance refundings	(5)	(2,343)	(3,419)
Bond discounts on advance refundings	(4)	(1,889)	(1,164)
Bond premiums on advance refundings	101	28,751	18
Reduction of long-term debt due to advance refundings	(1,120)	(371,320)	(289,008)
Bonds and fixed asset transfers to (from)	--	--	--

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

(Continued)

	Nonmajor Enterprise Funds	2005 Total	Governmental Activities- Internal Service Funds
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>			
Decrease in deferred assets/expenses	317	6,310	--
Increase in capital appreciation bond interest payable	--	21,561	--
Capital assets contributed from (to) other funds	(9)	17	5,852
Transfer of assets to hospital district	(37,443)	(37,443)	--
Increase in contributed facilities	--	12,493	--
Net decrease in the fair value of investments	--	6,478	--
Amortization of bond issue costs	(190)	(1,583)	(2)
Amortization of bond discounts and premiums	(402)	(3,718)	(2)
Amortization of deferred loss on refundings	765	15,981	3
Loss on disposal of assets	(1,847)	(13,868)	(3,594)
Deferred gain (loss) on bond refunding	(13,437)	(44,053)	12
Bond issue costs, discounts, premiums, and accrued interest written off due to refunding	57	9,459	--
Deferred costs (recovered) to be recovered	--	12,048	--
Contributions from other funds	--	--	29
Increase (decrease) in deferred credits and other liabilities	--	16,275	(915)
Capital lease obligations	22	44	8
General obligation bonds and other tax supported debt proceeds receivable	7,795	9,610	--
Bonds issued for the advance refundings of debt	160,606	831,486	289
Bond issuance costs on advance refundings	(1,752)	(7,519)	(1)
Bond discounts on advance refundings	(583)	(3,640)	(1)
Bond premiums on advance refundings	2,228	31,098	29
Reduction of long-term debt due to advance refundings	(147,397)	(808,845)	(327)
Bonds and fixed asset transfers to (from)	2,461	2,461	(2,461)

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

**Fiduciary Funds**  
**Statement of Fiduciary Net Assets**  
**September 30, 2005**  
**(In thousands)**

**City of Austin, Texas**  
**Exhibit D-1**

	<b>Private-purpose Trust</b>	<b>Agency</b>
<b>ASSETS</b>		
Pooled investments and cash	\$ 990	3,626
Other assets	121	--
<b>Total assets</b>	<u>1,111</u>	<u>3,626</u>
<b>LIABILITIES</b>		
Accounts payable	1	193
Due to other governments	--	2,917
Deposits and other liabilities	409	516
<b>Total liabilities</b>	<u>410</u>	<u>3,626</u>
<b>NET ASSETS</b>		
Held in trust	701	
<b>Total net assets</b>	<u>\$ 701</u>	

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

**Fiduciary Funds**  
**Statement of Changes in Fiduciary Net Assets**  
**For the year ended September 30, 2005**  
**(In thousands)**

**City of Austin, Texas**  
**Exhibit D-2**

	<u>Private-purpose Trust</u>
<b>ADDITIONS</b>	
Contributions	\$ 233
Interest and other	24
<b>Total additions</b>	<u>257</u>
<b>DEDUCTIONS</b>	<u>266</u>
<b>Total deductions</b>	<u>266</u>
<b>Change in net assets</b>	(9)
<b>Total net assets - beginning</b>	710
<b>Total net assets - ending</b>	<u><u>\$ 701</u></u>

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, and airport, and non-major enterprise activities including convention, environmental and health services, public recreation, and urban growth management activities. These activities are included in the accompanying financial statements.

The City of Austin's charter requires an annual audit by an independent certified public accountant. These financial statements have been prepared in accordance with GAAP for local governments as prescribed by the GASB. The City has implemented GASB Statements No. 1 through No. 41. The more significant accounting and reporting policies and practices used by the City are described below.

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

### a -- Reporting Entity

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

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

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

- i. Capital Metropolitan Transit Authority (Capital Metro) - The City's accountability for this organization does not extend beyond appointing board members.
- ii. 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.
- iii. 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.
- iv. 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.
- v. Austin Housing Authority - The Mayor appoints the persons to serve as commissioners of this organization.
- vi. Travis County Hospital District - City Councilmembers appoint four board managers, Travis County appoints four board managers, and the City and County mutually appoint one board manager. Travis County reports the Hospital District as a component unit on their financial statements.
- vii. Mueller Local Government Corporation -- Created in December 2004. Councilmembers appoint themselves as board members. To date, no further actions have occurred.

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

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

## **1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

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

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

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

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

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

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

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

## 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

The City reports the following major governmental fund:

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

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

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

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

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

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

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

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

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

The City reports the following major enterprise funds:

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

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

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

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

Convention – Accounts for convention center and public events activities.

Environmental and health services – Accounts for hospital, primary care, and solid waste services activities.

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

Urban growth – Accounts for drainage and transportation activities.



## 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, 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 centers operations, employee health benefits, fleet services, information services, liability reserve (city-wide self insurance) services, support services, wireless communication services, and workers' compensation coverage.

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

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

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

### d -- Budget

The City Manager submits a proposed budget to the City Council no later than thirty days before the beginning of the new fiscal year. The City Council holds public hearings and council meetings in order to adopt a final budget no later than the twenty-seventh day of September. The City Council passes an appropriation ordinance and a tax-levying ordinance.

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

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

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

### e -- Financial Statement Elements

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

**Investments --** Certain investments are required to be reported at fair value, based on quoted market prices. Realized gains or losses resulting from the sale of investments are determined by the specific cost of the securities sold. The City carries all of its investments in U.S. government and agency debt securities and money market mutual funds at fair value as of September 30, 2005. Investments in local government investment pools are carried at amortized cost, which approximates fair value. The City has implemented GASB Statement No. 40 entitled "*Deposit and Investment Risk Disclosures*."

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

**Accounts Receivable** -- Balances of accounts receivable, reported on the government-wide statement of net assets, are aggregations of different components such as charges for services, fines, and balances due from taxpayers or other governments. In order to assist the reader, the following information has been provided regarding significant components of receivable balances as of September 30, 2005 (in thousands):

	Charges for Services	Fines	Taxes	Other Govern- ments	Other	Total
<b>Governmental activities</b>						
General Fund	\$ 76,408	22,972	26,807	--	1	126,188
Nonmajor governmental funds	20,732	37	9,335	8,342	15,333	53,779
Internal service funds	1,320	--	--	--	--	1,320
Allowance for doubtful accounts	(69,816)	(11,404)	--	--	--	(81,220)
Total	<u>\$ 28,644</u>	<u>11,605</u>	<u>36,142</u>	<u>8,342</u>	<u>15,334</u>	<u>100,067</u>

Municipal Court fines in the governmental activities, because of the nature of the fines, have a collection period greater than one year. Fines recognized that will not be collected during the subsequent year are estimated to be approximately \$6 million.

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

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

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

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

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

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

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

**1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

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 the Electric Fund and Water and Wastewater Fund report in accordance with FASB Statement 71, enabling legislation also includes restrictions on asset use established by its governing board which is the City Council.

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

	Electric	Water and Wastewater	Airport	Nonmajor Enterprise	Total Restricted Assets
Strategic reserve	\$ 167,320	--	--	--	167,320
Capital projects	17,432	25,946	78,748	59,845	181,971
Customer and escrow deposits	11,761	6,277	756	1,997	20,791
Debt service	78,876	45,977	13,363	4,461	142,677
Federal grants	--	--	2,522	--	2,522
Plant decommissioning	119,988	--	--	--	119,988
Nuclear fuel inventory replacement	28,589	--	--	--	28,589
Operating reserve account	--	--	7,116	2,583	9,699
Passenger facility charge account	--	--	14,256	--	14,256
Renewal and replacement account	32,350	--	10,000	1,809	44,159
	<u>\$ 456,316</u>	<u>78,200</u>	<u>126,761</u>	<u>70,695</u>	<u>731,972</u>

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

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

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

**1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

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

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

(1) Includes internal service funds

Depreciation of assets is classified by functional component. The City considers land, arts and treasures, and library collections to be inexhaustible; therefore, these assets are reported as nondepreciable. The true value of arts, treasures and library collections is expected to be maintained over time and, thus, is not depreciated. Unallocated depreciation reported in the government-wide statement of activities consists of depreciation of infrastructure and other citywide assets (\$58.7 million).

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

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

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

**Compensated Absences** -- The amounts owed to employees for unpaid vacation and sick leave liabilities, including the City's share of employment-related taxes, are reported on the accrual basis of accounting in the applicable governmental or business-type activity columns of the government-wide statements and in the enterprise activities of the fund financial statements. The liabilities and expenditures are reported on the modified accrual basis in the governmental fund financial statements; the estimated liability for governmental funds is the amount of sick and vacation paid at termination within 30 days of fiscal year-end.

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

## 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

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

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

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

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

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

Electric Fund	\$	5,798
Water and Wastewater Fund		1,224
Airport		199
Nonmajor Enterprise Funds		664

Electric, water, and wastewater revenue is recorded when earned. Customers' electric and water meters are read and bills are rendered on a cycle basis by billing district. Electric rate schedules include fuel cost adjustment clauses that permit recovery of fuel costs in the month incurred. The City reported fuel costs on the same basis as it recognized revenue in 2005 and prior years. Unbilled revenue was recorded in the Electric Fund by estimating the daily power generation and allocating by each billing district meter read dates as of September 30, 2005. The amount of unbilled revenue recorded as of September 30, 2005, for electric was \$40.2 million. The Water and Wastewater Fund recorded unbilled revenue as earned based upon the percentage of October's billing that represented water usage through September 30, 2005. The amount of unbilled revenue recorded as of September 30, 2005, for the Water and Wastewater Fund was \$11.7 million and \$8.1 million, respectively.

## 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

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

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

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

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

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

**Special Items** -- Consists of significant transactions or events within the control of the City that are either unusual in nature or infrequent in occurrence. On November 22, 2004, the Travis County Hospital District Board of Managers approved conveyance of land, buildings, and equipment pertaining to Brackenridge Hospital, Children's Hospital, Austin Women's Hospital and Community Care Clinics (equipment only) from the City.

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

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

## 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

### f -- Comparative Data

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

### g -- Use of Estimates

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

## 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Total fund balance reported in the City's fund-level governmental funds balance sheet (\$309.6 million) differs from the net assets reported in governmental activities within the government-wide financial statements (\$1.5 billion). The differences result from the long-term economic resources measurement focus in the government-wide statement of net assets versus the current financial resources measurement focus of the governmental fund balance sheets. The differences are shown below (in thousands):

<b>Total fund balances - Governmental funds - balance sheet</b>		<b>\$ 309,558</b>
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Governmental capital assets	2,685,238	
Less: accumulated depreciation	<u>(671,261)</u>	
Total		2,013,977
Other long-term assets are not available as current-period resources and are not reported in the funds.		
Accounts and other taxes receivable	782	
Deferred revenue - property taxes and interest	40	
Deferred costs and expenses	<u>3,628</u>	
Total		4,450
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	(815,954)	
Pension obligation payable	(6,006)	
Capital lease obligations payable	(881)	
Compensated absences	(65,691)	
Interest payable	(3,443)	
Deferred credits and other liabilities	<u>(1,276)</u>	
Total		(893,251)
Internal service funds		60,184
<b>Total net assets - Governmental activities</b>		<b><u>\$ 1,494,918</u></b>

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

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

The net change in fund balances of governmental funds, \$367 thousand, differs from the change in net assets for governmental activities, \$56.4 million, as reported in the statement of activities. The differences result from the long-term economic resources measurement focus in the government-wide statement of net assets versus the current financial resources measurement focus of the governmental fund balance sheets. The differences are shown below (in thousands):

**Statement of Activities**

<b>Net change in fund balances - Governmental funds</b>		<b>\$ 367</b>
Governmental funds report capital outlay as expenditures. In the statement of activities, the cost of assets is allocated over the estimated useful life of the asset and reported as depreciation expense.		
Capital outlay	90,961	
Depreciation expense	(89,147)	
Loss on disposal of capital assets	(17,968)	
Total		(16,154)
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		
Property taxes	(390)	
Franchise fees and gross receipts tax	(48)	
Charges for services	485	
Interest and other	947	
Capital assets contribution	50,910	
Total		51,904
Revenues in the governmental funds are recognized when measurable and available, but are deferred in the statement of activities until earned, regardless of when collected.		
Intergovernmental revenue	(3,707)	
Total		(3,707)
Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but are deferred and amortized throughout the period during which the related debt is outstanding in the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Issuance of long-term debt	(26,940)	
Principal repayment on long-term debt	50,608	
Total		23,668
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated absences	(1,952)	
Pension obligation	(2,904)	
Interest and other	653	
Total		(4,203)
Special item - Governmental assets transferred to Travis County Hospital District		(2,639)
Internal services. The net revenue (expense) of the internal service funds is reported with the governmental activities.		7,178
<b>Change in net assets - Governmental activities</b>		<b>\$ 56,414</b>



### 3 – DEFICITS IN FUND BALANCES AND NET ASSETS

At September 30, 2005, the following funds reported deficits in fund balances or net assets. Management intends to recover these deficits through future operating revenues, transfers or debt issues.

<u>Nonmajor Governmental</u>	<u>Deficit</u>
<u>Special Revenue Funds:</u>	<u>(in thousands)</u>
APD Incident Management	\$ 285
Fiscal Surety - Land Development	596
Pavement Life Recovery	7
Medicaid Administrative Claims	697
City Hall Fund	113
One Texas Center	1,414
RMMA Reimbursement	5
 <b>Capital Projects Funds:</b>	
Energy improvements - city facilities	82
Parks/Old Bakery	206
Police facilities	14
Radio Trunking	6,125
Parks - 1992	225
Build Austin	283
Central City Entertainment Center	1
Public Works	222
Watershed protection	286
City Hall, plaza, parking garage	7,072

### 4 – POOLED INVESTMENTS AND CASH

The following summarizes the amounts of pooled investments and cash by fund at September 30, 2005 (in thousands):

	<u>Pooled Investments and Cash</u>	
	<u>Unrestricted</u>	<u>Restricted</u>
General Fund	\$ 92,438	--
Nonmajor governmental funds	148,871	--
Electric	133,244	102,915
Water and Wastewater	3,611	24,501
Airport	39	98,358
Nonmajor enterprise funds	73,204	58,017
Internal service funds	101,238	--
Fiduciary funds	4,616	--
Subtotal pooled investments and cash	<u>557,261</u>	<u>283,791</u>
Total pooled investments and cash	<u>\$ 841,052</u>	

### 5 – INVESTMENTS AND DEPOSITS

#### a -- Investments

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

## 5 – INVESTMENTS AND DEPOSITS, continued

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

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

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

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

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

The City invests in TexPool and TexasDAILY to provide its liquidity needs. TexPool and TexasDAILY are local government investment pools that were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. TexPool and TexasDAILY are 2(a)7- like funds, meaning that they are structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$1.00, although this cannot be fully guaranteed. TexPool and TexasDAILY are rated AAAM and must maintain a dollar weighted average maturity not to exceed a 60 day limit. At September 30, 2005, TexPool and TexasDAILY had a weighted average maturity of 52 days and 25 days, respectively. Although the TexPool and TexasDAILY portfolios had a weighted average maturity of 52 days and 25 days, respectively, the City considers the holdings in these funds to have a weighted average maturity of one day. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

**5 – INVESTMENTS AND DEPOSITS, continued**

The City did not participate in any reverse repurchase agreements or security lending agreements during fiscal year 2005.

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

The following table includes the portfolio balances of all non-pooled and pooled investment types of the City at September 30, 2005 (in thousands):

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Non-pooled investments:				
Local Government Investment Pools	\$ 13,664	154,912	--	168,576
US Treasury Notes	--	97,113	--	97,113
US Agency Bonds	--	172,699	--	172,699
US Agency Bonds-Step	--	1,983	--	1,983
Total non-pooled investments	13,664	426,707	--	440,371
Pooled investments:				
Local Government Investment Pools	82,608	119,105	1,114	202,827
US Agency Discount Notes	8,026	11,573	108	19,707
US Treasury Notes	14,010	20,199	189	34,398
US Agency Bonds	237,401	342,286	3,200	582,887
US Agency Bonds-Step	3,029	4,367	40	7,436
Total pooled investments (1)	345,074	497,530	4,651	847,255
Total investments	\$ 358,738	924,237	4,651	1,287,626

(1) A difference of \$6.2 million exists between the investment portfolio balance and book balance, primarily due to deposits in transit offset by outstanding checks.

At September 30, 2005, 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: Federal Home Loan Bank (\$313,806 or 24%), Federal National Mortgage Association (\$236,311 or 18%), and Federal Home Loan Mortgage Corporation (\$199,529 or 15%).

**b -- Investment categories**

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

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

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

5 – INVESTMENTS AND DEPOSITS, continued

**Operating Funds (excluding special project fund)**

As of September 30, 2005, the city operating funds (excluding the special project fund) had the following investments:

Investment Type	Fair Value (in thousands)				Weighted Average Maturity (days)
	Governmental Activities	Business-type Activities	Fiduciary Funds	Total	
Local Government Invest Pools (LGIPs)	\$ 82,608	119,105	1,114	202,827	1
US Agency Discount Notes	8,026	11,573	108	19,707	135
US Treasury Notes	14,010	20,199	189	34,398	423
US Agency Bonds	237,401	342,286	3,200	582,887	465
US Agency Bonds-Step	3,029	4,367	40	7,436	355
	<u>\$ 345,074</u>	<u>497,530</u>	<u>4,651</u>	<u>847,255</u>	<u>345</u>

**Credit Risk**

Approximately 4% of the portfolio consists of direct obligations of the US government. As of September 30, 2005, Standard and Poor's issued the following ratings for other investments:

Investment Type	Portfolio %	Rating
LGIPs	24	AAAm
US Agency Discount Notes	2	A-1+
US Agency Bonds and Step Bonds	70	AAAm

At September 30, 2005, the operating funds held investments with more than 5 percent of the total in securities of the following issuers: Federal Home Loan Bank (\$249 million or 29 percent), Federal National Mortgage Association (\$183 million or 22 percent), and Federal Home Loan Mortgage Corporation (\$148 million or 17 percent).

**Interest Rate Risk**

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

At September 30, 2005, nearly a quarter of the Investment Pool was invested in AAAm rated LGIPs (2(a) 7-like pools), with the remainder invested in short-to-medium term US Agency and Treasury obligations. Term limits on individual maturities did not exceed three years from the purchase date. The dollar weighted average maturity for all securities was 345 days, which was less than the threshold of 365 days.

**5 – INVESTMENTS AND DEPOSITS, continued**

**Debt Service Funds**

As of September 30, 2005, the City's debt service funds had the following investments:

	<b>Fair Value (in thousands)</b>		<b>Final Maturity</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	
<b>General Obligation Debt Service</b>			
TexPool (LGIPs)	\$ 13,664	--	N/A
<b>Enterprise-Utility (1)</b>			
TexPool (LGIPs)	--	122,850	N/A
<b>Enterprise-Airport</b>			
TexPool (LGIPs)	--	13,363	N/A
<b>Nonmajor Enterprise-Convention Center</b>			
TexPool (LGIPs)	--	5,555	N/A
Total	<u>\$ 13,664</u>	<u>141,768</u>	

(1) Includes combined pledge debt service

**Credit Risk**

As of September 30, 2005, Standard and Poor's rated both TexPool and TexasDAILY AAAM.

**Interest Rate Risk**

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

At September 30, 2005, portfolios in this category held investments in AAAM rated LGIPs.

**Special Project Fund**

As of September 30, 2005, the City's special project fund had the following investments:

	<b>Fair Value</b>	<b>Final Maturity</b>
	<b>Business-type Activities</b>	
<b>Airport Construction</b>		
TexPool (LGIPs)	\$ 12,518	N/A
<b>Total special projects fund</b>	<u>\$ 12,518</u>	

**Credit Risk**

As of September 30, 2005, Standard and Poor's rated TexPool AAA.

## 5 – INVESTMENTS AND DEPOSITS, continued

### Interest Rate Risk

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

At September 30, 2005, the portfolios held investments in an AAAm rated LGIP and US Agencies with maturities that meet anticipated cash flow requirements.

### Special Purpose Funds

#### *Austin Energy Strategic Reserve Fund*

As of September 30, 2005, the City's Special Purpose Fund (Austin Energy Strategic Reserve Fund) had the following investments:

<b>Business-type Activities</b>	<b>Fair Value (in thousands)</b>	<b>Weighted Average Maturity (days)</b>
TexPool (LGIPs)	\$ 626	1
US Treasuries	70,780	425
US Agencies	95,914	425
Total	<u>\$ 167,320</u>	<u>424</u>

### Credit Risk

At September 30, 2005, the Electric Utility Department Strategic Reserve Fund held an investment in TexPool, an LGIP rated AAAm by Standard and Poor's, with the remainder invested in short-to-medium term US Agency and Treasury obligations. Standard and Poor's rated the US Agency Bonds AAA. The remaining securities are direct obligations of the US government.

At September 30, 2005, the Austin Energy Strategic Reserve Fund held investments with more than 5 percent of the total in securities of the following issuers: Federal National Mortgage Association (\$37 million or 22 percent), Federal Home Loan Bank (\$35 million or 21 percent), and Federal Home Loan Mortgage Corporation (\$24 million or 14 percent).

### Interest Rate Risk

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

At September 30, 2005, the portfolios held investments in TexPool (AAAm rated LGIP), US Treasuries, and US Agencies with maturities that meet anticipated cash flow requirements and an overall dollar weighted average maturity of 424 days (1.16 years).

#### *Austin Energy Nuclear Decommissioning Trust Funds*

As of September 30, 2005, the Austin Energy's Special Purpose Fund (Nuclear Decommissioning Trust Funds, NDTF) had the following investments:

<b>Business-type Activities</b>	<b>Fair Value (in thousands)</b>	<b>Weighted Average Maturity (years)</b>
US Treasuries	\$ 26,333	3.61
US Agencies	76,785	1.46
US Agencies-Step	1,983	3.58
Total	<u>\$ 105,101</u>	<u>3.08</u>

### Credit Risk

As of September 30, 2005, Standard and Poor's rate the US Agency Bonds and US Agency Step Bonds AAA. The remaining securities are direct obligations of the US government.

At September 30, 2005, the NDTF held investments with more than 5 percent of the total in securities of the following issuers: Federal Home Loan Bank (\$30 million or 29 percent), Federal Home Loan Mortgage Corporation (\$27 million or 26 percent), Federal National Mortgage Association (\$17 million or 16 percent), and Federal Farm Credit Banks (\$5 million or 5 percent).

## 5 – INVESTMENTS AND DEPOSITS, continued

### Interest Rate Risk

As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy for the Decommissioning Trust Fund portfolios requires that the dollar weighted average maturity, using final stated maturity dates, shall not exceed seven years, although the portfolio's weighted average maturity may be substantially shorter if market conditions so dictate. At September 30, 2005, the dollar weighted average maturity was 3.08 years.

Investments and deposits at September 30, 2005, are as follows (in thousands):

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Non-pooled investments and deposits	\$ 19,529	435,268	--	454,797
Pooled investments and deposits	347,405	500,892	4,682	852,979
Total investments and deposits	<u>366,934</u>	<u>936,160</u>	<u>4,682</u>	<u>1,307,776</u>
Unrestricted deposits	5,865	60	--	5,925
Restricted deposits	--	8,501	--	8,501
Pooled deposits	2,331	3,362	31	5,724
Investments	358,738	924,237	4,651	1,287,626
Total investments and deposits	<u>\$ 366,934</u>	<u>936,160</u>	<u>4,682</u>	<u>1,307,776</u>

A difference of \$11.9 million exists between bank balance and book balance, primarily due to deposits in transit offset by outstanding checks.

### c -- Deposits

The September 30, 2005, carrying amount of deposits is as follows (in thousands):

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Cash				
Unrestricted	\$ 112	60	--	172
Cash held by trustee				
Unrestricted	5,753	--	--	5,753
Restricted	--	8,501	--	8,501
Pooled cash	<u>2,331</u>	<u>3,362</u>	<u>31</u>	<u>5,724</u>
Total deposits	<u>\$ 8,196</u>	<u>11,923</u>	<u>31</u>	<u>20,150</u>

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, 2005.

## 6 – PROPERTY TAXES

The City's property tax is levied each October 1 on the assessed value listed as of January 1 for all real and personal property located in the City. The adjusted assessed value for the roll as of January 1, 2004, upon which the 2005 levy was based, was \$49,702,906,522.

Taxes are due by January 31 following the October 1 levy date. During the year ended September 30, 2005, 98.97% of the current tax levy (October 1, 2004) was collected. The statutory lien date is January 1.

## 6 – PROPERTY TAXES, continued

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

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

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

The tax rate to finance general governmental functions, other than the payment of principal and interest on general obligation long-term debt, for the year ended September 30, 2005, was \$.2747 per \$100 assessed valuation. The City has a tax margin for general governmental purposes of \$.7253 per \$100 assessed valuation, and could levy approximately \$360,495,181 in additional taxes from the assessed valuation of \$49,702,906,522 before the legislative limit is reached.

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

## 7 – CAPITAL ASSETS AND INFRASTRUCTURE

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

The City has recorded capitalized interest for fiscal year 2005 in the following funds related to the construction of various enterprise fund capital improvement projects (in thousands):

Major fund:		
Airport	\$	1,640
Nonmajor enterprise funds:		
Convention Center		1,602
Drainage		1,308
Golf		12
Solid Waste Services		289

Interest is not capitalized on governmental capital assets.



7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Capital asset balances as of September 30, 2005 (in thousands):

	Governmental Activities	Business-type Activities	Total
Capital assets not depreciated			
Land and improvements	\$ 243,094	287,132	530,226
Arts and treasures	4,967	1,349	6,316
Library collections	12,885	--	12,885
Total	260,946	288,481	549,427
Depreciable property, plant and equipment in service			
Building and improvements	428,048	1,940,721	2,368,769
Equipment	88,459	4,433,703	4,522,162
Vehicles	73,063	96,290	169,353
Infrastructure	1,518,130	--	1,518,130
Completed assets not classified	46,679	45,436	92,115
Total	2,154,379	6,516,150	8,670,529
Less accumulated depreciation for			
Building and improvements	(109,408)	(567,390)	(676,798)
Equipment	(35,761)	(1,789,195)	(1,824,956)
Vehicles	(45,682)	(54,693)	(100,375)
Infrastructure	(471,098)	--	(471,098)
Completed assets not classified	(33,821)	(8,840)	(42,661)
Total	(695,770)	(2,420,118)	(3,115,888)
Net property, plant and equipment in service	1,458,609	4,096,032	5,554,641
Other capital assets not depreciated			
Construction in progress	327,986	856,489	1,184,475
Nuclear fuel, net of amortization	--	22,747	22,747
Plant held for future use	--	30,745	30,745
Total capital assets	\$ 2,047,541	5,294,494	7,342,035

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Governmental Activities

Capital asset activity for the year ended September 30, 2005, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	\$ 232,953	11,254	(1,113)	243,094
Arts and treasures	4,811	156	--	4,967
Library collections	12,885	--	--	12,885
Total	<u>250,649</u>	<u>11,410</u>	<u>(1,113)</u>	<u>260,946</u>
Depreciable property, plant and equipment in service				
Building and improvements	355,580	80,097	(7,629)	428,048
Equipment	63,405	30,577	(5,523)	88,459
Vehicles	75,635	9,377	(11,949)	73,063
Infrastructure	1,435,360	82,770	--	1,518,130
Completed assets not classified	131,663	--	(84,984)	46,679
Total	<u>2,061,643</u>	<u>202,821</u>	<u>(110,085)</u>	<u>2,154,379</u>
Less accumulated depreciation for				
Building and improvements	(95,008)	(14,400)	--	(109,408)
Equipment	(30,520)	(10,875)	5,634	(35,761)
Vehicles	(43,851)	(7,540)	5,709	(45,682)
Infrastructure	(426,668)	(44,430)	--	(471,098)
Completed assets not classified	(11,375)	(22,927)	481	(33,821)
Total	<u>(607,422)</u>	<u>(100,172) (2)</u>	<u>11,824</u>	<u>(695,770)</u>
Net property, plant and equipment in service	<u>1,454,221</u>	<u>102,649</u>	<u>(98,261)</u>	<u>1,458,609</u>
Other capital assets not depreciated				
Construction in progress	327,419	73,914	(73,347)	327,986
Total capital assets	<u>\$ 2,032,289</u>	<u>187,973</u>	<u>(172,721)</u>	<u>2,047,541</u>

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

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

Governmental activities:

General government	\$ 2,829
Public safety	10,446
Transportation, planning and sustainability	7,805
Public health	731
Public recreation and culture	7,270
Urban growth management	1,344
Unallocated depreciation expense - infrastructure	58,722
Internal service funds	11,025
Total increases in accumulated depreciation	<u>\$ 100,172</u>

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Electric Fund

Capital asset activity for the year ended September 30, 2005, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	\$ 37,612	2,295	--	39,907
Total	<u>37,612</u>	<u>2,295</u>	<u>--</u>	<u>39,907</u>
Depreciable property, plant and equipment in service				
Building and improvements	621,588	36,428	(2,615)	655,401
Equipment	2,576,567	98,786	(28,049)	2,647,304
Vehicles	20,431	2,497	(864)	22,064
Completed assets not classified	21,453	1,256	(22,709)	--
Total	<u>3,240,039</u>	<u>138,967</u>	<u>(54,237)</u>	<u>3,324,769</u>
Less accumulated depreciation for				
Building and improvements	(268,417)	(17,794)	2,615	(283,596)
Equipment	(1,087,188)	(85,595)	27,144	(1,145,639)
Vehicles	(14,901)	(1,454)	875	(15,480)
Completed assets not classified	(3,767)	--	3,767	--
Total	<u>(1,374,273)</u>	<u>(104,843) (1)</u>	<u>34,401</u>	<u>(1,444,715)</u>
Net property, plant and equipment in service	<u>1,865,766</u>	<u>34,124</u>	<u>(19,836)</u>	<u>1,880,054</u>
Other capital assets not depreciated				
Construction in progress	221,579	107,186	(128,517)	200,248
Nuclear fuel, net of amortization	17,933	4,814	--	22,747
Plant held for future use	30,745	--	--	30,745
Total capital assets	<u>\$ 2,173,635</u>	<u>148,419</u>	<u>(148,353)</u>	<u>2,173,701</u>

(1) Components of accumulated depreciation increases:

Current year depreciation	\$ 104,843
Total increases in accumulated depreciation	<u>\$ 104,843</u>

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Water and Wastewater Fund

Capital asset activity for the year ended September 30, 2005, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	\$ 136,737	3,375	--	140,112
Total	<u>136,737</u>	<u>3,375</u>	<u>--</u>	<u>140,112</u>
Depreciable property, plant and equipment in service				
Building and improvements	386,174	9,547	--	395,721
Equipment	1,614,438	116,441	(2,013)	1,728,866
Vehicles	20,777	1,423	(367)	21,833
Completed assets not classified	145,703	31	(100,559)	45,175
Total	<u>2,167,092</u>	<u>127,442</u>	<u>(102,939)</u>	<u>2,191,595</u>
Less accumulated depreciation for				
Building and improvements	(112,113)	(9,118)	--	(121,231)
Equipment	(576,558)	(44,283)	1,936	(618,905)
Vehicles	(13,944)	(1,146)	366	(14,724)
Completed assets not classified	(4,640)	(4,051)	--	(8,691)
Total	<u>(707,255)</u>	<u>(58,598) (2)</u>	<u>2,302</u>	<u>(763,551)</u>
Net property, plant and equipment in service	<u>1,459,837</u>	<u>68,844</u>	<u>(100,637)</u>	<u>1,428,044</u>
Other capital assets not depreciated				
Construction in progress	371,173	198,654	(19,070)	550,757
Total capital assets	<u>\$ 1,967,747</u>	<u>270,873</u>	<u>(119,707)</u>	<u>2,118,913</u>

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

(2) Components of accumulated depreciation increases:

Current year depreciation	
Water	\$ 27,544
Wastewater	31,054
Total increases in accumulated depreciation	<u>\$ 58,598</u>

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Airport Fund

Capital asset activity for the year ended September 30, 2005, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	\$ 58,690	--	(257)	58,433
Arts and treasures	755	--	--	755
Total	59,445	--	(257)	59,188
Depreciable property, plant and equipment in service				
Building and improvements	599,452	4,668	--	604,120
Equipment	15,730	1,434	(2,130)	15,034
Vehicles	4,062	435	(20)	4,477
Completed assets not classified	2,820	--	(2,670)	150
Total	622,064	6,537	(4,820)	623,781
Less accumulated depreciation for				
Building and improvements	(93,562)	(16,045)	--	(109,607)
Equipment	(6,240)	(995)	2,085	(5,150)
Vehicles	(2,265)	(400)	20	(2,645)
Completed assets not classified	--	(86)	--	(86)
Total	(102,067)	(17,526) (1)	2,105	(117,488)
Net property, plant and equipment in service	519,997	(10,989)	(2,715)	506,293
Other capital assets not depreciated				
Construction in progress	23,476	23,690	(11,839)	35,327
Total capital assets	\$ 602,918	12,701	(14,811)	600,808

(1) Components of accumulated depreciation increases:

Current year depreciation	\$ 17,526
Total increases in accumulated depreciation	\$ 17,526

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Nonmajor Enterprise Funds

Capital asset activity for the year ended September 30, 2005, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	\$ 47,338	2,047	(705)	48,680
Arts and treasures	604	34	(44)	594
Total	<u>47,942</u>	<u>2,081</u>	<u>(749)</u>	<u>49,274</u>
Depreciable property, plant and equipment in service				
Building and improvements	352,314	10,213	(77,048)	285,479
Equipment	27,525	18,138	(3,164)	42,499
Vehicles	42,274	7,491	(1,849)	47,916
Completed assets not classified	19,296	926	(20,111)	111
Total	<u>441,409</u>	<u>36,768</u>	<u>(102,172)</u>	<u>376,005</u>
Less accumulated depreciation for				
Building and improvements	(83,812)	(7,571)	38,427	(52,956)
Equipment	(18,295)	(2,600)	1,394	(19,501)
Vehicles	(19,523)	(3,927)	1,606	(21,844)
Completed assets not classified	(482)	(63)	482	(63)
Total	<u>(122,112)</u>	<u>(14,161) (1)</u>	<u>41,909</u>	<u>(94,364)</u>
Net property, plant and equipment in service	<u>319,297</u>	<u>22,607</u>	<u>(60,263)</u>	<u>281,641</u>
Other capital assets not depreciated				
Construction in progress	63,331	25,117	(18,291)	70,157
Total capital assets	<u>\$ 430,570</u>	<u>49,805</u>	<u>(79,303)</u>	<u>401,072</u>

(1) Components of accumulated depreciation increases:

Current year depreciation	
Convention Center	\$ 6,735
Other nonmajor enterprise funds	7,426
Total increases in accumulated depreciation	<u>\$ 14,161</u>

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities

Capital asset activity for the year ended September 30, 2005, was as follows (in thousands):

	Beginning Balance	Increases	(1) Decreases	(1) Ending Balance
Capital assets not depreciated				
Land and improvements	\$ 280,377	7,717	(962)	287,132
Arts and treasures	1,359	34	(44)	1,349
Total	<u>281,736</u>	<u>7,751</u>	<u>(1,006)</u>	<u>288,481</u>
Depreciable property, plant and equipment in service				
Building and improvements	1,959,528	60,856	(79,663)	1,940,721
Equipment	4,234,261	234,799	(35,357)	4,433,703
Vehicles	87,543	11,846	(3,099)	96,290
Completed assets not classified	189,272	2,213	(146,049)	45,436
Total	<u>6,470,604</u>	<u>309,714</u>	<u>(264,168)</u>	<u>6,516,150</u>
Less accumulated depreciation for				
Building and improvements	(557,904)	(50,528)	41,042	(567,390)
Equipment	(1,688,281)	(133,473)	32,559	(1,789,195)
Vehicles	(50,633)	(6,927)	2,867	(54,693)
Completed assets not classified	(8,889)	(4,200)	4,249	(8,840)
Total	<u>(2,305,707)</u>	<u>(195,128)</u>	<u>(2) 80,717</u>	<u>(2,420,118)</u>
Net property, plant and equipment in service	<u>4,164,897</u>	<u>114,586</u>	<u>(183,451)</u>	<u>4,096,032</u>
Other capital assets not depreciated				
Construction in progress	679,559	354,647	(177,717)	856,489
Nuclear fuel, net of amortization	17,933	4,814	--	22,747
Plant held for future use	30,745	--	--	30,745
Total capital assets	<u>\$ 5,174,870</u>	<u>481,798</u>	<u>(362,174)</u>	<u>5,294,494</u>

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

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

Business-type activities:

Electric	\$ 104,843
Water	27,544
Wastewater	31,054
Airport	17,526
Convention Center	6,735
Other nonmajor enterprise funds	7,426
Total increases in accumulated depreciation	<u>\$ 195,128</u>

## 8 – RETIREMENT PLANS

### a -- Description

The City participates in funding three contributory, defined benefit retirement plans: City of Austin Employees' Retirement and Pension Fund, City of Austin Police Officers' Retirement and Pension Fund, and Fire Fighters' Relief and Retirement Fund of Austin, Texas. An independent board of trustees administers each plan. These plans are city-wide single employer funded plans that cover substantially all full-time employees. The fiscal year of each pension fund ends December 31. The most recently available financial statements of the pension funds are for the year ended December 31, 2004. Membership in the plans at December 31, 2004, is as follows:

	City Employees	Police Officers	Fire Fighters	Total
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	3,749	368	404	4,521
Current employees	7,489	1,398	1,026	9,913
Total	11,238	1,766	1,430	14,434

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

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

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



8 – RETIREMENT PLANS, continued

b -- Funding Policy

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

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

While the contribution requirements are not actuarially determined, state law requires that a qualified actuary approve each plan of benefits adopted. The actuary for the Police Officers and Fire Fighters plan has certified that the contribution commitment by the participants and the City provides an adequate financing arrangement. Contributions for fiscal year ended September 30, 2005, are as follows (in thousands):

	City Employees	Police Officers	Fire Fighters	Total
City	\$ 26,583	15,451	10,746	52,780
Employees	26,539	7,718	9,345	43,602
Total contributions	\$ 53,122	23,169	20,091	96,382

c -- Annual Pension Cost and Net Pension Obligation

The City's annual pension cost of \$58,635,000 for fiscal year ended September 30, 2005, was \$5,855,000 more than the City's actual contributions. Three-year trend information is as follows (in thousands):

	City Employees	Police Officers	Fire Fighters	Total
City's Annual Pension Cost (APC):				
2003	\$ 26,093	13,626	9,608	49,327
2004	31,174	14,358	9,835	55,367
2005	32,438	15,451	10,746	58,635
Percentage of APC contributed:				
2003	100%	100%	100%	N/A
2004	81%	100%	100%	N/A
2005	82%	100%	100%	N/A
Net Pension Obligation:				
2003	\$ --	--	--	--
2004	5,906	--	--	5,906
2005	11,761	--	--	11,761

8 – RETIREMENT PLANS, continued

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

The Net Pension Obligation associated with the City Employees Retirement and Pension Fund (in thousands):

Annual required contribution	\$ 32,292
Interest in net pension obligation	451
Adjustment to annual required contribution	(305)
Annual pension cost	32,438
Employer contributions	(26,583)
Change in net pension obligation	5,855
Beginning net pension obligation	5,906
Net pension obligation	<u>\$ 11,761</u>

The latest actuarial valuations were completed as of December 31, 2004. The actuarial cost method and significant assumptions underlying the actuarial calculations are as follows:

	City Employees	Police Officers	Fire Fighters
Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method
Asset Valuation Basis	5-year smoothed market	5-year smoothed market	5-year smoothed market
Inflation Rate	3.5%	4%	4.5%
Projected Annual Salary Increases	4% to 14%	6.8% average	6.0%
Post retirement benefit increase	None	None	1%
Assumed Rate of Return on Investments	7.75%	8%	8%
Amortization method	Level percent of projected pay, open	Level percent of projected pay, open	Level percent of projected pay, open
Remaining Amortization Period	30 years	32 years	33.4 years

## 9 – SELECTED REVENUES

### a -- Major enterprise funds

#### Electric and Water and Wastewater

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

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

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

#### Airport

The City has entered into certain lease agreements as lessor for concessions at the Airport. These lease agreements qualify as operating leases for accounting purposes. In fiscal year 2005, the Airport Fund revenues included minimum concession guarantees of \$8,289,717.

The following is a schedule by year of minimum future rentals on noncancelable operating leases for terms of up to thirty years for the Airport Fund as of September 30, 2005 (in thousands):

<b>Fiscal Year Ended September 30</b>	<b>Enterprise Airport Lease Payments</b>
2006	\$ 8,598
2007	8,407
2008	8,335
2009	5,958
2010	1,264
2011-2015	2,320
2016-2020	443
2021-2025	443
2026-2030	406
Totals	<u>\$ 36,174</u>

Projection of minimum future rentals for the Austin-Bergstrom Landhost Enterprises, Inc. are based on the current adjusted minimum rent for the period May 1, 2005, through April 30, 2009. The minimum rent is adjusted every five years commensurate with the percentage increase in the Consumer Price Index – Urban Wage Earners and Clerical Workers, U.S. Owner Average, (CPI) published by the U.S. Department of Labor Bureau of Labor Statistics over the five-year period.

10 – DEBT AND NON-DEBT LIABILITIES

a -- Long-Term Liabilities

The following is a summary of long-term liabilities. Balances at September 30, 2005, are (in thousands):

Description	Governmental Activities	Business-Type Activities	Total
<b>Long-term obligations</b>			
General obligation bonds	\$ 727,011	21,277	748,288
Certificates of obligation	82,549	52,006	134,555
Contractual obligations	31,077	23,198	54,275
Other tax supported debt	--	9,261	9,261
<b>General obligation bonds and other tax supported debt total</b>	<b>840,637</b>	<b>105,742</b>	<b>946,379</b>
Commercial paper	--	356,923	356,923
Revenue notes	--	28,000	28,000
Revenue bonds	--	3,026,009	3,026,009
Contract revenue bonds	--	11,708	11,708
Capital lease obligations	960	9,367	10,327
<b>Debt service requirements total</b>	<b>841,597</b>	<b>3,537,749</b>	<b>4,379,346</b>
<b>Other long-term obligations</b>			
Accrued compensated absences	72,077	19,800	91,877
Claims payable	28,818	--	28,818
Accrued landfill closure and postclosure costs	--	7,935	7,935
Decommissioning expense payable	--	109,718	109,718
Pension obligation payable	6,006	5,755	11,761
Deferred credits and other liabilities	71,863	553,349	625,212
	<b>178,764</b>	<b>696,557</b>	<b>875,321</b>
<b>Total long-term obligations</b>	<b>\$ 1,020,361</b>	<b>4,234,306</b>	<b>5,254,667</b>

This schedule excludes short-term liabilities of \$45,536 for governmental activities and \$213,305 for business-type activities and long-term interest payable of \$188,430 for business-type activities.

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

The following is a summary of changes in long-term obligations. Certain long-term obligations provide financing to both governmental and business-type activities. Balances at September 30, 2005, are (in thousands):

Description	September 30, 2004	Increases	Decreases	September 30, 2005	Amounts Due Within One Year
<b>Governmental activities (1):</b>					
General obligation bonds, net	\$ 738,533	161,383	(172,905)	727,011	48,594
Certificates of obligation	91,021	7,185	(15,657)	82,549	5,385
Contractual obligations	33,970	5,330	(8,223)	31,077	5,853
<b>General obligation bonds and other tax supported debt total</b>	<b>863,524</b>	<b>173,898</b>	<b>(196,785)</b>	<b>840,637</b>	<b>59,832</b>
Capital lease obligations	813	932	(785)	960	432
<b>Debt service requirements total</b>	<b>864,337</b>	<b>174,830</b>	<b>(197,570)</b>	<b>841,597</b>	<b>60,264</b>
<b>Other long-term obligations</b>					
Accrued compensated absences	70,456	3,026	(1,405)	72,077	32,829
Claims payable	27,440	13,638	(12,260)	28,818	14,185
Pension obligation payable	3,102	2,904	--	6,006	--
Deferred credits and other liabilities	81,895	15,271	(25,303)	71,863	54,064
<b>Governmental activities total</b>	<b>1,047,230</b>	<b>209,669</b>	<b>(236,538)</b>	<b>1,020,361</b>	<b>161,342</b>
<b>Business-type activities:</b>					
<b>Electric activities</b>					
General obligation bonds, net	1,320	1,118	(1,131)	1,307	5
Contractual obligations	1,562	--	(485)	1,077	358
<b>General obligation bonds and other tax supported debt total</b>	<b>2,882</b>	<b>1,118</b>	<b>(1,616)</b>	<b>2,384</b>	<b>363</b>
Commercial paper notes, net	94,984	62,497	--	157,481	--
Revenue bonds, net	1,258,701	--	(82,193)	1,176,508	75,906
Capital lease obligations	7,186	3	(1,989)	5,200	1,946
<b>Debt service requirements total</b>	<b>1,363,753</b>	<b>63,618</b>	<b>(85,798)</b>	<b>1,341,573</b>	<b>78,215</b>
<b>Other long-term obligations</b>					
Accrued compensated absences	9,422	193	(388)	9,227	6,823
Decommissioning expense payable	100,019	9,699	--	109,718	--
Pension obligation payable	1,260	1,305	--	2,565	--
Deferred credits and other liabilities	84,327	27,484	(7,021)	104,790	29,620
<b>Electric activities total</b>	<b>1,558,781</b>	<b>102,299</b>	<b>(93,207)</b>	<b>1,567,873</b>	<b>114,658</b>
<b>Water and Wastewater activities</b>					
General obligation bonds, net	6,044	733	(2,140)	4,637	853
Contractual obligations	7,787	1,815	(1,779)	7,823	1,773
Other tax supported debt, net	10,369	--	(1,108)	9,261	864
<b>General obligation bonds and other tax supported debt total</b>	<b>24,200</b>	<b>2,548</b>	<b>(5,027)</b>	<b>21,721</b>	<b>3,490</b>
Commercial paper notes, net	220,632	153,810	(175,000)	199,442	--
Revenue bonds, net	1,135,860	340,549	(201,166)	1,275,243	42,585
Contract revenue bonds, net	13,740	--	(2,032)	11,708	2,025
Capital lease obligations	4,823	19	(1,110)	3,732	1,166
<b>Debt service requirements total</b>	<b>1,399,255</b>	<b>496,926</b>	<b>(384,335)</b>	<b>1,511,846</b>	<b>49,266</b>
<b>Other long-term obligations</b>					
Accrued compensated absences	4,715	283	(406)	4,592	3,682
Pension obligation payable	648	671	--	1,319	--
Deferred credits and other liabilities	433,591	15,145	(8,193)	440,543	7,079
<b>Water and Wastewater activities total</b>	<b>1,838,209</b>	<b>513,025</b>	<b>(392,934)</b>	<b>1,958,300</b>	<b>60,027</b>

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

Business-type activities (continued):

Description	September 30, 2004	Increases	Decreases	September 30, 2005	Amounts Due Within One Year
<b>Airport activities</b>					
General obligation bonds, net	465	199	(257)	407	18
Contractual obligations	115	--	(63)	52	40
<b>General obligation bonds and other tax supported debt total</b>	<b>580</b>	<b>199</b>	<b>(320)</b>	<b>459</b>	<b>58</b>
Revenue notes	28,000	--	--	28,000	--
Revenue bonds, net	351,646	290,188	(289,519)	352,315	13,790
Capital lease obligations	494	--	(173)	321	170
<b>Debt service requirements total</b>	<b>380,720</b>	<b>290,387</b>	<b>(290,012)</b>	<b>381,095</b>	<b>14,018</b>
<b>Other long-term obligations</b>					
Accrued compensated absences	1,378	--	(496)	882	882
Pension obligation payable	229	230	--	459	--
Deferred credits and other liabilities	6,322	142	(1,670)	4,794	1,796
<b>Airport activities total</b>	<b>388,649</b>	<b>290,759</b>	<b>(292,178)</b>	<b>387,230</b>	<b>16,696</b>
<b>Nonmajor activities</b>					
General obligation bonds, net	12,411	4,803	(2,288)	14,926	1,636
Certificates of obligation, net	58,616	--	(6,610)	52,006	2,151
Contractual obligations	5,111	10,256	(1,121)	14,246	1,636
<b>General obligation bonds and other tax supported debt total</b>	<b>76,138</b>	<b>15,059</b>	<b>(10,019)</b>	<b>81,178</b>	<b>5,423</b>
Revenue bonds, net	223,551	144,037	(145,645)	221,943	2,330
Capital lease obligations	250	22	(158)	114	95
<b>Debt service requirements total</b>	<b>299,939</b>	<b>159,118</b>	<b>(155,822)</b>	<b>303,235</b>	<b>7,848</b>
<b>Other long-term obligations</b>					
Accrued compensated absences	4,595	1,193	(689)	5,099	3,677
Accrued landfill closure and postclosure costs	7,612	323	--	7,935	--
Pension obligation payable	667	746	(1)	1,412	--
Deferred credits and other liabilities	3,057	3,243	(3,078)	3,222	2,811
<b>Nonmajor activities total</b>	<b>315,870</b>	<b>164,623</b>	<b>(159,590)</b>	<b>320,903</b>	<b>14,336</b>
<b>Total business-type activities</b>					
General obligation bonds, net	20,240	6,853	(5,816)	21,277	2,512
Certificates of obligation, net	58,616	-	(6,610)	52,006	2,151
Contractual obligations	14,575	12,071	(3,448)	23,198	3,807
Other tax supported debt, net	10,369	--	(1,108)	9,261	864
<b>General obligation bonds and other tax supported debt total</b>	<b>103,800</b>	<b>18,924</b>	<b>(16,982)</b>	<b>105,742</b>	<b>9,334</b>
Commercial paper notes, net	315,616	216,307	(175,000)	356,923	--
Revenue notes	28,000	--	--	28,000	--
Revenue bonds, net	2,969,758	774,774	(718,523)	3,026,009	134,611
Contract revenue bonds	13,740	--	(2,032)	11,708	2,025
Capital lease obligations	12,753	44	(3,430)	9,367	3,377
<b>Debt service requirements total</b>	<b>3,443,667</b>	<b>1,010,049</b>	<b>(915,967)</b>	<b>3,537,749</b>	<b>149,347</b>
<b>Other long-term obligations</b>					
Accrued compensated absences	20,110	1,669	(1,979)	19,800	15,064
Accrued landfill closure and postclosure costs	7,612	323	--	7,935	--
Decommissioning expense payable	100,019	9,699	--	109,718	--
Pension obligation payable	2,804	2,952	(1)	5,755	--
Deferred credits and other liabilities	527,297	46,014	(19,962)	553,349	41,306
<b>Business-type activities total</b>	<b>4,101,509</b>	<b>1,070,706</b>	<b>(937,909)</b>	<b>4,234,306</b>	<b>205,717</b>
<b>Total long-term liabilities</b>	<b>\$ 5,148,739</b>	<b>1,280,375</b>	<b>(1,174,447)</b>	<b>5,254,667</b>	<b>367,059</b>

This schedule excludes short-term liabilities of \$45,536 for governmental activities and \$213,305 for business-type activities and long-term interest payable of \$188,430 for business-type activities.

10 – DEBT AND NON-DEBT LIABILITIES, continued

b -- Governmental Activities Long-Term Liabilities

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

The following table summarizes significant facts about general obligation bonds, certificates of obligation, contractual obligations, and assumed municipal utility district (MUD) bonds outstanding at September 30, 2005, including those reported in certain proprietary funds (in thousands):

Series	Date Issued	Original Issue	Amount Outstanding at September 30, 2005	Aggregate Interest Requirements at September 30, 2005	Interest Rates of Debt Outstanding at September 30, 2005	Maturity Dates of Serial Debt
Series 1993	February 1993	\$ 71,600	34,930	3,821 (1)	5.60 - 5.75%	9/1/2006-2009
Series 1996	October 1996	30,550	8,060	1,302 (1)	6.00%	9/1/2006-2009
Series 1997	October 1997	29,295	1,470	163 (1)	5.00 - 5.75%	9/1/2006-2007
Series 1997	October 1997	2,120	410	51 (1)	4.70 - 5.00%	9/1/2006-2009
Series 1998	January 1998	110,300	98,740	28,762 (1)	4.60 - 5.25%	9/1/2006-2016
Assumed MUD Debt	December 1997	33,680	10,534	4,589 (3)(4)	4.40 - 10.50%	11/15/2005-2017
Series 1998	October 1998	13,430	9,890	4,385 (1)	4.40 - 7.13%	9/1/2006-2018
Series 1998	October 1998	22,770	13,835	5,402 (1)	4.20 - 4.75%	9/1/2006-2018
Series 1998	October 1998	14,975	1,535	31 (2)	4.00%	11/1/2005
Series 1999	October 1999	51,100	3,335	666 (1)	4.63 - 5.23%	9/1/2006-2009
Series 1999	October 1999	10,335	2,540	122 (2)	4.75%	11/1/2005-2006
Series 1999	October 1999	5,590	1,510	288 (1)	5.00 - 6.00%	9/1/2006-2011
Series 2000	October 2000	52,930	19,970	9,265 (1)	4.50 - 6.00%	9/1/2006-2017
Series 2000	October 2000	6,060	2,520	689 (1)	5.00 - 5.25%	9/1/2006-2014
Series 2001	June 2001	123,445	49,915	12,702 (1)	4.75 - 5.50%	9/1/2006-2022
Series 2001	October 2001	79,650	50,210	24,269 (1)	4.00 - 5.25%	9/1/2006-2021
Series 2001	October 2001	2,650	1,455	112 (2)	3.25 - 3.88%	11/1/2005-2008
Series 2001	October 2001	65,335	53,225	19,194 (1)	4.38 - 5.25%	9/1/2006-2021
Series 2002	July 2002	12,190	11,945	3,994 (1)	3.00 - 5.00%	3/1/2006-2017
Series 2002	July 2002	2,495	1,750	171 (1)	4.00 - 5.00%	3/1/2006-2009
Series 2002	September 2002	99,615	95,800	43,933 (1)	2.75 - 5.00%	9/1/2006-2022
Series 2002	September 2002	8,690	5,970	482 (2)	2.50 - 4.00%	11/1/2005-2009
Series 2002	September 2002	34,095	26,400	11,267 (1)	2.50 - 5.38%	9/1/2006-2022
Series 2003	June 2003	62,585	46,390	8,006 (1)	2.25 - 5.00%	9/1/2006-2013
Series 2003	September 2003	68,855	68,555	34,729 (1)	2.00 - 5.00%	9/1/2006-2023
Series 2003A	September 2003	2,530	2,325	519 (1)	4.00 - 5.00%	9/1/2006-2013
Series 2003	September 2003	4,450	4,165	1,996 (1)	4.00 - 4.80%	9/1/2006-2023
Series 2003	September 2003	8,610	7,015	630 (2)	2.00 - 3.38%	11/1/2005-2010
Series 2004	September 2004	67,835	67,835	34,460 (1)	3.00 - 5.00%	9/1/2007-2024
Series 2004A	September 2004	2,430	2,430	618 (1)	4.00 - 4.75%	9/1/2006-2014
Series 2004	September 2004	25,000	24,225	13,346 (1)	2.00 - 5.00%	9/1/2006-2024
Series 2004	September 2004	21,830	20,820	2,239 (2)	1.85 - 3.35%	11/1/2005-2011
Series 2005	March 2005	145,345	145,345	74,164 (1)	5.00%	9/1/2006-2020
Series 2005	September 2005	19,535	19,535	10,804 (1)	3.50 - 5.00%	9/1/2008-2025
Series 2005	September 2005	7,185	7,185	3,691 (2)	3.50 - 6.50%	9/1/2006-2025
Series 2005	September 2005	14,940	14,940	2,098 (1)	3.00 - 4.00%	5/1/2006-2012
			<u>\$ 936,714</u>			

(1) Interest is paid semiannually on March 1 and September 1.

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

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

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

(4) Includes Water and Wastewater Fund principal of \$9,313 and interest of \$4,227.

## 10 – DEBT AND NON-DEBT LIABILITIES, continued

In March 2005, the City issued \$145,345,000 of Public Improvement Refunding Bonds, Series 2005. The net proceeds of \$158,376,868 (after issue costs, discounts and premiums) from the refunding were used to refund \$147,970,000 of public improvement bonds, series 1997, 1998, 1999, 2000, and 2001 and certificates of obligation, series 1997, 1998, 1999, 2000, and 2002. The refunding resulted in future interest requirements to service the debt of \$77,655,817 with an average interest rate of 5%. An economic gain of \$7,127,786 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of \$8,116,888. An accounting loss of \$10,417,135, which will be deferred and amortized, was recognized on this refunding.

In September 2005, the City issued \$19,535,000 of Public Improvement and Refunding Bonds, Series 2005. The proceeds from the issue will be used as follows: sidewalk projects (\$5,000,000); right of way acquisition and utility relocation (\$10,000,000); libraries (\$1,755,000); and to refund a court settlement (\$2,780,000). These bonds will be amortized serially on September 1 of each year from 2008 to 2025. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2006. Total interest requirements for these bonds, at rates ranging from 3.5% to 5%, are \$10,803,712.

In September 2005, the City issued \$7,185,000 of Certificates of Obligation, Series 2005. The proceeds from the issue will be used as follows: Motorola office purchase (\$4,975,000); Colony Park recreation center (\$2,000,000); and developer reimbursements (\$210,000). These certificates of obligation will be amortized serially on September 1 of each year from 2006 to 2025. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2006. Total interest requirements for these obligations, at rates ranging from 3.5% to 6.5%, are \$3,691,475.

In September 2005, the City issued \$14,940,000 of Public Property Finance Contractual Obligations, Series 2005. The proceeds from the issue will be used as follows: mobile data system (\$3,000,000); transportation capital equipment (\$3,300,000); solid waste services landfill and capital equipment (\$3,635,000); telecommunications network equipment (\$2,330,000); golf capital equipment (\$860,000); and vehicle capital equipment (\$1,815,000). These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2006 to 2012. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2006. The total interest requirements for these obligations, at rates ranging from 3% to 4%, are \$2,097,874. \$9,610,000 of this issue is comprised of business-type activities.

General obligation bonds authorized and unissued amounted to \$106,520,000 at September 30, 2005. Bond ratings at September 30, 2005, were Aa2 (Moody's Investor Services, Inc.), AA+ (Standard & Poor's) and AA+ (Fitch).

### c -- Business-Type Activities Long-Term Liabilities

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

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

The total combined utility systems revenue bond obligations at September 30, 2005, exclusive of discounts, premiums and loss on refundings consist of \$853,809,135 prior lien bonds and \$252,959,512 subordinate lien bonds. Aggregate interest requirements for all prior lien and subordinate lien bonds are \$806,439,464 at September 30, 2005. Revenue bonds authorized and unissued amount to \$1,492,642,660 at that date. Bond ratings at September 30, 2005, for the prior lien and subordinate lien bonds were, respectively, A2 and A2 (Moody's Investor Services, Inc.), A+ and A (Standard & Poor's), and A+ and A+ (Fitch).

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



**10 – DEBT AND NON-DEBT LIABILITIES, continued**

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

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

**Combined Utility Systems Debt -- Bonds Issued and Outstanding** - The following schedule shows the original and refunding revenue bonds outstanding at September 30, 2005 (in thousands):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2005
1990B Refunding	February 1990	\$ 236,009	3,668
1992 Refunding	March 1992	265,806	30,116
1992A Refunding	May 1992	351,706	108,111
1993 Refunding	February 1993	203,166	79,986
1993A Refunding	June 1993	263,410	21,899
1994 Refunding	October 1994	142,559	26,894
1996AB Refunding	September 1996	249,235	212,560
1997 Refunding	August 1997	227,215	218,210
1998 Refunding	August 1998	180,000	152,365
1998 Refunding	November 1998	139,965	139,700
1998A Refunding	November 1998	105,350	105,350
1998B	November 1998	10,000	7,910
			<u>\$ 1,106,769</u>

**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, 2005, were P-1 (Moody's Investor Services, Inc.), A-1+ (Standard & Poor's), and F1+ (Fitch). The notes will be in denominations of \$100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the notes are payable from the combined net revenues of the City's Electric Fund and Water and Wastewater Fund.

At September 30, 2005, the Electric Fund had outstanding commercial paper notes of \$144,314,000 and the Water and Wastewater Fund had \$199,442,000, of commercial paper notes outstanding. Interest rates on the notes range from 2.4% to 3.02%, which are adjusted daily. Subsequent issues cannot exceed the maximum rate of 15%. The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.

**Combined Utility Systems Debt -- Taxable Commercial Paper Notes** - The City is authorized by ordinance to issue taxable commercial paper notes (the "taxable notes") in an aggregate principal amount not to exceed \$50,000,000 outstanding at any one time. Proceeds from the taxable notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2005 were P-1 (Moody's Investor Services, Inc.) A-1+ (Standard & Poor's) and F1+ (Fitch).

**10 – DEBT AND NON-DEBT LIABILITIES, continued**

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

At September 30, 2005, the Electric Fund had outstanding taxable notes of \$13,166,500 (net of discount of \$99,500), and the Water and Wastewater Fund had no taxable notes outstanding. Interest rates on the taxable notes range from 3.77% to 3.89%. The City intends to refinance maturing commercial paper notes by issuing long-term debt.

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

Bond ratings at September 30, 2005, were A3 (Moody's Investor Services, Inc.), A (Standard & Poor's), and A+ (Fitch).

**Electric Utility System Revenue Debt -- Bonds Issued and Outstanding** - The following table summarizes all electric system original and refunding revenue bonds outstanding at September 30, 2005 (in thousands):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2005
2001 Refunding	February 2001	\$ 126,700	125,700
2002 Refunding	March 2002	74,750	74,750
2002A Refunding	August 2002	172,880	141,010
2003 Refunding	March 2003	182,100	182,100
			<u>\$ 523,560</u>

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

**Water and Wastewater System Revenue Debt -- Revenue Bond Refunding Issues** – In October 2004, the City issued \$165,145,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2004A. Proceeds from the bonds were used to refund \$175,000,000 of the City's outstanding tax-exempt commercial paper issued for the water and wastewater system. The refunding resulted in future interest requirements to service the debt of \$134,342,208. No change in net cash flows resulted from this transaction, and no economic gain or accounting gain or loss was recognized on this refunding.

In May 2005, the City issued \$198,485,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2005. Proceeds from the bond refunding were used to refund \$195,585,000 of the City's outstanding separate sub lien revenue refunding bonds, series 2000, 2001A, 2001B, and 2003 issued for the water and wastewater system. The debt service requirements on the refunding bonds were \$344,980,650, with interest rates ranging from 4% to 5%. The City realized an economic gain of \$10,279,524 on this transaction. The change in net cash flows that resulted was a decrease of \$12,161,383. An accounting loss of \$16,812,405, which will be deferred and amortized in accordance with Statement of Financial Accounting Standards No. 71, was recognized on this refunding.

Bond ratings at September 30, 2005, were A2 (Moody's Investor Services, Inc.), A (Standard & Poor's), and A+ (Fitch).

10 – DEBT AND NON-DEBT LIABILITIES, continued

**Water and Wastewater System Revenue Debt -- Bonds Issued and Outstanding** - The following table summarizes all water and wastewater system original and refunding revenue bonds outstanding at September 30, 2005 (in thousands):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2005
Maple Run MUD, 1992	May 1992	\$ 17,955	7,900
North Austin MUD #1, 2003 RFD	August 2003	4,510	3,850
2000 Refunding	June 2000	100,000	9,700
2001A Refunding	June 2001	152,180	93,660
2001B Refunding	June 2001	73,200	44,835
2001C Refunding	December 2001	95,380	68,355
2002A Refunding	August 2002	139,695	120,035
2003 Refunding	March 2003	121,500	92,400
2004 Refunding	August 2004	132,475	126,575
2004A Refunding	October 2004	165,145	165,145
2005 Refunding	June 2005	198,485	198,485
			<u>\$ 930,940</u>

**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, 2005, the total airport system obligation for prior lien bonds is \$369,890,000 exclusive of discounts, premiums and loss on refundings. Aggregate interest requirements for all prior lien bonds are \$182,619,715 at September 30, 2005. Revenue bonds authorized and unissued amount to \$735,795,000.

**Airport System Revenue Debt -- Revenue Bond Refunding Issues** - In August 2005, the City issued \$306,225,000 of Airport System Refunding Revenue Bonds, Series 2005. Proceeds from the bond refunding were used to refund \$288,810,000 of the City's outstanding airport system prior lien revenue bonds, series 1995A and 1995B. The debt service requirements on the variable rate refunding bonds were \$459,716,580 with interest calculated using a constant rate of 4.051%. From August to September 30, 2005, interest rates on the bonds ranged from 2.55% to 2.75% with an average rate of 2.66%, adjusted weekly at market rates; subsequent rate changes cannot exceed the maximum rate of 12%. The City realized an economic gain of \$36,844,873 on this transaction. The change in net cash flows that resulted was a decrease of \$66,227,623. An accounting loss of \$14,873,940, which will be deferred and amortized in accordance with GASB statement no. 23, was recognized on this refunding.

Bond ratings at September 30, 2005, for the prior lien bonds were NUR (Moody's Investor Services, Inc.), A- (Standard & Poor's), and NUR (Fitch).

The following table summarizes all airport system original and refunding revenue bonds outstanding at September 30, 2005 (in thousands):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2005
1989	December 1989	\$ 30,000	1,000
1995A	August 1995	362,205	7,310
1995B Refunding	August 1995	31,040	1,105
2003 Refunding	December 2003	54,250	54,250
2005 Refunding	August 2005	306,225	306,225
			<u>\$ 369,890</u>

**10 – DEBT AND NON-DEBT LIABILITIES, continued**

**Airport Debt -- Variable Rate Revenue Notes** - The City is authorized to issue airport system variable rate revenue notes, pursuant to Ordinance No. 950817B, as amended and restated by Ordinance 980205A, adopted by the City Council on February 5, 1998. At September 30, 2005, 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 \$4,758,486, including accrued interest, at September 30, 2005 and was restricted within the airport system. During fiscal year 2005, interest rates on the notes ranged from 1.52% to 3.06%, adjusted weekly at market rates; subsequent rate changes cannot exceed the maximum rate of 15%. Principal and interest on the notes are payable from the net revenues of the airport system.

The bond rating at September 30, 2005, for the airport variable rate notes was P-1 (Moody's Investor Services, Inc.).

**Nonmajor fund:**

**Convention Center -- Prior and Subordinate Lien Revenue Bonds** - The City's Convention Center Fund issues convention center revenue bonds and hotel occupancy tax revenue bonds to fund Convention Center Fund capital projects. Principal and interest on these bonds are payable solely from pledged hotel occupancy tax revenues and the special motor vehicle rental tax revenues. At September 30, 2005, the total convention center obligation for prior and subordinate lien bonds is \$237,990,000, exclusive of discounts, premiums and loss on refundings. Aggregate interest requirements for all prior and subordinate lien bonds are \$126,088,655 at September 30, 2005. Revenue bonds authorized and unissued amount to \$760,000 at September 30, 2005.

**Convention Center Revenue Debt -- Revenue Bond Refunding Issues** – In May 2005, the City issued \$36,720,000 of Town Lake Park Community Events Center Venue Project Refunding Bonds, Series 2005. Proceeds from the bond refunding were used to refund \$35,140,000 of the City's outstanding town lake park community events center venue project bonds, series 1999. The debt service requirements on the refunding bonds are \$67,378,298. The City realized an economic gain of \$3,098,926 on this transaction. The change in net cash flows that resulted was a decrease of \$3,757,473. An accounting loss of \$2,548,757, which will be deferred and amortized in accordance with GASB statement no. 23, was recognized on this refunding.

In August 2005, the City issued \$119,290,000 of Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2005. Proceeds from the bond refunding were used to refund \$107,500,000 of the City's outstanding convention center subordinate lien revenue bonds, series 1999. The debt service requirements on the variable rate refunding bonds are \$182,474,148 with interest calculated using a constant rate of 3.4007%. From August to September 30, 2005 interest rates on the bonds ranged from 2.4% to 2.79%, adjusted weekly at market rates, and subsequent rates changes cannot exceed the maximum rate of 15%. The City realized an economic gain of \$15,407,599 on this transaction. The change in net cash flows that resulted was a decrease of \$19,906,685. An accounting loss of \$10,635,946, which will be deferred and amortized in accordance with GASB statement no. 23, was recognized on this refunding.

Bond ratings at September 30, 2005, for the revenue bonds were NUR (Moody's Investor Services, Inc.), NUR (Standard & Poor's), and NUR (Fitch).

The following table summarizes Convention Center original and refunding revenue bonds outstanding at September 30, 2005 (in thousands):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2005
1999 Refunding	June 1999	\$ 6,445	1,140
1999A	June 1999	25,000	24,115
1999	November 1999	40,000	4,010
2004 Refunding	February 2004	52,715	52,715
2005 Refunding	May 2005	36,720	36,720
2005 Refunding	August 2005	119,290	119,290
			<u>\$ 237,990</u>

10 – DEBT AND NON-DEBT LIABILITIES, continued

d – Debt Service Requirements

Governmental Activities  
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 48,594	34,181	5,385	3,897	5,853	827
2007	48,539	31,752	5,681	3,636	5,000	714
2008	45,727	29,380	5,968	3,347	4,713	589
2009	44,879	27,240	6,298	3,059	4,808	459
2010	47,332	25,063	5,771	2,753	4,487	315
2011-2015	226,137	92,171	27,533	9,527	6,216	246
2016-2020	184,374	42,580	18,586	4,185	--	--
2021-2025	70,846	7,278	7,327	672	--	--
	<u>716,428</u>	<u>289,645</u>	<u>82,549</u>	<u>31,076</u>	<u>31,077</u>	<u>3,150</u>
Less: Unamortized bond discounts	(961)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(10,671)	--	--	--	--	--
Add: Unamortized bond premiums	22,215	--	--	--	--	--
Net debt service requirements	<u>727,011</u>	<u>289,645</u>	<u>82,549</u>	<u>31,076</u>	<u>31,077</u>	<u>3,150</u>

Fiscal Year Ended September 30	Capital Lease Obligations		Total Governmental Debt Service Requirements		
	Principal	Interest	Principal	Interest	Total
2006	432	30	60,264	38,935	99,199
2007	528	18	59,748	36,120	95,868
2008	--	--	56,408	33,316	89,724
2009	--	--	55,985	30,758	86,743
2010	--	--	57,590	28,131	85,721
2011-2015	--	--	259,886	101,944	361,830
2016-2020	--	--	202,960	46,765	249,725
2021-2025	--	--	78,173	7,950	86,123
	<u>960</u>	<u>48</u>	<u>831,014</u>	<u>323,919</u>	<u>1,154,933</u>
Less: Unamortized bond discounts	--	--	(961)	--	(961)
Unamortized gain(loss) on bond refundings	--	--	(10,671)	--	(10,671)
Add: Unamortized bond premiums	--	--	22,215	--	22,215
Net debt service requirements	<u>\$ 960</u>	<u>48</u>	<u>841,597</u>	<u>323,919</u>	<u>1,165,516</u>

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Electric Business-Type Activities  
(in thousands)

Fiscal Year Ended September 30	General Obligation		Contractual Obligations		Commercial Paper Notes (1)	
	Bonds					
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 5	61	358	30	157,581	383
2007	53	61	202	19	--	--
2008	12	58	140	14	--	--
2009	18	57	146	11	--	--
2010	53	56	152	6	--	--
2011-2015	550	225	79	2	--	--
2016-2020	525	70	--	--	--	--
	<u>1,216</u>	<u>588</u>	<u>1,077</u>	<u>82</u>	<u>157,581</u>	<u>383</u>
Less: Unamortized bond discount	(5)	--	--	--	(100)	--
Add: Unamortized bond premium	96	--	--	--	--	--
Net debt service requirements	<u>1,307</u>	<u>588</u>	<u>1,077</u>	<u>82</u>	<u>157,481</u>	<u>383</u>

Fiscal Year Ended September 30	Revenue Bonds		Capital Lease Obligations		Total Electric Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2006	75,906	63,057	1,946	332	235,796	63,863	299,659
2007	101,312	58,866	2,014	202	103,581	59,148	162,729
2008	87,063	59,036	29	61	87,244	59,169	146,413
2009	75,650	75,666	31	60	75,845	75,794	151,639
2010	70,940	80,932	32	58	71,177	81,052	152,229
2011-2015	427,123	237,702	188	265	427,940	238,194	666,134
2016-2020	164,150	90,208	241	212	164,916	90,490	255,406
2021-2025	143,205	44,578	309	144	143,514	44,722	188,236
2026-2030	88,600	12,610	396	56	88,996	12,666	101,662
2031-2035	9,500	238	14	--	9,514	238	9,752
	<u>1,243,449</u>	<u>722,893</u>	<u>5,200</u>	<u>1,390</u>	<u>1,408,523</u>	<u>725,336</u>	<u>2,133,859</u>
Less: Unamortized bond discounts	(7,774)	--	--	--	(7,879)	--	(7,879)
Unamortized gain(loss) on bond refundings	(94,642)	--	--	--	(94,642)	--	(94,642)
Add: Unamortized bond premiums	35,475	--	--	--	35,571	--	35,571
Net debt service requirements	<u>\$ 1,176,508</u>	<u>722,893</u>	<u>5,200</u>	<u>1,390</u>	<u>1,341,573</u>	<u>725,336</u>	<u>2,066,909</u>

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Water and Wastewater Business-Type Activities  
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Contractual Obligations		Tax and Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 853	335	1,773	214	864	1,189
2007	1,143	291	1,291	176	642	430
2008	739	232	1,098	142	594	401
2009	471	194	1,039	110	532	285
2010	589	170	931	80	564	353
2011-2015	2,036	413	1,691	71	3,663	1,293
2016-2020	559	88	--	--	2,454	276
2021-2025	52	3	--	--	--	--
	<u>6,442</u>	<u>1,726</u>	<u>7,823</u>	<u>793</u>	<u>9,313</u>	<u>4,227</u>
Less: Unamortized bond discounts	(27)	--	--	--	(52)	--
Unamortized gain(loss) on bond refundings	(2,159)	--	--	--	--	--
Add: Unamortized bond premiums	381	--	--	--	--	--
Net debt service requirements	<u>4,637</u>	<u>1,726</u>	<u>7,823</u>	<u>793</u>	<u>9,261</u>	<u>4,227</u>

Fiscal Year Ended September 30	Commercial Paper Notes (1)		Revenue Bonds		Municipal Utility District Contract Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	199,442	460	42,585	58,118	2,025	573
2007	--	--	44,095	56,528	2,170	466
2008	--	--	54,977	57,030	2,325	345
2009	--	--	51,752	64,553	2,475	216
2010	--	--	43,597	72,106	2,754	75
2011-2015	--	--	311,857	279,794	--	--
2016-2020	--	--	275,340	265,081	--	--
2021-2025	--	--	257,629	89,813	--	--
2026-2030	--	--	209,540	31,735	--	--
2031-2035	--	--	14,699	772	--	--
	<u>199,442</u>	<u>460</u>	<u>1,306,071</u>	<u>975,530</u>	<u>11,749</u>	<u>1,675</u>
Less: Unamortized bond discounts	--	--	(10,980)	--	(21)	--
Unamortized gain(loss) on bond refundings	--	--	(68,760)	--	(50)	--
Add: Unamortized bond premiums	--	--	48,912	--	30	--
Net debt service requirements	<u>\$ 199,442</u>	<u>460</u>	<u>1,275,243</u>	<u>975,530</u>	<u>11,708</u>	<u>1,675</u>

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Water and Wastewater Business-Type Activities  
(in thousands)

Fiscal Year Ended September 30	Capital Lease Obligations		Total Water and Wastewater Debt Service Requirements		
	Principal	Interest	Principal	Interest	Total
2006	\$ 1,166	249	248,708	61,138	309,846
2007	1,239	155	50,580	58,046	108,626
2008	1,327	53	61,060	58,203	119,263
2009	--	--	56,269	65,358	121,627
2010	--	--	48,435	72,784	121,219
2011-2015	--	--	319,247	281,571	600,818
2016-2020	--	--	278,353	265,445	543,798
2021-2025	--	--	257,681	89,816	347,497
2026-2030	--	--	209,540	31,735	241,275
2031-2035	--	--	14,699	772	15,471
	<u>3,732</u>	<u>457</u>	<u>1,544,572</u>	<u>984,868</u>	<u>2,529,440</u>
Less: Unamortized bond discounts	--	--	(11,080)	--	(11,080)
Unamortized gain(loss) on bond refundings	--	--	(70,969)	--	(70,969)
Add: Unamortized bond premiums	--	--	49,323	--	49,323
Net debt service requirements	<u>\$ 3,732</u>	<u>457</u>	<u>1,511,846</u>	<u>984,868</u>	<u>2,496,714</u>



10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Airport Business-Type Activities  
(in thousands)

Fiscal Year Ended September 30	General Obligation		Contractual Obligations		Revenue Notes (1)	
	Bonds					
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 18	20	40	2	--	781
2007	49	19	12	--	--	781
2008	23	16	--	--	--	781
2009	16	15	--	--	--	781
2010	23	14	--	--	--	781
2011-2015	151	49	--	--	--	3,905
2016-2020	101	14	--	--	28,000	1,955
2021-2025	2	--	--	--	--	--
	<u>383</u>	<u>147</u>	<u>52</u>	<u>2</u>	<u>28,000</u>	<u>9,765</u>
Less: Unamortized bond discounts	(1)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	1	--	--	--	--	--
Add: Unamortized bond premiums	24	--	--	--	--	--
Net debt service requirements	<u>407</u>	<u>147</u>	<u>52</u>	<u>2</u>	<u>28,000</u>	<u>9,765</u>

Fiscal Year Ended September 30	Revenue Bonds		Capital Lease Obligations		Total Airport Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2006	13,790	11,375	170	9	14,018	12,187	26,205
2007	9,555	10,582	151	4	9,767	11,386	21,153
2008	11,780	10,291	--	--	11,803	11,088	22,891
2009	12,325	9,951	--	--	12,341	10,747	23,088
2010	12,910	9,587	--	--	12,933	10,382	23,315
2011-2015	74,430	41,385	--	--	74,581	45,339	119,920
2016-2020	98,450	26,709	--	--	126,551	28,678	155,229
2021-2025	111,900	10,010	--	--	111,902	10,010	121,912
2026-2030	24,750	138	--	--	24,750	138	24,888
	<u>369,890</u>	<u>130,028</u>	<u>321</u>	<u>13</u>	<u>398,646</u>	<u>139,955</u>	<u>538,601</u>
Less: Unamortized bond discounts	(1,653)	--	--	--	(1,654)	--	(1,654)
Unamortized gain(loss) on bond refundings	(19,946)	--	--	--	(19,945)	--	(19,945)
Add: Unamortized bond premiums	4,024	--	--	--	4,048	--	4,048
Net debt service requirements	<u>\$ 352,315</u>	<u>130,028</u>	<u>321</u>	<u>13</u>	<u>381,095</u>	<u>139,955</u>	<u>521,050</u>

(1) These are variable rate notes with an assumed interest rate of 2.79% .

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Nonmajor Business-Type Activities  
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 1,636	762	2,151	2,326	1,636	364
2007	994	680	2,259	2,252	2,180	382
2008	1,221	632	2,372	2,165	2,254	320
2009	1,064	570	2,497	2,073	2,353	254
2010	1,604	515	2,204	1,975	2,051	180
2011-2015	6,214	1,506	13,612	8,291	3,772	186
2016-2020	2,426	322	15,859	4,699	--	--
2021-2025	22	2	9,973	1,068	--	--
	<u>15,181</u>	<u>4,989</u>	<u>50,927</u>	<u>24,849</u>	<u>14,246</u>	<u>1,686</u>
Less: Unamortized bond discounts	(52)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(1,092)	--	--	--	--	--
Add: Unamortized bond premiums	889	--	1,079	--	--	--
Net debt service requirements	<u>14,926</u>	<u>4,989</u>	<u>52,006</u>	<u>24,849</u>	<u>14,246</u>	<u>1,686</u>

Fiscal Year Ended September 30	Revenue Bonds		Capital Lease Obligations		Total Nonmajor Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2006	2,330	9,060	95	2	7,848	12,514	20,362
2007	1,260	8,880	19	--	6,712	12,194	18,906
2008	3,440	8,781	--	--	9,287	11,898	21,185
2009	4,720	8,636	--	--	10,634	11,533	22,167
2010	7,935	8,389	--	--	13,794	11,059	24,853
2011-2015	49,585	36,983	--	--	73,183	46,966	120,149
2016-2020	63,580	25,534	--	--	81,865	30,555	112,420
2021-2025	47,250	14,700	--	--	57,245	15,770	73,015
2026-2030	57,890	5,126	--	--	57,890	5,126	63,016
	<u>237,990</u>	<u>126,089</u>	<u>114</u>	<u>2</u>	<u>318,458</u>	<u>157,615</u>	<u>476,073</u>
Less: Unamortized bond discounts	(1,195)	--	--	--	(1,247)	--	(1,247)
Unamortized gain(loss) on bond refundings	(20,247)	--	--	--	(21,339)	--	(21,339)
Add: Unamortized bond premiums	5,395	--	--	--	7,363	--	7,363
Net debt service requirements	<u>\$ 221,943</u>	<u>126,089</u>	<u>114</u>	<u>2</u>	<u>303,235</u>	<u>157,615</u>	<u>460,850</u>

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Business-Type Activities  
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 2,512	1,178	2,151	2,326	3,807	610
2007	2,239	1,051	2,259	2,252	3,685	577
2008	1,995	938	2,372	2,165	3,492	476
2009	1,569	836	2,497	2,073	3,538	375
2010	2,269	755	2,204	1,975	3,134	266
2011-2015	8,951	2,193	13,612	8,291	5,542	259
2016-2020	3,611	494	15,859	4,699	--	--
2021-2025	76	5	9,973	1,068	--	--
	<u>23,222</u>	<u>7,450</u>	<u>50,927</u>	<u>24,849</u>	<u>23,198</u>	<u>2,563</u>
Less: Unamortized bond discounts	(85)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(3,250)	--	--	--	--	--
Add: Unamortized bond premiums	1,390	--	1,079	--	--	--
Net debt service requirements	<u>21,277</u>	<u>7,450</u>	<u>52,006</u>	<u>24,849</u>	<u>23,198</u>	<u>2,563</u>

Fiscal Year Ended September 30	Tax Supported Debt		Commercial Paper Notes (1)		Revenue Notes (2)	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	864	1,189	357,023	843	--	781
2007	642	430	--	--	--	781
2008	594	401	--	--	--	781
2009	532	285	--	--	--	781
2010	564	353	--	--	--	781
2011-2015	3,663	1,293	--	--	--	3,905
2016-2020	2,454	276	--	--	28,000	1,955
	<u>9,313</u>	<u>4,227</u>	<u>357,023</u>	<u>843</u>	<u>28,000</u>	<u>9,765</u>
Less: Unamortized bond discounts	(52)	--	(100)	--	--	--
Net debt service requirements	<u>\$ 9,261</u>	<u>4,227</u>	<u>356,923</u>	<u>843</u>	<u>28,000</u>	<u>9,765</u>

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

(2) These are variable rate notes with an assumed interest rate of 2.79%.

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Fiscal Year Ended September 30	Business-Type Activities (in thousands)					
	Revenue Bonds		Municipal Utility District Contract Revenue Bonds		Capital Lease Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 134,611	141,610	2,025	573	3,377	592
2007	156,222	134,856	2,170	466	3,423	361
2008	157,260	135,138	2,325	345	1,356	114
2009	144,447	158,806	2,475	216	31	60
2010	135,382	171,014	2,754	75	32	58
2011-2015	862,995	595,864	--	--	188	265
2016-2020	601,520	407,532	--	--	241	212
2021-2025	559,984	159,101	--	--	309	144
2026-2030	380,780	49,609	--	--	396	56
2031-2035	24,199	1,010	--	--	14	--
	<u>3,157,400</u>	<u>1,954,540</u>	<u>11,749</u>	<u>1,675</u>	<u>9,367</u>	<u>1,862</u>
Less: Unamortized bond discounts	(21,602)	--	(21)	--	--	--
Unamortized gain(loss) on bond refundings	(203,595)	--	(50)	--	--	--
Add: Unamortized bond premiums	93,806	--	30	--	--	--
Net debt service requirements	<u>3,026,009</u>	<u>1,954,540</u>	<u>11,708</u>	<u>1,675</u>	<u>9,367</u>	<u>1,862</u>

Fiscal Year Ended September 30	Total Business-Type Activities Debt Service Requirements		
	Principal	Interest	Total
2006	506,370	149,702	656,072
2007	170,640	140,774	311,414
2008	169,394	140,358	309,752
2009	155,089	163,432	318,521
2010	146,339	175,277	321,616
2011-2015	894,951	612,070	1,507,021
2016-2020	651,685	415,168	1,066,853
2021-2025	570,342	160,318	730,660
2026-2030	381,176	49,665	430,841
2031-2035	24,213	1,010	25,223
	<u>3,670,199</u>	<u>2,007,774</u>	<u>5,677,973</u>
Less: Unamortized bond discounts	(21,860)	--	(21,860)
Unamortized gain(loss) on bond refundings	(206,895)	--	(206,895)
Add: Unamortized bond premiums	96,305	--	96,305
Net debt service requirements	<u>\$3,537,749</u>	<u>2,007,774</u>	<u>5,545,523</u>

## 11 – CONDUIT DEBT

The City has issued several series of housing and industrial development revenue bonds to provide for low cost housing and for acquisition and construction of industrial and commercial facilities. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Prior to September 30, 1997, the City issued several series of bonds; the aggregate principal amount payable of these bonds could not be determined; however, their original issue amounts totaled \$310.2 million. Since 1997, the City has issued various series of bonds, with the original issues totaling \$84.4 million; and \$83.5 million is outstanding at September 30, 2005.

The City has issued various facility revenue bonds to provide for facilities located at the airport and convention center. These bonds are special limited obligations, payable solely from and secured by a pledge of revenue to be received from agreements between the City and various third parties. The original issues totaled \$367.4 million, with \$358.5 million outstanding at September 30, 2005.

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

## 12 – INTERFUND BALANCES AND TRANSFERS

Interfund receivables and payables at September 30, 2005, are as follows (in thousands):

Receivable Fund	Payable Fund	Amount	
		Current	Long-Term
Governmental funds:			
Nonmajor governmental funds	General Fund	\$ 1	--
Nonmajor governmental funds	Nonmajor governmental funds	43,710	--
	Water and Wastewater	--	4,709
	Nonmajor enterprise funds	--	2,771
	Internal service funds	--	277
General Fund	Nonmajor governmental funds	302	--
Internal Service funds:			
Support Services	Nonmajor governmental funds	188	--
Business-type funds:			
Electric	Nonmajor enterprise funds	--	2,719
	Nonmajor governmental funds	--	1
Water and Wastewater (restricted)	Internal service funds	27	134
Airport (restricted)	General Fund	617	1,234
	Nonmajor governmental funds	--	223
Nonmajor enterprise funds	Nonmajor governmental funds	--	172
	Nonmajor enterprise funds	160	--
		<u>\$ 45,005</u>	<u>12,240</u>

Interfund receivables and payables reflect loans between funds. Of the above current amount, \$21.4 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 \$20.9 million in interfund loans between capital project funds to cover deficit pooled investments and cash.

## 12 – INTERFUND BALANCES AND TRANSFERS, continued

Interfund transfers during fiscal year 2005 were as follows (in thousands):

Transfers Out	Transfers In			
	General Fund	Nonmajor Governmental	Nonmajor Enterprise	Total
General Fund	\$ --	9,214	4,940	14,154
Nonmajor governmental funds	--	18,009	26,446	44,455
Electric	74,520	4,625	--	79,145
Water and Wastewater	19,596	3,147	--	22,743
Nonmajor enterprise funds	335	3,042	--	3,377
Internal service funds	--	9,916	--	9,916
Total transfers out	\$ 94,451	47,953	31,386	173,790

Interfund transfers are authorized through City Council approval. Significant transfers include the electric and water and wastewater transfers to the General Fund, which are comparable to a return on investment to owners.

## 13 – LITIGATION

A number of claims against the City are pending with respect to various matters arising in the normal course of the City's operations. Legal counsel and city management are of the opinion that settlement of these claims and pending litigation will not have a material effect on the City's financial statements. The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2005. These liabilities include amounts for lawsuits settled subsequent to year-end, which are reported in the government-wide statement of net assets.

## 14 – COMMITMENTS AND CONTINGENCIES

### a -- Fayette Power Project

Austin Energy's coal-fired electric generating units are located at the Fayette Power Project (FPP) and operate pursuant to a participation agreement with the Lower Colorado River Authority (LCRA, Project Manager). Austin Energy has an undivided 50 percent interest in Units 1 and 2, and LCRA wholly owns Unit 3. Austin Energy's investment is financed with city funds, and its pro-rata share of operations is recorded as if wholly owned. Austin Energy's equity in FPP was \$30 million as of September 30, 2005. The equity interest in the FPP is calculated pursuant to the participation agreement and is reported in various asset and liability accounts within the City's financial statements.

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

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

### b -- South Texas Project

Austin Energy is one of three participants in the South Texas Project (STP), which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the STP are Texas Genco LP, formerly known as Reliant Energy, and City Public Service of San Antonio. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. Austin Energy's 16 percent ownership in the STP represents 400 megawatts of plant capacity. At September 30, 2005, Austin Energy's investment in the STP was approximately \$543 million, net of accumulated depreciation.

#### 14 – COMMITMENTS AND CONTINGENCIES, continued

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

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

#### c -- South Texas Project Decommissioning

The South Texas Project (STP) is subject to regulation by the Nuclear Regulatory Commission (NRC). The NRC requires that each holder of a nuclear plant-operating license submit information to the NRC indicating the minimum funding required for plant decommissioning. In addition, reasonable assurance must be demonstrated that sufficient funds are being accumulated to provide the minimum requirement for decommissioning. This amount must be adjusted annually as required by the NRC. At September 30, 2005, Austin Energy funded its share of the estimated decommissioning liability as follows:

	<u>2005</u>	
Estimated cost to decommission STP	\$ 257,866,572	
Decommissioning trust assets	108,452,720	(Includes other restricted assets of \$3.4 million)

Austin Energy and other STP participants have provided the required information to the NRC and have been collecting decommissioning funds through rates since 1989. Austin Energy has established an external irrevocable trust for collecting sufficient funds for its share of the estimated decommissioning costs. For fiscal year 2005, Austin Energy collected \$4,958,221 for decommissioning requirements.

#### d -- Energy Risk Management Program

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

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

<u>Brokerage</u>	<u>Credit Rating</u>
Citigroup Global Market Holding Inc.	AA-
Man Group	A-

The realized gains and losses related to these transactions are netted to fuel expense in the period realized. As of September 30, 2005, Austin Energy's options, futures, and basis swaps, valued at mark-to-market, net to an unrealized gain of \$83,277,175. This reflects the difference between the cost and the fair value of these contracts on September 30, 2005. Initial margins are flat fees per contract and are paid in cash or equity. Fair values are calculated by multiplying the number of outstanding contracts by the forward prices as quoted by New York Mercantile Exchange. The unrealized gain/loss refers to the difference between the cost and fair value of the contracts, which is not included in the financial statements at September 30, 2005.

14 – COMMITMENTS AND CONTINGENCIES, continued

Futures

Contracts effective date	August 2004 through September 2005
Contracts maturity date	Through January 2007
Initial margin	\$ 5,318,949
Cost	38,859,450
Fair value	56,946,300
Unrealized Gain/ (Loss)	18,086,850

Options

Contracts effective date	September 2004 through September 2005
Contracts maturity date	Through October 2010
Fair value	\$576,455
Unrealized Gain/ (Loss)	576,455

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

Swaps

Contracts effective date	August 2004 through September 2005
Contracts maturity date	Through December 2009
Cost	\$205,389,125
Fair value	270,002,995
Unrealized Gain/ (Loss)	64,613,870

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

**e -- Derivative Instruments**

**Swap for the Water & Wastewater System**

*Objective of the swap.* In order to lower its borrowing costs the City entered into a swap in connection with its Series 2004 Water and Wastewater System Variable Rate Revenue Refunding Bonds (the "Series 2004 Bonds") on July 2, 2004. The variable rate bonds were issued to advance-refund various outstanding Combined Utility System Revenue Refunding Bonds. The swap was used to hedge the interest rate on the variable rate refunding bonds to a fixed rate and the synthetic fixed rate refunding produces a lower expected interest rate cost to the City. Interest rates on the variable rate bonds ranged from 1.4% to 3.0%, adjusted weekly at market rates, and subsequent rate changes cannot exceed the maximum rate of 12%. The swap had closing costs of \$561,302.



14 – COMMITMENTS AND CONTINGENCIES, continued

*Terms, fair values, and credit risk.* The City's swap agreement contains scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2004 Bonds were issued on August 27, 2004, with a principal amount of \$132,475,000. The swap was structured to match the principal amortization structure and dates of the Series 2004 Bonds. The counterparty to the swap is JPMorgan Chase Bank. A summary of the terms and fair value of the swap, as of September 30, 2005, is as follows:

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Fair Value
Water & Wastewater Variable Rate Revenue Refunding Bonds, Series 2004	May 15, 2024	JP Morgan	Aa2/AA-/AA-	68% of 1-month LIBOR	3.657%	\$ (4,165,922)

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

*Fair value.* The swap had a fair value as of September 30, 2005, of \$(4,165,922). This fair value takes into consideration the prevailing interest rate, the specific terms and conditions of a given transaction, and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the London InterBank Offered Rate (LIBOR) swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swap.

*Credit risk.* As of September 30, 2005, the City was not exposed to credit risk on its outstanding swap since the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the City's credit risk exposure is the amount of the positive fair value. Future interest rate increases or decreases determine the fair value and the extent of credit risk the City will incur. The current credit ratings of the JPMorgan Chase Bank are Aa2 (Moody's Investor Service Inc.), AA- (Standard and Poor's), AA- (Fitch). The City will be exposed to interest rate risk only if the counterparty defaults or if the swap is terminated.

The swap agreement contains a collateral agreement with the counterparty. Collateralization of the fair value of the swap is required should the counterparty's credit rating fall below the applicable thresholds in the agreement. The City purchased insurance to mitigate the need to post collateral as long as the insurer, Financial Security Assurance, maintains a credit rating above A2 (Moody's Investor Service, Inc.) and A (Standard and Poor's).

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

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

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

14 – COMMITMENTS AND CONTINGENCIES, continued

*Swap payments and associated debt.* As of September 30, 2005, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows (as rates vary, variable-rate bond interest payments and net swap payments will vary):

Fiscal Year Ended September 30	Water and Wastewater Variable-Rate Bonds (in thousands)		Interest Rate Swaps, Net	Total
	Principal	Interest		
2006	\$ 3,000	3,447	1,120	4,567
2007	7,000	3,294	1,070	4,364
2008	1,200	3,207	1,041	4,248
2009	--	3,184	1,035	4,219
2010	--	3,184	1,035	4,219
2011-2015	39,040	14,128	4,591	18,719
2016-2020	45,775	5,844	1,899	7,743
2021-2025	30,560	1,836	597	2,433
Total	<u>\$ 126,575</u>	<u>38,124</u>	<u>12,388</u>	<u>50,512</u>

Swap for the Airport System

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

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

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Fair Value
Airport System Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2005	Nov 15, 2025	Morgan Stanley	Aa3/A+/AA-	71% of 1-month LIBOR	4.051%	\$ (17,021,267)

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

*Fair value.* The swap had a fair value as of September 30, 2005, of \$(17,021,267). This fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. The method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates.

#### 14 – COMMITMENTS AND CONTINGENCIES, continued

The payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swap.

*Credit risk.* As of September 30, 2005, the City was not exposed to credit risk on its outstanding swap since the swap had a negative fair value. However, should interest rates change and the fair values of the swap become positive, the City's exposure is the amount of the swap's positive fair value. This amount may become positive if interest rates increase in the future. The current credit ratings of Morgan Stanley are Aa3 (Moody's Investor Services, Inc.) A+ (Standard & Poor's) and AA- (Fitch). The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

The swap agreement contains a collateral agreement with the counterparty. The swap requires collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds in the agreement. The City purchased swap insurance to mitigate the need to post collateral as long as the insurer, Financial Security Assurance, maintains a credit rating above A2 (Moody's Investor Services, Inc.) and A (Standard & Poor's).

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

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

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

*Swap payments and associated debt.* As of September 30, 2005, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows (as rates vary, variable-rate bond interest payments and net swap payments will vary):

Fiscal Year Ended September 30	Airport Variable-Rate Bonds (in thousands)		Interest Rate Swaps, Net	Total
	Principal	Interest		
2006	\$ 5,375	8,336	4,345	12,681
2007	9,550	7,810	4,071	11,881
2008	10,000	7,546	3,934	11,480
2009	10,475	7,270	3,790	11,060
2010	10,975	6,981	3,638	10,619
2011-2015	61,100	30,388	15,839	46,227
2016-2020	63,100	22,458	11,706	34,164
2021-2025	110,900	9,973	5,198	15,171
2026-2030	24,750	138	71	209
Total	\$ 306,225	100,900	52,592	153,492

14 – COMMITMENTS AND CONTINGENCIES, continued

Swaps for the Hotel Occupancy Tax

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

*Terms, fair values, and credit risk.* The City's swap agreement contains scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2005 Bonds were issued on August 17, 2005, with a principal amount of \$119,290,000. The swaps were structured to match the likely principal amortization structure and dates of the Series 2005 VRRB.

The counterparty to the swap that fixes the bonds at 3.4007% was Lehman Brothers Derivative Products, a Lehman Brothers subsidiary. The counterparty to the swap portion that eliminates basis risk for the escrow period is Lehman Brothers Special Financing Inc. with a guarantee from Lehman Brothers. The table below contains a summary of the terms and fair value of the swaps as of September 30, 2005:

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Fair Value
Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2005	Nov 15, 2029	Lehman Brothers Derivative Products	Aaa/AAAt/AAA	BMA + 0.0525% to 11/15/09; 67% of 1 Mo USD-LIBOR thereafter	3.401%	\$ (340,992)
Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2005	Nov 15, 2009	Lehman Brothers Special Financing	A1/A/A+	VRRB Rate + 0.0525%	BMA + 0.0525%	\$ --

The combination of variable rate bonds and a floating-to-fixed swap creates synthetic fixed-rate debt for the City. The transactions allowed the City to create a synthetic fixed rate on the Bonds in advance of issuance, protecting the City against potential increases in long-term interest rates, and eliminating basis risk during the escrow period of the refunded bonds.

*Fair value.* The swaps had a fair value as of September 30, 2005, of \$(340,992). The fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. The payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

*Credit risk.* As of September 30, 2005, the City was not exposed to credit risk on its outstanding swaps since the swaps had a negative fair value. However, should interest rates change and the fair values of the swaps become positive, the City's exposure is the amount of positive fair value. The current credit ratings of Lehman Brothers are A1 (Moody's Investor Services, Inc.) A (Standard & Poor's) and A+ (Fitch). The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if it is terminated.

#### 14 – COMMITMENTS AND CONTINGENCIES, continued

The swap agreements contain collateral agreements with the counterparties. The swap requires collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds in the agreement. The City purchased swap insurance to mitigate the need to post collateral as long as the insurer, CIFG, maintains a credit rating above A3 (Moody's Investor Services, Inc.) and A- (Standard & Poor's).

*Basis risk.* Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The City bears no basis risk until November 15, 2009. Afterward, the swap has basis risk since the City receives a percentage of LIBOR to offset the actual variable bond rate the City pays on its bonds. The City may be exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the City pays on the bonds. The magnitude and duration of any basis risk shortfall will determine the extent of basis risk incurred.

*Tax risk.* Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the City's underlying variable-rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g. a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. Tax risk exists only after November 15, 2009. The City is receiving 67% of LIBOR (a taxable index) on the swap and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

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

*Swap payments and associated debt.* As of September 30, 2005, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows (as rates vary, variable-rate bond interest payments and net swap payments will vary):

Fiscal Year Ended	Convention Center Variable-Rate Bonds (in thousands)		Interest Rate Swaps, Net	Total
	Principal	Interest		
September 30				
2006	\$ --	3,328	729	4,057
2007	--	3,328	729	4,057
2008	--	3,328	729	4,057
2009	--	3,328	729	4,057
2010	3,045	3,257	713	3,970
2011-2015	22,190	14,503	3,174	17,677
2016-2020	26,120	11,104	2,431	13,535
2021-2025	30,935	7,089	1,552	8,641
2026-2030	37,000	2,314	506	2,820
Total	\$ 119,290	51,579	11,292	62,871

#### f -- Certificates of Participation

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

- \$ 23,060,000 Certificates of Participation, City of Austin, Texas Electric Utility Office Project, Series 1987
- \$ 14,000,000 Certificates of Participation, City of Austin, Texas, Water and Wastewater Utility Office Project, Series 1987

#### 14 – COMMITMENTS AND CONTINGENCIES, continued

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

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

The following table presents information regarding these certificates:

Description	Electric Fund Office Project (1)	Water and Wastewater Fund Office Project (1)
Date issued	February 1987	August 1987
Amount issued	\$ 23,060,000	\$ 14,000,000
Interest rates	4.00% - 7.00%	5.25% - 8.00%
Interest payable on	March 15 and September 15	May 15 and November 15
Maturity dates	September 15 1988 – 2007	November 15 1989 - 2007
Present value of lease payments	\$ 3,851,488	\$ 3,798,935
Reserve Fund (2)	\$ 2,000,000	\$ 1,250,000

(1) Subject to mandatory redemption upon the occurrence of certain events.

(2) Held by trustee, to be used to make final payments.

#### g -- Federal and State Financial Assistance Programs

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

#### h -- Arbitrage Rebate Payable

The City's financial advisor has determined that the City has earned interest revenue on unused bond proceeds in excess of amounts allowed by applicable Federal regulations. The City will be required to rebate funds to the federal government. The estimated amounts payable at September 30, 2005, are as follows (in thousands):

Governmental Activities	Business-type Activities			
	Electric	Water and Wastewater	Nonmajor	Total
\$ 99	863	310	2	\$ 1,274

#### 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 2006 Capital Budget includes new appropriations of \$188.1 million for the City's enterprise funds and \$44.7 million for general government projects. The City has substantial contractual commitments relating to its capital improvement plan.

**14 – COMMITMENTS AND CONTINGENCIES, continued**

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

Project	Spent-to-Date	Remaining Commitment
Governmental activities:		
Parks development and improvements	\$ 108,080	8,394
Financial and administrative	86,021	7,852
Transportation improvements	346,946	39,279
Other governmental	24,924	16,952
Business-type activities:		
Electric system improvements	1,331,758	1,595,601
Water and wastewater system improvements and annexations	1,366,276	992,558
Airport improvements	85,718	96,339
Nonmajor enterprise	139,204	578,246
Total	<u>\$ 3,488,927</u>	<u>3,335,221</u>

**j -- Landfill Closure and Postclosure Liability**

State and federal regulations require the City to place a final cover on the City of Austin landfill site (located on FM 812) when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, a portion of these future closure and postclosure care costs are reported as an operating expense in each period as incurred in the Solid Waste Services Fund, a nonmajor enterprise fund. The amount of costs reported is based on landfill capacity as of the City's fiscal year-end. The \$7.9 million reported as accrued landfill closure and postclosure costs at September 30, 2005, represents the cumulative amount reported to date based on the use of 83.6% of the estimated capacity of the landfill. The Solid Waste Services Fund will recognize the remaining estimated cost of closure and postclosure care of \$1.6 million as the remaining estimated capacity is filled over the next eight years. The total estimated costs of \$9.5 million include costs of closure in 2013 of \$2.5 million and postclosure costs over the subsequent thirty years of \$7 million. These amounts are based on current cost estimates to perform closure and postclosure care in 2005. 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 an HMO for health coverage. Approximately 29% of city employees and 52% of retirees use the HMO option; approximately 71% of city employees and 48% of retirees use the PPO. Costs are charged to city funds through a charge per employee per pay period.
Liability Reserve	This self-insured program includes losses and claims related to liability for bodily injury, property damage, professional liability and certain employment liability. Premiums are charged to other city funds each year based on historical costs.
Workers' Compensation	Premium charges for this self-insured program are assessed to other funds each year based on historical costs.

#### 14 – COMMITMENTS AND CONTINGENCIES, continued

The City purchases stop loss insurance for the City's PPO. This stop loss insurance covers individual claims that exceed \$500,000 per calendar year, up to a maximum of \$1 million. During fiscal year 2005, two claims exceeded the stop loss limit of \$500,000; during fiscal year 2004, no claim exceeded the stop loss limit of \$500,000; and one claim exceeded the stop loss limit of \$500,000 in fiscal year 2003. City coverage is limited to \$1 million in lifetime benefits. The City does not purchase stop loss insurance for workers' compensation claims.

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

Liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The City utilizes actuarial information and historical claim settlement trends to determine the claim liabilities for the Employee Benefits Fund and Workers' Compensation Fund. Claims liabilities for the Liability Reserve Fund are calculated based on an estimate of outstanding claims, which may differ from the actual amounts paid. The amount to be paid out ultimately may vary from the amount accrued at September 30, 2005. Possible losses are estimated to range from \$28.8 to \$45.1 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):

	<b>Employee Benefits</b>		<b>Liability Reserve</b>		<b>Workers' Compensation</b>	
	2005	2004	2005	2004	2005	2004
Liability balances, beginning of year	\$ 4,940	5,541	13,158	20,080	9,342	9,127
Claims and changes in estimates	3,252	4,460	6,091	3,601	4,295	4,592
Claim payments	(3,252)	(5,061)	(5,330)	(10,523)	(3,678)	(4,377)
Liability balances, end of year	<u>\$ 4,940</u>	<u>4,940</u>	<u>13,919</u>	<u>13,158</u>	<u>9,959</u>	<u>9,342</u>

The Liability Reserve Fund claims liability balance at fiscal year end includes liabilities of \$4 million discounted at 4.72% in 2005 and \$4.4 million discounted at 4.78% in 2004.

#### I -- Environmental Remediation Contingencies

The Electric Fund may incur costs for environmental remediation of certain sites including the Holly and Seaholm Power Plants. The financial statements include a liability of \$13 million at September 30, 2005. This amount includes the cost of penalties associated with an Environmental Protection Agency (EPA) PCB inspection and estimated remaining costs for the remediation of the contaminated sites. The Electric Fund anticipates payment of these costs in 2006 and future years.

The EPA issued an Administrative Order to the Water and Wastewater Utility on April 29, 1999. The Administrative Order requires the Utility to perform a series of activities designed to result in an improved system free from sanitary sewer overflows. These activities include Infiltration/Inflow, Sanitary Sewer Evaluation Studies, as well as subsequent design and construction of necessary improvements to the wastewater collection system to eliminate overflows by December 2009. Construction costs are estimated to be \$300 million, and the Utility is on schedule to comply with the Administrative Order.

The Airport Fund may also incur costs for the environmental remediation of certain sites and has recorded an estimated liability of \$1.1 million in the financial statements.



#### 14 – COMMITMENTS AND CONTINGENCIES, continued

##### m -- Redevelopment of Robert Mueller Municipal Airport

In December 2004, City Council approved a master development agreement with Catellus Development Corporation (Catellus) to develop approximately 750 acres at the former site of the City's municipal airport near downtown Austin. Both the City and Catellus have numerous obligations under the agreement. Catellus will develop and market the property. The City will issue debt to fund infrastructure such as streets, drainage facilities, public parks and greenways, which will be supported by taxes generated from this development. Additional water and wastewater infrastructure will also be constructed to enhance utility services to this site. To date, a portion of the property has been sold and construction has begun on a new children's hospital. In August 2005, the developer filed a site plan for the regional retail portion of the property. This action triggers a requirement that the City or the Mueller Local Government Corporation (LGC), created by the City for this development, issue debt to be supported by the estimated sales tax revenue generated from the retail. It is expected that this debt will be issued by the LGC in spring 2006.

##### n -- Other Commitments and Contingencies

The City is committed under various leases for building and office space, tracts of land and rights of way, and certain equipment. These leases are considered operating leases for accounting purposes. Lease expense for the year ended September 30, 2005, was \$17.5 million. The City expects these leases to be replaced with similar leases in the ordinary course of business. Future minimum lease payments for these leases will remain approximately the same.

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

The following summarizes assets recorded at September 30, 2005, under capital lease obligations (in thousands):

Assets	Governmental Activities	Business-type Activities				
		Electric	Water and Wastewater	Airport	Nonmajor	Total
Building and improvements	\$ --	21,604	13,429	--	--	35,033
Equipment	2,164	528	180	917	476	2,101
Accumulated depreciation	(954)	(10,281)	(4,714)	(210)	(279)	(15,484)
Net assets	\$ 1,210	11,851	8,895	707	197	21,650

##### o -- Hurricane Disaster Assistance

On September 2, 2005, the City began receiving displaced persons from Hurricane Katrina. Upon arrival, evacuees were transported to the Austin Convention Center, where emergency shelter and medical services were provided. Over the course of sheltering operations, which ended September 29<sup>th</sup>, approximately 4,500 evacuees were sheltered. As of end of the fiscal year, the City has accumulated approximately \$3.5 million in costs eligible to be reimbursed by FEMA.

On September 23, 2005, Hurricane Rita struck the coast of Texas and Louisiana. Many residents of the coastal area fled prior to Rita making landfall. The City and other area entities provided sheltering operations for evacuees. The extent of costs incurred by the City is anticipated to be significantly less than costs incurred from the Hurricane Katrina disaster.

## 15 – OTHER POST-EMPLOYMENT BENEFITS

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

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

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

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

<u>Years of Service</u>	<u>Retiree only</u>	<u>Dependent only</u>
Less than 5 years	15% - 16%	9% - 13%
5 to 9 years	24%	15% - 20%
10 to 14 years	40%	25% - 33%
15 to 20 years	56%	35% - 46%
Greater than 20 years	80%	50% - 66%

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

Other post-employment benefits are expensed and funded on a pay-as-you-go basis. The City recognizes the cost of providing these benefits as an expense and corresponding revenue in the Employee Benefits Fund. Medical, dental and life insurance claims and premiums are reported in the Employee Benefits Fund. The estimated cost of providing these benefits for 2,554 retirees was \$13.3 million in 2005, and \$13.7 million in 2004 for 2,443 retirees.

As more fully described in Note 14, the City is a participant in the South Texas Project Nuclear Operating Company (STPNOC) and as such is liable for certain post-employment benefits for STPNOC employees. At December 31, 2004, the City's portion of this obligation, \$7.8 million, is not reflected in the financial statements of the Electric Fund.

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## 16 – SUBSEQUENT EVENTS

### a -- Water and Wastewater System Revenue Bond Refunding Issues

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

In November 2005, the City signed a bond purchase agreement with Morgan Keegan & Company, Inc. to issue \$63,100,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2006. The bonds are expected to be available for delivery on or about August 17, 2006. The bonds will refund \$63,360,000 of combined utility system revenue refunding bonds.

### b -- Hurricane Katrina - Temporary Housing

In October 2005, the City received \$12.8 million from the State of Texas for public assistance to help assist evacuees affected by Hurricane Katrina, of which \$3.5 million was accrued at September 30, 2005. The funds were passed through the State from the Federal Emergency Management Agency (FEMA).

The City has entered into lease agreements with area housing facilities to assist evacuees with temporary housing. Costs include rent, utilities, and other housing-related costs; the approximate length of the lease agreements is six months. The City anticipates most, if not all costs to be eligible for reimbursement by FEMA.





**General Fund**  
**Schedule of Revenues, Expenditures, and Changes in**  
**Fund Balances--Budget and Actual-Budget Basis**  
**For the year ended September 30, 2005**  
**(In thousands)**

City of Austin, Texas  
RSI-1

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	2005					
	Actual	Adjustments (1) (2)	Actual- Budget Basis	Budget		Variance (3) Positive (Negative)
				Original	Final	
<b>REVENUES</b>						
Taxes	\$ 264,786	--	264,786	263,534	263,534	1,252
Franchise fees	28,973	--	28,973	28,564	28,564	409
Fines, forfeitures and penalties	17,529	--	17,529	17,150	17,150	379
Licenses, permits and inspections	17,399	--	17,399	14,532	14,532	2,867
Charges for services/goods	23,064	--	23,064	22,556	22,556	508
Interest and other	10,691	(515)	10,176	8,202	8,202	1,974
<b>Total revenues</b>	<b>362,442</b>	<b>(515)</b>	<b>361,927</b>	<b>354,538</b>	<b>354,538</b>	<b>7,389</b>
<b>EXPENDITURES</b>						
General government						
Municipal Court	8,699	73	8,772	8,941	8,875	103
Public safety						
Police	173,358	(1,248)	172,110	172,314	172,114	4
Fire	91,530	(557)	90,973	89,827	89,827	(1,146)
Emergency Medical Services	30,831	(1,136)	29,695	30,120	30,120	425
Public Safety & Emergency Mgmt	616	(215)	401	--	368	(33)
Transportation, planning and sustainability						
Transportation, Planning and Sustainability	473	(184)	289	160	160	(129)
Public health:						
Health	26,715	(83)	26,632	26,859	26,860	228
Public recreation and culture						
Parks and Recreation	28,077	(145)	27,932	28,248	27,975	43
Austin Public Library	17,068	170	17,238	17,410	17,410	172
Urban growth management						
Neighborhood Planning and Zoning	3,505	--	3,505	3,744	3,844	339
Development Services and						
Watershed Protection	11,700	(28)	11,672	12,046	12,046	374
General city responsibilities (4)	52,044	(38,389)	13,655	13,866	13,866	211
<b>Total expenditures</b>	<b>444,616</b>	<b>(41,742)</b>	<b>402,874</b>	<b>403,535</b>	<b>403,465</b>	<b>591</b>
Excess (deficiency) of revenues						
over expenditures	(82,174)	41,227	(40,947)	(48,997)	(48,927)	7,980
<b>OTHER FINANCING SOURCES (USES)</b>						
Capital leases	932	(932)	--	--	--	--
Transfers in	94,451	8,615	103,066	94,966	95,066	8,000
Transfers out	(14,154)	(40,627)	(54,781)	(53,840)	(54,854)	73
<b>Total other financing sources (uses)</b>	<b>81,229</b>	<b>(32,944)</b>	<b>48,285</b>	<b>41,126</b>	<b>40,212</b>	<b>8,073</b>
Excess (deficiency) of revenues and						
other sources over expenditures						
and other uses	(945)	8,283	7,338	(7,871)	(8,715)	16,053
Special items - hospital district reserve payment	--	7,700	7,700	7,700	7,700	--
Fund balance at beginning of year	106,287	(53,768)	52,519	34,245	32,945	19,574
<b>Fund balance at end of year</b>	<b>\$ 105,342</b>	<b>(37,785)</b>	<b>67,557</b>	<b>34,074</b>	<b>31,930</b>	<b>35,627</b>

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

## 1 – BUDGET BASIS REPORTING

### a -- General

The City of Austin prepares its annual operating budget based on the modified accrual basis. Encumbrances constitute the equivalent of expenditures for budgetary purposes. In order to provide a meaningful comparison of actual results to the budget, the Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual-Budget Basis for the General Fund presents the actual and actual-budget basis amounts in comparison with original and final budgets.

The General Fund budget includes other revenues and requirements, which are presented in the general city responsibilities category. The expenditure budget for these general city requirements includes the following: tuition reimbursement (\$85,000), accrued payroll (\$1,427,122), expenditures for workers' compensation (\$6,942,613), liability reserve (\$2,500,000) and public safety (\$2,411,190).

### b -- Reconciliation of GAAP Basis and Budget Basis Amounts

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

	<b>General Fund</b>
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis	\$ (945)
Adjustments - increases (decreases) due to:	
Net compensated absences accrual	(63)
Outstanding encumbrances established in current year	(3,730)
Payments against prior year encumbrances	3,678
Transfer to Airport Fund	(700)
Transfer from Budget Stabilization reserve	8,000
Other	1,098
Excess (deficiency) of revenues and other sources over expenditures and other uses - budget basis	<u>\$ 7,338</u>

### c -- Budget Amendments

The original budget of the General Fund was amended several times during fiscal year 2005 for increased public safety costs, capital improvements and transfers in, offset by decreases in expenditures and funding from remaining fund balances. The original and final budget is presented in the accompanying financial statements.

## RETIREMENT PLANS

### Trend Information

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

Valuation Date, December 31st	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
City Employees						
1995	\$ 707,300	623,000	(84,300)	113.5%	221,000	(38.1%)
1997	856,423	832,140	(24,283)	102.9%	219,208	(11.1%)
1999	1,105,100	1,044,500	(60,600)	105.8%	244,500	(24.8%)
2001	1,311,288	1,360,270	48,982	96.4%	316,793	15.5%
2002	1,250,851	1,440,199	189,348	86.9%	322,008	58.8%
2003	1,348,800	1,551,800	203,000	86.9%	312,800	64.9%
2004	1,356,800	1,678,200	321,400	80.8%	326,600	98.4%
Police Officers						
1995	\$ 127,572	164,865	37,293	77.4%	36,211	103.0%
1997	168,602	222,703	54,101	75.7%	47,189	114.6%
1999	226,913	257,850	30,937	88.0%	54,695	56.6%
2001	284,761	347,548	62,787	81.9%	69,707	90.1%
2002	298,782	384,992	86,210	77.6%	79,236	108.8%
2003	320,354	413,965	93,611	77.4%	80,959	115.6%
2004	343,447	451,580	108,133	76.1%	86,674	124.8%
Fire Fighters (2)						
1995	\$ 213,403	236,994	23,591	90.0%	32,496	72.6%
1997	268,241	279,472	11,231	96.0%	35,130	32.0%
1999	341,593	317,223	(24,370)	107.7%	38,690	(63.0%)
2001	395,371	406,266	10,895	97.3%	49,726	21.9%
2003	421,136	452,669	31,533	93.0%	55,939	56.4%

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

(2) The actuarial study for the Fire Fighters' plan is performed biannually.



## **APPENDIX C**

### **Form of Bond Counsel's Opinions**

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## **Proposed Form of Opinion of Bond Counsel**

*An opinion in substantially the following form will be delivered by  
McCall, Parkhurst & Horton L.L.P., Bond Counsel,  
upon the delivery of the Bonds, assuming no material changes in facts or law.*

**CITY OF AUSTIN, TEXAS  
PUBLIC IMPROVEMENT BONDS,  
SERIES 2006,  
DATED SEPTEMBER 1, 2006,  
IN THE PRINCIPAL AMOUNT OF \$31,585,000**

AS BOND COUNSEL for the City of Austin, Texas (the "City"), the issuer of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which Bonds are issued in the aggregate principal amount of \$31,585,000. The Bonds bear interest from the date and mature on the dates specified on the face of the Bonds, and are subject to redemption prior to maturity on the dates and in the manner specified in the Bonds, all in accordance with the ordinance of the City authorizing the issuance of the Bonds (the "Ordinance"). Terms used herein and not otherwise defined shall have the meaning given in the Ordinance.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, the charter of the City, certified copies of the proceedings of the City, and other proofs authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (Bond No. R-1); however, we express no opinion with respect to any statement of insurance printed on the Bonds.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been authorized, issued and delivered in accordance with the Constitution and laws of the State of Texas, and the Bonds constitute valid and legally binding obligations of the City; and that the ad valorem taxes, upon all taxable property within the City, necessary to pay the interest on and principal of said Bonds, have been pledged for such purpose, within the limits prescribed by the Constitution and the charter of the City. The opinion hereinbefore expressed is qualified to the extent that the obligations of the City, and the enforceability thereof, are subject to applicable bankruptcy, reorganization or similar laws relating to or affecting creditors' rights generally, and the exercise of judicial discretion in accordance with general principles of equity.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property financed therewith. We call your attention to the fact that if

such representations are determined to be inaccurate or upon a failure by the City to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Bonds, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the City, and, in that capacity, we have been engaged by the City 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 from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the City, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the City as to the current outstanding indebtedness of, and assessed valuation of taxable property within the City. 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.

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 (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local

obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer. We observe that the City has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

Respectfully,

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## **Proposed Form of Opinion of Bond Counsel**

*An opinion in substantially the following form will be delivered by  
McCall, Parkhurst & Horton L.L.P.,  
Bond Counsel, upon the delivery of the Certificates of Obligation,  
assuming no material changes in facts or law.*

**CITY OF AUSTIN, TEXAS  
CERTIFICATES OF OBLIGATION,  
SERIES 2006,  
DATED SEPTEMBER 1, 2006,  
IN THE PRINCIPAL AMOUNT OF \$24,150,000**

AS BOND COUNSEL for the City of Austin, Texas (the "City"), the issuer of the certificates of obligation described above (the "Certificates"), we have examined into the legality and validity of the Certificates, which Certificates are issued in the aggregate principal amount of \$24,150,000. The Certificates bear interest from the date and mature on the dates specified on the face of the Certificates, and are subject to redemption prior to maturity on the dates and in the manner specified on the face of the Certificates, all in accordance with the ordinance of the City authorizing the issuance of the Certificates (the "Ordinance"). Terms used herein and not otherwise defined shall have the meaning given in the Ordinance.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, the charter of the City, certified copies of the proceedings of the City, and other proofs authorizing and relating to the issuance of the Certificates, including one of the executed Certificates (Certificate No. R-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Certificates have been authorized, issued and delivered in accordance with the Constitution and laws of the State of Texas, and the Certificates constitute valid and legally binding obligations of the City; and that the ad valorem taxes, upon all taxable property within the City, necessary to pay the interest on and principal of said Certificates, have been pledged for such purpose, within the limits prescribed by the Constitution and the charter of the City and that the principal of and interest on the Certificates of Obligation are additionally secured by and payable from the surplus revenues received by the City from the operation of the City's solid waste disposal system; provided, that the amount of such pledge of surplus revenues shall not exceed \$1,000.00. The opinion hereinbefore expressed is qualified to the extent that the obligations of the City, and the enforceability thereof, are subject to applicable bankruptcy, reorganization or similar laws relating to or affecting creditors' rights generally, and the exercise of judicial discretion in accordance with general principles of equity.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Certificates is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this

opinion. We are further of the opinion that the Certificates are not "specified private activity bonds" and that, accordingly, interest on the Certificates will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Certificates and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the City to comply with such covenants, interest on the Certificates may become includable in gross income retroactively to the date of issuance of the Certificates.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Certificates.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Certificates, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Certificates, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Certificates is as Bond Counsel for the City, and, in that capacity, we have been engaged by the City 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 from gross income of the interest on the Certificates for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the City, or the disclosure thereof in connection with the sale of the Certificates, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Certificates and have relied solely on certificates executed by officials of the City as to the current outstanding indebtedness of, and assessed valuation of taxable property within the City. 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.

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 (the "Service"); rather, such opinions represent our legal judgment



based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Certificates. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer. We observe that the City has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Certificates as includable in gross income for federal income tax purposes.

Respectfully,

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## **Proposed Form of Opinion of Bond Counsel**

*An opinion in substantially the following form will be delivered by  
McCall, Parkhurst & Horton L.L.P.,  
Bond Counsel, upon the delivery of the Contractual Obligations,  
assuming no material changes in facts or law.*

**CITY OF AUSTIN, TEXAS  
PUBLIC PROPERTY FINANCE  
CONTRACTUAL OBLIGATIONS,  
SERIES 2006,  
DATED SEPTEMBER 1, 2006,  
IN THE PRINCIPAL AMOUNT OF \$14,120,000**

AS BOND COUNSEL for the City of Austin, Texas (the "City"), the issuer of the public property finance contractual obligations described above (the "Contractual Obligations"), we have examined into the legality and validity of the Contractual Obligations, which Contractual Obligations are issued in the aggregate principal amount of \$14,120,000. The Contractual Obligations bear interest from the date and mature on the dates specified on the face of the Contractual Obligations, all in accordance with the ordinance of the City authorizing the issuance of the Contractual Obligations (the "Ordinance"). Terms used herein and not otherwise defined shall have the meaning given in the Ordinance.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, the charter of the City, certified copies of the proceedings of the City, and other proofs authorizing and relating to the issuance of the Contractual Obligations, including one of the executed Contractual Obligations (Contractual Obligation No. R-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Contractual Obligations have been authorized, issued and delivered in accordance with the Constitution and laws of the State of Texas, and the Contractual Obligations constitute valid and legally binding obligations of the City; and that the ad valorem taxes, upon all taxable property within the City, necessary to pay the interest on and principal of said Contractual Obligations, have been pledged for such purpose, within the limits prescribed by the Constitution and the charter of the City. The opinion hereinbefore expressed is qualified to the extent that the obligations of the City, and the enforceability thereof, are subject to applicable bankruptcy, reorganization or similar laws relating to or affecting creditors' rights generally, and the exercise of judicial discretion in accordance with general principles of equity.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Contractual Obligations is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Contractual Obligations are not "specified private activity bonds" and that, accordingly, interest on the Contractual Obligations

will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Contractual Obligations and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the City to comply with such covenants, interest on the Contractual Obligations may become includable in gross income retroactively to the date of issuance of the Contractual Obligations.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Contractual Obligations.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Contractual Obligations, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Contractual Obligations, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Contractual Obligations is as Bond Counsel for the City, and, in that capacity, we have been engaged by the City 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 from gross income of the interest on the Contractual Obligations for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the City, or the disclosure thereof in connection with the sale of the Contractual Obligations, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Contractual Obligations and have relied solely on certificates executed by officials of the City as to the current outstanding indebtedness of, and assessed valuation of taxable property within the City. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Contractual Obligations has been limited as described therein.

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 (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Contractual Obligations. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer. We observe that the City has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Contractual Obligations as includable in gross income for federal income tax purposes.

Respectfully,

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## **APPENDIX D**

### **Form of Specimen Insurance Policy**

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**CIFG Assurance North America, Inc.**  
**825 Third Avenue, Sixth Floor**  
**New York, NY 10022**  
**For information, contact (212) 909-3939**  
**Toll-free (866) 243-4212**

## FINANCIAL GUARANTY INSURANCE POLICY

ISSUER: \_\_\_\_\_

Policy No.: CIFG NA-##

CUSIP: \_\_\_\_\_

Effective Date: \_\_\_\_\_, 200\_\_

OBLIGATIONS: \_\_\_\_\_

CIFG ASSURANCE NORTH AMERICA, INC. ("CIFG NA"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY GUARANTEES to each Policyholder, subject only to the terms and conditions of this Policy (which includes each endorsement hereto), the full and complete payment by or on behalf of the Issuer of Regular Payments of principal of and interest on the Obligations.

For the further protection of each Policyholder, CIFG NA irrevocably and unconditionally guarantees:

(1) payment of any amount required to be paid under this Policy by CIFG NA following CIFG NA's receipt of notice and instruments of assignment as described in Endorsement No. 1 hereto and

(2) payment of the amount of any distribution of principal of and interest on the Obligations made during the Term of this Policy to such Policyholder that is subsequently avoided in whole or in part as a preference payment under applicable law, all as described in Endorsement No. 1 hereto.

CIFG NA shall be subrogated to the rights of each Policyholder to receive payments under the Obligations to the extent of any payment by CIFG NA hereunder. Upon disbursement in respect of an Obligation, CIFG NA shall become the owner of the Obligation, appurtenant coupon, if any, and all rights to payment of principal thereof or interest thereon.

The following terms shall have the meanings specified below, subject to and including any modifications set forth in any endorsement hereto, for all purposes of this Policy. "Effective Date," "Issuer" and "Obligations" mean, respectively, the Effective Date, Issuer and Obligations referenced above. "Policyholder" means, if the Obligations are in book-entry form, the registered owner of any Obligation as indicated on the registration books maintained by or on behalf of the Issuer for such purpose or, if the Obligations are in bearer form, the holder of any Obligation; *provided, however, that* any trustee acting on behalf of and for the benefit of such registered owner or holder shall be deemed to be the Policyholder to the extent of such trustee's authority. "Regular Payments" means payments of interest and principal which are agreed to be made during the Term of this Policy in accordance with the original terms of the Obligations when issued and without regard to any amendment or modification of such Obligations thereafter; payments which become due on an accelerated basis as a result of (a) a default by the Issuer or any other person, (b) an election by the Issuer to pay principal or other amounts on an accelerated basis or (c) any other cause, shall not constitute "Regular Payments" unless CIFG NA shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration. "Term of this Policy" has the meaning set forth in Endorsement No. 1 hereto.

This Policy sets forth in full the undertaking of CIFG NA, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto or to the Obligations (except a contemporaneous or subsequent agreement or instrument given by CIFG NA or to which CIFG NA has given its written consent) or by the merger, consolidation or dissolution of the Issuer. The premiums paid in respect of this Policy are nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Obligations prior to maturity. This Policy may not be cancelled or revoked during the Term of this Policy, including for nonpayment of premium due to CIFG NA. Payments under this Policy may not be accelerated except at the sole option of CIFG NA.

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

CIFG ASSURANCE NORTH AMERICA, INC.

By \_\_\_\_\_  
Authorized Officer