OFFICIAL STATEMENT

CITY OF AUSTIN, TEXAS

$76,045,000
Public Improvement Bonds, Series 2008

$10,700,000
Certificates of Obligation, Series 2008

$26,715,000
Public Property Finance Contractual Obligations, Series 2008

Dated: August 28, 2008

OFFICIAL STATEMENT DATED AUGUST 28, 2008

Ratings: Moody's: "Aa1"
Standard & Poor's: "AAA"
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.

$76,045,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
Public Improvement Bonds, Series 2008

Dated: August 15, 2008 | Due: September 1, as shown below

Interest on the $76,045,000 City of Austin, Texas Public Improvement Bonds, Series 2008 (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, 2009, until maturity or prior redemption, and will be calculated on the basis of a 360–day year consisting of twelve 30–day months. The City of Austin, Texas (the "City") intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on the behalf of DTC to discontinue such system. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer (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

Maturity (September 1)	Amount	Interest Rate	Price or Yield	Maturity (September 1)	Amount	Interest Rate	Price or Yield
2009	$11,000,000	4.000%	1.705%	2019	$ 3,960,000	4.000%	4.020%
2010	***	***	***	2020	4,175,000	4.000%	4.170%
2011	3,425,000	3.500%	2.550%	2021	4,405,000	4.250%	4.290%
2012	465,000	3.500%	2.770%	2022	4,650,000	5.000%	4.400%*
2013	100,000	3.500%	2.970%	2023	4,905,000	5.000%	4.460%*
2014	100,000	3.500%	3.170%	2024	3,075,000	4.500%	4.620%
2015	100,000	3.500%	3.330%	2025	3,360,000	4.500%	4.680%
2016	100,000	3.750%	3.490%	2026	4,325,000	4.625%	4.730%
2017	100,000	3.750%	3.670%	2027	10,015,000	4.750%	4.780%
2018	3,750,000	4.000%	3.820%	2028	14,035,000	4.750%	4.820%

*Priced to call date.

(Plus Accrued Interest from August 15, 2008)

The City reserves the right, at its option, to redeem Bonds having stated maturities on and after September 1, 2019, in whole or in part in the principal amounts of $5,000 or any integral multiple thereof, on September 1, 2018, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see "OBLIGATION INFORMATION – Optional Redemption").

The initial reoffering yields were supplied to the City by the Purchaser. The initial reoffering yields shown above will produce compensation to the Purchaser of approximately $401,177.65.

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 7, 2008.

OFFICIAL STATEMENT DATED AUGUST 28, 2008

Ratings: Moody's: "Aa1"
Standard & Poor's: "AAA"
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 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.

$10,700,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
Certificates of Obligation, Series 2008

Dated: August 15, 2008 Due: September 1, as shown below

Interest on the $10,700,000 City of Austin, Texas Certificates of Obligation, Series 2008 (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, 2009, until maturity or prior redemption, and will be calculated on the basis of a 360–day year consisting of twelve 30–day months. The City of Austin, Texas (the "City") intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on the behalf of DTC to discontinue such system. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer (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.

MATURITY SCHEDULE

CUSIP Prefix: 052396

Maturity (September 1)	Amount	Interest Rate	Price or Yield	Maturity (September 1)	Amount	Interest Rate	Price or Yield
2009	$305,000	3.000%	1.750%	2018	$495,000	5.000%	3.850%
2010	325,000	3.000%	2.120%	2019	525,000	4.000%	4.030%
2011	340,000	3.000%	2.530%	2020	555,000	4.000%	4.270%
2012	360,000	3.250%	2.730%	2021	585,000	4.250%	4.400%
2013	380,000	3.250%	2.930%	2022	615,000	4.375%	4.500%
2014	400,000	3.250%	3.100%	2023	650,000	4.375%	4.560%
2015	425,000	5.000%	3.250%	2024	685,000	4.500%	4.620%
2016	445,000	5.000%	3.420%	2025	725,000	4.500%	4.680%
2017	470,000	5.000%	3.600%				

$2,415,000 Term Certificates maturing September 1, 2028 priced at 4.625% to yield 4.800%

(Plus Accrued Interest from August 15, 2008)

The City reserves the right, at its option, to redeem Certificates having stated maturities on and after September 1, 2019, in whole or in part in the principal amounts of $5,000 or any integral multiple thereof, on September 1, 2018, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see "OBLIGATION INFORMATION – Optional Redemption"). The Term Certificates are subject to mandatory sinking fund redemption prior to their scheduled maturity (see "OBLIGATION INFORMATION – Mandatory Redemption").

The initial reoffering yields were supplied to the City by the Purchaser. The initial reoffering yields shown above will produce compensation to the Purchaser of approximately $72,865.00.

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 7, 2008.

OFFICIAL STATEMENT DATED AUGUST 28, 2008

Ratings: Moody's: "Aa1"
Standard & Poor's: "AAA"
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.

$26,715,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
Public Property Finance Contractual Obligations, Series 2008

Dated: August 15, 2008 Due: May 1 and November 1, as shown below

Interest on the $26,715,000 City of Austin, Texas Public Property Finance Contractual Obligations, Series 2008 (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, 2009, and will be calculated on the basis of a 360–day year consisting of twelve 30–day months. The City of Austin, Texas (the "City") intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on the behalf of DTC to discontinue such system. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer (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 and other personal property for use by various City departments and to pay costs of issuance of the Contractual Obligations.

MATURITY SCHEDULE

CUSIP Prefix: 052396

Maturity (May 1)	Amount	Interest Rate	Price or Yield	Maturity (November 1)	Amount	Interest Rate	Price or Yield
2009	$1,485,000	4.000%	1.750%	2009	$1,705,000	4.000%	1.900%
2010	1,740,000	3.000%	2.100%	2010	1,780,000	3.000%	2.150%
2011	1,815,000	3.250%	2.480%	2011	1,855,000	3.000%	2.530%
2012	1,895,000	3.250%	2.750%	2012	1,935,000	3.250%	2.780%
2013	1,975,000	3.250%	2.920%	2013	2,020,000	3.250%	2.950%
2014	2,060,000	3.500%	3.100%	2014	2,105,000	3.500%	3.120%
2015	2,150,000	3.500%	3.260%	2015	2,195,000	3.500%	3.260%

(Plus Accrued Interest from August 15, 2008)

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

The initial reoffering yields were supplied to the City by the Purchaser. The initial reoffering yields shown above will produce compensation to the Purchaser of approximately $96,580.26.

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 7, 2008.

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

		Term Expires June 20
Will Wynn	Mayor	2009
Lee Leffingwell	Councilmember Place 1	2011
Mike Martinez	Councilmember Place 2	2009
Randi Shade	Councilmember Place 3	2011
Laura Morrison	Councilmember Place 4	2011
Brewster McCracken, Mayor Pro Tem	Councilmember Place 5	2009
Sheryl Cole	Councilmember Place 6	2009

Appointed Officials

Marc A. Ott	City Manager
Robert Goode	Assistant City Manager
Sue Edwards	Assistant City Manager
Rudy Garza	Assistant City Manager
Mike McDonald	Assistant City Manager
Bert Lumbreras	Assistant City Manager
Leslie Browder, CPA	Chief Financial Officer
Jeff Knodel, CPA	Deputy Chief Financial Officer
Greg Canally	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

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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.

The Issuer .... 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.

The City is approximately 294 square miles in area (see APPENDIX A – "General Information Regarding the City").

The Bonds .... The Bonds are being issued in the principal amount of $76,045,000 pursuant to the general laws of the State of Texas, particularly Chapter 1331, Texas Government Code, elections held by the City, and an Ordinance passed by the City Council of the City (see "OBLIGATION INFORMATION – Authority for Issuance").

The Certificates .... The Certificates are being issued in the principal amount of $10,700,000 pursuant to the general laws of the State of Texas, particularly Subchapter C, Chapter 271, Texas Local Government Code (the "Certificate of Obligation Act") and an Ordinance passed by the City Council of the City (see "OBLIGATION INFORMATION – Authority for Issuance").

The Contractual Obligations .... The Contractual Obligations are being issued in the principal amount of $26,715,000 pursuant to the general laws of the State of Texas, particularly Subchapter A, Chapter 271, Texas Local Government Code (the "Public Property Finance Act") and an Ordinance passed by the City Council of the City (see "OBLIGATION INFORMATION – Authority for Issuance").

Security .... Each series of the Obligations constitutes a direct obligation of the City, payable from a continuing ad valorem tax levied, within the limits prescribed by law, on taxable property within the City in an amount sufficient to provide for payment of principal of and interest on all ad valorem tax debt. The Certificates are additionally secured by and payable from a limited pledge of the surplus revenues (not to exceed $1,000) of the City's Solid Waste Disposal System.

Redemption of Bonds and Certificates .... The City reserves the right, at its option, to redeem the Bonds and the Certificates having stated maturities on and after September 1, 2019, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on September 1, 2018, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see "OBLIGATION INFORMATION – Optional Redemption"). The Certificates maturing September 1, 2028 are subject to mandatory sinking fund redemption prior to their scheduled maturity (see "OBLIGATION INFORMATION – Mandatory Redemption"). **The Contractual Obligations are not subject to redemption prior to their stated maturities.**

Tax Exemption .... In the opinion of Bond Counsel, the interest on the 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 9-30	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
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	861,158	1,283.31	1.80%	99.23%
2003	674,719	50,759,650,668	75,230.80	891,334	1,321.04	1.76%	99.60%
2004	678,769	49,199,408,526	72,483.29	948,997	1,388.33	1.94%	98.90%
2005	695,881	49,702,906,522	71,424.93	925,423	1,329.86	1.86%	99.60%
2006	714,237	52,349,642,297	73,294.50	936,104	1,310.63	1.79%	100.32%
2007	732,381	60,512,328,889	82,624.11	862,253	1,177.33	1.42%	100.20%
2008	739,543	68,687,927,006	92,878.88	824,873	1,115.38	1.20%	99.52% (3)
2009	752,666	76,455,460,639 (4)	101,579.53	827,104 (5)	1,098.90 (5)	1.08% (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, 2008 based on the July 2008 Certified Tax Roll tax levy.
(4) Certified Appraised Value, including $5,000,839,268 in property in the appeals process.
(5) Projected. Includes the Obligations.

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OFFICIAL STATEMENT

Relating to

$76,045,000
CITY OF AUSTIN, TEXAS
Public Improvement Bonds, Series 2008

$10,700,000
CITY OF AUSTIN, TEXAS
Certificates of Obligation, Series 2008

$26,715,000
CITY OF AUSTIN, TEXAS
Public Property Finance Contractual Obligations, Series 2008

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 $76,045,000 Public Improvement Bonds, Series 2008 (the "Bonds"), $10,700,000 Certificates of Obligation, Series 2008 (the "Certificates") and $26,715,000 Public Property Finance Contractual Obligations, Series 2008 (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, 2008 and shall bear interest on the unpaid principal amounts from such date, at the per annum rates shown on the respective cover pages for each series of Obligations described herein. Interest on the Obligations will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Interest on the Bonds and the Certificates will be payable on March 1, 2009, and on each September 1 and March 1 thereafter until maturity or prior redemption. Interest on the Contractual Obligations will be payable on May 1, 2009, and on each November 1 and May 1 thereafter until maturity. Principal is payable, upon presentation thereof, at the Designated Payment/Transfer Office of the Paying Agent/Registrar (see "Paying Agent/Registrar" herein). Interest thereon is payable by the Paying Agent/Registrar to the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined) and shall be paid by the Paying Agent/Registrar by check mailed by United States mail, first class postage prepaid, to the address of such person as it appears on the registration books of the Paying Agent/Registrar on or before each interest payment date or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the bondholder. The Obligations are issued only as fully registered obligations in denominations of $5,000 or any integral multiple thereof within a maturity.

The record date (the "Record Date") for the interest payable on any interest payment date is the 15th day of the month next preceding such interest payment date, as specified in the Ordinances. In the event of a nonpayment of interest on a scheduled interest payment date, and for 30 days thereafter, a new record date for such interest payment (the "Special Record Date") will be established by the Paying Agent/Registrar, in accordance with the provisions of the Ordinances, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest, which shall be at least 15 days after the Special Record Date, shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of Obligations appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Security

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

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

Bondholder Remedies

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

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.

Optional Redemption

The City reserves the right, at its option, to redeem the Bonds and the Certificates having stated maturities on and after September 1, 2019, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on September 1, 2018, 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.

Mandatory Redemption

The Certificates maturing on September 1, 2028 (the "Term Certificates") are subject to mandatory redemption prior to maturity in part selected by the Paying Agent/Registrar, at 100% of the principal amount thereof plus accrued interest to the date of redemption on the dates, in the years and principal amounts as follows:

Certificates due September 1, 2028	
Redemption Date (September 1)	Amount
2026	$760,000
2027	805,000
2028 (a)	850,000

(a) Maturity.

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

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

Purchases of Obligations under the DTC system must be made by or through Direct Participants, which will receive a credit for the Obligations on DTC's records. The ownership interest of each actual purchaser of each Obligation ("Beneficial Owner") is in turn to be recorded on the 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 Obligations 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 Obligations is discontinued.

To facilitate subsequent transfers, all Obligations deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Obligations with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Obligations; DTC's records reflect only the identity of the Direct Participants to whose accounts such 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 Obligations may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Obligations, such as redemptions, tenders, defaults, and proposed amendments to the Obligation documents. For example, Beneficial Owners of Obligations may wish to ascertain that the nominee holding the Obligations for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Obligations unless authorized by a Direct Participant in accordance with DTC's 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, principal and interest payments on the Obligations will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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

Paying Agent/Registrar

The initial Paying Agent/Registrar for each series of Obligations is U.S. 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 Houston, 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.

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, 2008 Appraised Valuation (1)		$88,294,136,812
Less Local Exemptions to Assessed Values: (2)		
Residential Homestead over 65	$1,227,487,591	
Homestead 10% Increase Cap	2,269,112,810	
Disabled Veterans	37,183,375	
Agricultural and Historical Exemptions	452,444,080	
Disability Exemption	124,003,943	
Other Exemptions	6,076,164,881	
Freeport Exemption	1,652,279,493	11,838,676,173
January 1, 2008 Net Taxable Assessed Valuation (1)		$76,455,460,639

(1) 2008 Certified Appraised Value includes $5,000,839,268 in property in the appeals process.

(2) Exemptions or adjustments to assessed valuation granted in 2008 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, 2008) (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)	$735,890,000	
Certificates of Obligations (1)	106,100,000	
Contractual Obligations (1)	48,540,000	
Assumed Bonds (2)	7,975,000	
The Bonds (3)	76,045,000	
The Certificates (3)	10,700,000	
The Contractual Obligations (3)	26,715,000	
Total		$1,011,965,000
Less Self-Supporting Debt:		
Assumed Bonds (2)	$ 7,213,768	
Airport (4)	291,438	
Austin Energy (4)	1,513,090	
City Hall	28,625,226	
CMTA Mobility (5)	14,395,000	
Communications and Technology Management (4)	10,063,050	
Convention Center (4)	21,845,631	
Financial Services (3)(4)	25,289,892	
Fleet Management (4)	5,435,316	
Golf (4)	5,498,221	
One Texas Center (4)	11,650,000	
Solid Waste (3)(4)	44,406,923	
Transportation (3)(4)	9,743,221	
Water and Wastewater (3)(4)	18,266,579	
Watershed Protection (4)	11,296,581	
Total Self-Supporting		$ 215,533,936
Interest and Sinking Fund, All Public Improvement Bonds (6)		19,078,409
Net Debt (7)		$ 777,352,655
Ratio Total Debt to 2008 Net Taxable Assessed Valuation		1.32%
Ratio Net Debt to 2008 Net Taxable Assessed Valuation		1.02%

2008 Population (Estimate) – 739,543 (8)
Per Capita Net Taxable Assessed Valuation – $103,382.04
Per Capita Net Debt Outstanding – $1,130.97

(1) Excludes the new money issuances.
(2) Represents bonds of utility districts annexed by the City.
(3) Obligations sold August 28, 2008 with delivery October 7, 2008.
(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, 2008.
(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 $11,524,444.
(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 June 30, 2008) $278,369,299 Combined Utility Systems Revenue Bonds payable from a first lien on the combined net revenue of the Electric System and the Water and Wastewater System and $245,614,513 Combined Utility System Revenue Bonds payable from a subordinate lien on the combined net revenue of the Electric System and the Water and Wastewater System; $1,052,520,000 Electric Utility Obligations payable from a subordinate lien on the net revenues of the Electric Utility System; $1,349,555,000 Water and Wastewater Obligations payable from a subordinate lien on the net revenue of the Water and Wastewater System, and $149,085,000 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 June 30, 2008) $361,765,000 Airport System Prior Lien Revenue Bonds payable from revenue of the City's Airport System. The City also has outstanding (as of June 30, 2008) $230,960,000 in Convention Center Bonds, payable from hotel/motel occupancy and rental car tax collections.

Obligations Subject to Annual Appropriation

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

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Valuation and Funded Debt History

Fiscal Year Ended 9-30	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
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	861,158	1,283.31	1.80%	99.23%
2003	674,719	50,759,650,668	75,230.80	891,334	1,321.04	1.76%	99.60%
2004	678,769	49,199,408,526	72,483.29	948,997	1,388.33	1.94%	98.90%
2005	695,881	49,702,906,522	71,424.93	925,423	1,329.86	1.86%	99.60%
2006	714,237	52,349,642,297	73,294.50	936,104	1,310.63	1.79%	100.32%
2007	732,381	60,512,328,889	82,624.11	862,253	1,177.33	1.42%	100.20%
2008	739,543	68,687,927,006	92,878.88	824,873	1,115.38	1.20%	99.52% (3)
2009	752,666	76,455,460,639 (4)	101,579.53	827,104 (5)	1,098.90 (5)	1.08% (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, 2008 based on the July 2008 Certified Tax Roll tax levy.
(4) Certified Appraised Value, including $5,000,839,268 in property in the appeals process.
(5) Projected. Includes the Obligations.

Tax Rate, Levy and Collection History

Fiscal Year Ended 9-30	Total Tax Rate	Distribution General Fund	Distribution Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
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	98.97%	99.60%
2006	0.4430	0.2841	0.1589	231,908,915	99.55%	100.32%
2007	0.4126	0.2760	0.1366	249,673,869	99.61%	100.20%
2008	0.4034	0.2730	0.1304	277,087,098	98.84% (1)	99.52% (1)
2009 (3)	0.4012	0.2749	0.1263	306,739,308	(In process of collection)	

(1) Estimated collections as of June 30, 2008 based on the July 2008 Certified Tax Roll tax levy.
(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) Tax Rate proposal recommendation for the maximum tax rate.

Ten Largest Taxpayers (1)

Name of Taxpayer	Nature of Property	January 1, 2008 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Samsung Semiconductor LLC	Manufacturing	$ 866,978,611	1.13%
Thomas Property Group LLC	Commercial	626,863,204	0.82%
Dell Computer Corporation	Manufacturing	400,679,641	0.52%
Freescale Semiconductor Inc. (2)	Manufacturing	397,226,638	0.52%
IBM Corporation	Manufacturing	258,212,621	0.34%
Spansion LLC (3)	Manufacturing	228,421,723	0.30%
Southwestern Bell Telephone Company	Telephone Utility	176,811,450	0.23%
Behringer Harvard Terrace LP	Commercial	139,848,334	0.18%
Simon Property Group	Commercial	137,008,864	0.18%
Applied Materials Inc	Manufacturing	134,455,795	0.18%
TOTAL		$3,366,506,881	4.40%

(1) Six of the companies represent computer technology manufacturers.
(2) The Motorola Corporation is now Freescale Semiconductor Inc.
(3) The Advanced Micro Devices corporation is now Spansion LLC.
Source: Travis Central Appraisal District.

Property Tax Rate Distribution

	Fiscal Year Ended September 30				
	2005 (1)	2006	2007 (2)	2008	2009 (2)
General Fund	$.2747	$.2841	$.2760	$.2730	$.2749
Interest and Sinking Fund	.1683	.1589	.1366	.1304	.1263
Total Tax Rate	$.4430	$.4430	$.4126	$.4034	$.4012

(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) Tax Rate proposal recommendation for the maximum tax rate.

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Net Taxable Assessed Valuations, Tax Levies and Collections

Fiscal Year Ended 9-30	Valuation Date	Real Property Amount	Real Property % of Total	Personal Property Amount	Personal Property % of Total	Net Taxable Assessed Valuation	Total Tax Levy	% Current Collections	% Total Collections
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 (1)	98.97%	99.60%
2006	1-1-05	46,492,828,677	88.81%	5,856,813,620	11.19%	52,349,642,297	231,908,915	99.55%	100.32%
2007	1-1-06	53,724,137,471	88.78%	6,788,191,418	11.22%	60,512,328,889	249,673,869	99.61%	100.20%
2008	1-1-07	61,411,620,277	89.41%	7,276,306,729	10.59%	68,687,927,006	275,053,175	98.84% (2)	99.52% (2)
2009	1-1-08	68,524,326,704	89.63%	7,931,133,935	10.37%	76,455,460,639	306,739,308	N/A	N/A

(1) 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").
(2) Estimated collections through June 30, 2008 based on the July 2008 Certified Tax Roll tax levy.

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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(a)

Fiscal Year Ending 09/30	Public Improvement Bonds	Certificates of Obligation	Contractual Obligations	Assumed MUDs	The Bonds, The Certificates and The Contractual Obligations	Grand Total Requirements	Less Self-Supporting Requirements (b)	Net Total Requirements	Percent Principal Payout
2009	$ 82,043,243	$ 13,323,374	$ 12,941,246	$ 991,463	$ 17,422,852	$ 126,722,178	$ 33,303,056	$ 93,419,122	
2010	82,029,656	13,110,943	11,967,051	997,573	7,950,294	116,055,517	35,366,271	80,689,246	
2011	80,294,048	13,175,043	10,500,577	1,001,480	11,417,544	116,388,692	34,062,784	82,325,907	
2012	76,749,277	12,903,196	8,165,867	1,003,240	8,388,956	107,210,536	31,458,133	75,752,403	
2013	77,937,526	7,629,814	4,981,444	1,017,960	8,055,125	99,621,869	26,176,802	73,445,067	36.40%
2014	70,233,718	9,701,178	2,632,438	1,214,635	8,100,819	91,882,787	22,614,932	69,267,855	
2015	68,581,653	7,608,919	968,523	1,213,546	8,142,556	86,515,197	18,671,213	67,843,984	
2016	64,286,760	7,642,224	493,845	1,229,024	5,927,306	79,579,159	15,973,779	63,605,380	
2017	66,989,030	6,304,830	497,027	1,011,643	3,692,894	78,495,424	13,058,512	65,436,912	
2018	62,092,136	5,602,481	249,479	716,688	7,340,644	76,001,427	9,897,630	66,103,797	65.06%
2019	56,039,489	8,203,387	-	-	7,405,894	71,648,769	9,641,232	62,007,538	
2020	50,623,763	8,238,103	-	-	7,471,494	66,333,360	9,363,619	56,969,741	
2021	41,032,989	9,592,299	-	-	7,542,294	58,167,582	9,873,066	48,294,516	
2022	33,921,494	7,805,809	-	-	7,605,219	49,332,522	7,240,853	42,091,670	
2023	26,769,153	5,088,805	-	-	7,635,813	39,493,771	4,504,955	34,988,816	87.44%
2024	21,475,292	4,752,516	-	-	5,567,125	31,794,932	4,215,617	27,579,315	
2025	15,434,793	2,807,547	-	-	5,722,925	23,965,265	2,268,978	21,696,287	
2026	19,423,906	2,233,535	-	-	6,539,100	28,196,541	1,872,605	26,323,936	
2027	32,930,208	304,152	-	-	12,038,919	45,273,279	105,100	45,168,179	
2028	-	-	-	-	15,590,975	15,590,975	-	15,590,975	100.00%

(a) As of September 30, 2008

(b) Includes principal and interest on all self-supporting debt (see "Statement of Debt", p. 9).

Estimated Direct and Overlapping Funded Debt Payable From Ad Valorem Taxes (As of 9-30-07) (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.

Taxing Jurisdiction	Total Funded Debt	Estimated % Applicable	Overlapping Funded Debt
Austin, City of	$786,907 (1)	100.00%	$ 786,907
Austin Community College	97,194	84.19%	81,828
Austin Independent School District	521,995	78.30%	408,722
North Austin MUD #1	7,843	100.00%	7,843
Northwest Austin MUD #1	13,875	100.00%	13,875
Northwest Travis County Road District #3	3,765	100.00%	3,765
Round Rock Independent School District	404,939	12.80%	51,832
Travis County	531,805	73.14%	388,962
Del Valle Independent School District	175,575	2.96%	5,197
Eanes Independent School District	141,250	3.70%	5,226
Leander Independent School District	696,345	1.47%	10,236
Manor Independent School District	177,252	2.13%	3,775
Pflugerville Independent School District	282,400	4.84%	13,668
Williamson County	682,392	4.09%	27,910
TOTAL DIRECT AND OVERLAPPING FUNDED DEBT			$1,809,746
Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation (2)			2.99%
Per Capita Overlapping Funded Debt (3)			$2,471.04

(1) Excludes general obligation debt reported in proprietary funds.
(2) Based on assessed valuation of $60,512,329,889 provided by the Travis Central Appraisal District and Williamson County Appraisal District.
(3) Based on 2007 estimated population of 732,381.

Source: Outstanding debt and percentage of overlapping area with the City are provided by the taxing jurisdictions.

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

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. It is anticipated that the hospital district will assume and fund health care facilities and services currently provided by the City, and funded from ad valorem taxes assessed to residents of the City and Travis County. 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". The Hospital District approved the levy for its 2004-2005 fiscal year of an ad valorem tax rate of $0.0779.

Authorized General Obligation Bonds

Purpose	Date Authorized	Amount Authorized	Amount Previously Issued	Amount Being Issued	Unissued Balance
Brackenridge 2000	10-22-83	$ 50,000,000	$40,785,000	$	$ 9,215,000
Parks Improvements	09-08-84	9,975,000	9,648,000	-	327,000
Cultural Arts	01-19-85	20,285,000	14,890,000	-	5,395,000
Street Improvements	11-07-00	150,000,000	105,002,000	15,000,000	29,998,000
Transportation (Prop 1)	11-07-06	103,100,000	10,000,000	15,200,000	77,900,000
Drainage Improvements (Prop 2)	11-07-06	145,000,000	37,000,000	26,000,000	82,000,000
Park Improvements (Prop 3)	11-07-06	84,700,000	8,675,000	11,345,000	64,680,000
Cultural Arts (Prop 4)	11-07-06	31,500,000	0	-	31,500,000
Affordable Housing (Prop 5)	11-07-06	55,000,000	5,000,000	8,500,000	41,500,000
Central Library (Prop 6)	11-07-06	90,000,000	0	-	90,000,000
Public Safety Facility (Prop 7)	11-07-06	58,100,000	21,850,000	-	36,250,000
TOTAL		$797,660,000	$252,850,000	$76,045,000	$468,765,000

Anticipated Issuance of General Obligation Bonds

The City does not anticipate the issuance of additional general obligation bonds before the fall of 2009. 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.

2008-2009 Capital Budget

The 2008-2009 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 2008-2009 of $749.4 million in enterprise funds and $228.7 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 2008-09 Capital Budget. Total new proposed appropriation for General Government CIP Funds is $141.1 million and total new proposed appropriation for Enterprise CIP Funds is $831.9 million. Appropriation by department is listed below.

Summary of 2008-2009 Proposed Capital Budget (millions):	
Austin Energy	$245.4
Aviation	43.9
Austin Water Utility	512.3
Convention Center	11.0
Watershed Protection	19.3
Enterprise Appropriations	$831.9
Communications & Technology Management	$ 3.3
Emergency Medical Services (EMS)	2.3
Financial & Administrative Services	5.3
Fire	1.0
Fleet	0.5
Health & Human Services	9.1
Library	18.7
Neighborhood Housing & Community Development	11.3
Neighborhood Planning & Zoning	1.3
Parks and Recreation	22.1
Police	5.3
Public Works	40.7
Public Works	20.0
General Government Appropriations	$140.9
TOTAL PROPOSED NEW APPROPRIATIONS	$972.8

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

2008–2009 Budget (Amounts are in thousands)

The 2008-2009 operating budget was presented on July 23, 2008, and was prepared in accordance with guidelines provided by the City Council. The proposed budget includes a tax rate of $0.4028 per $100 assessed valuation, which is above the effective tax rate of $0.3780 but below the nominal rate of $0.4034. The proposed budget was based on an estimated 2008 certified tax roll. The actual 2008 certified tax roll received following the proposed budget resulted in revised tax rates. The City Council has approved a proposal for a maximum tax rate to consider adoption of $0.4012 per $100 assessed valuation, which is above the effective tax rate of $0.3763 but below the nominal rate of $0.4034. The property tax revenue in the proposed budget is not significantly different with the revised tax rates. The following is a summary of the proposed 2008-2009 General Fund Budget.

Beginning Balance, October 1, 2008 (Budget Basis) (000's omitted)		$ 0
Summary of Budgeted General Fund Resources		
Revenue:		
General Property Taxes	$209,059	
City Sales Tax	160,848	
Other Taxes	6,085	
Gross Receipts/Franchise Fees	33,834	
Miscellaneous	88,198	
Total Revenue		498,024
Transfers In:		
Electric Light and Power System	95,000	
Water and Wastewater System	26,505	
Other Transfers	1,200	
Total Transfers In		122,705
Total General Fund Resources		620,729
Summary of Budgeted General Fund Requirements		
Departmental Appropriations:		
Administrative Services	11,865	
Urban Growth Management	21,502	
Public Safety	405,280	
Public Works	325	
Public Health and Human Services	39,521	
Public Recreation and Culture	60,712	
Total Departmental Appropriations		539,205
Transfers Out:		
Support Services Fund	25,162	
Other Funds	35,897	
Total Transfers Out		61,059
Other Requirements		20,465
Total General Fund Requirements		620,729
Use of Beginning Balance		0
Ending Balance		0
One-Time Retirement Increase – 1%		2,456
One-Time Critical Equipment		7,999
Transfer to/from Budget Stabilization Reserve		(10,455)
Adjusted Ending Balance		0
Budgeted Reserve Requirements		
Emergency Reserve		40,000
Contingency Reserve		5,958
Budget Stabilization Reserve Fund		20,913
Total Budgeted Reserve Requirements		66,871

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 commercial paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share; (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in 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 1, 2008, the City's investable funds were invested in the following categories.

Type of Investment	Percentage
U. S. Treasuries	11%
U. S. Agencies	51%
Money Market Funds	3%
Local Government Investment Pools	35%

The dollar weighted average maturity for the combined City investment portfolios is 1.17 years. 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				
	2003	2004	2005	2006	2007
Revenues:					
Taxes (1)	$264,511	$277,774	$264,786	$294,344	$326,576
Franchise Fees	28,962	32,964	28,973	30,677	32,275
Fines, Forfeitures and Penalties	16,966	16,976	17,529	18,832	16,094
Licenses, Permits and Inspections	14,737	15,317	17,399	22,131	25,635
Charges for Services	15,403	15,565	23,064	24,453	26,357
Interest and Other	19,815	19,168	10,691	15,882	13,602
Total Revenues	$360,394	$377,764	$362,442	$406,319	$440,539
Expenditures:					
Administration	$ 8,909	$ 8,199	$ 8,699	$ 9,018	$ 10,607
Urban Growth Management	11,638	10,246	15,205	16,701	18,886
Public Safety	254,684	262,086	296,335	323,006	352,149
Public Services and Utilities	9,380	8,669	473	262	297
Public Health	46,061	15,728	26,715	29,824	32,545
Public Recreation and Culture	45,193	43,255	45,145	47,599	53,213
Social Services Management	9,985	9,579	0	0	0
Nondepartmental Expenditures	47,029	46,983	52,044	54,494	69,058
Total Expenditures	$432,879	$404,745	$444,616	$480,904	$536,755
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	$ (72,485)	$ (26,981)	$ (82,174)	$ (74,585)	$ (96,216)
Other Financing Sources (Uses):					
Capital Leases	$ 785	$ 634	$ 932	$ 0	$ 0
Transfers from Other Funds	92,417	95,894	94,451	97,658	107,241
Transfers to Other Funds	(21,129)	(48,766)	(14,154)	(16,611)	(16,019)
Net Other Financing Sources	$ 72,073	$ 47,762	$ 81,229	$ 81,047	$ 91,222
Excess (Deficiency) of Total Revenues and Other Services Over Expenditures and Other Uses	$ (412)	$ 20,781	$ (945)	$ 6,462	$ (4,994) (2)
Residual Equity Transfer In (Out)	0	0	0	0	0
Special Item – Hospital District Reserve	0	(7,700)	0	0	0
Fund Balances at Beginning of Year	93,618	93,206	106,287	105,342	111,804
Fund Balances at End of Year	$ 93,206	$106,287	$105,342	$111,804	$106,810 (3)

(1) Consists of property, sales and mixed drinks tax.
(2) The City's financial policies were amended in 2006 to establish a budget stabilization reserve in the General Fund. The policies allow the expenditure of one-third of this reserve in any given year to fund capital or other one-time costs. During 2006 and 2007, the City allocated reserve funds to pay for capital and one-time costs that had been deferred during fiscal years 2002 through 2004.
(3) In addition to the budget stabilization reserve, the ending balance includes a contingency reserve of approximately $5 million and an emergency reserve of $40 million.

CERTAIN GENERAL FUND RECEIPTS OTHER THAN AD VALOREM TAXES

Municipal Sales Tax

Fiscal Year Ended 9–30	Per Capita Sales and Use Tax	(in 000's) Sales and Use Tax	% of Ad Valorem Tax Levy
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	196.75	139,289	60.06%
2007	211.43	153,098	61.32%
2008 (1)	211.16	156,163	56.36%
2009 (2)	213.70	160,848	52.44%

(1) Estimate.
(2) Estimated used in FY 2009 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.

Fiscal Year Ended 9–30	(in 000's) Transfers	% of General Fund Requirements
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	94,117	20.9%
2006	97,658	20.3%
2007	106,471	20.0%
2008 (1)	120,130	20.4%
2009 (2)	121,505	19.6%

(3) Estimate.
(4) Estimated used in FY 2009 Proposed Budget.

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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, 2007.

THE SYSTEMS

The City owns and operates an Electric Utility System (also referred to herein as "Austin Energy") and a Water and Wastewater System (also referred to herein as the "Water and Wastewater Utility") which provide the City, adjoining areas of Travis County and certain adjacent areas of Williamson County with electric, water and wastewater services. The City owns all the facilities of the Water and Wastewater System. The City jointly participates with other electric utilities in the ownership of coal-fired electric generation facilities and a nuclear powered electric generation facility. Additionally, the City individually owns gas/oil-fired electric generation facilities, which are available to meet system demand. The Electric Utility System had approximately 1,566 full-time regular employees as of September 30, 2007. The Water and Wastewater System had approximately 1,033 full-time regular employees as of the same date.

RESPONSE TO COMPETITION

Austin Climate Protection Plan

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

Strategic Plan

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

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

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

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

Five objectives were identified to support the strategies including:

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

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

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

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

- Exceptional System Reliability - Austin Energy will pursue best operating and maintenance practices for its utility assets power plants to ensure unit availability and reliability. Austin Energy will target specific metrics to reduce the frequency (SAIFI) and duration (SAIDI) of power outages.
  - 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 intends to 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.

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

STRATEGIC PLANNING PERFORMANCE MEASURES 2003-2007

This table reflects actual performance which is measured after the fiscal year ends on September 30.

STRATEGY	OBJECTIVE	TARGET			2004		2005		2006		2007	
Risk Management	Maintain Financial Integrity	"AA" (S&P) credit rating by 2010			"A+"		"A+"		"AA-"		"AA-"	
Excellent Customer Service	Create and Sustain Economic Development	Exceed M/WBE Goals by 2008	MBE (%)	WBE (%)	MBE (%)	WBE (%)	MBE (%)	WBE (%)	MBE (%)	WBE (%)	MBE (%)	WBE (%)
		Construction	12.90	12.60	30.50	34.64	6.86	9.62	1.07	5.48	NA	NA
		Commodity	3.50	6.20	0.49	7.71	2.55	5.00	0.87	6.20	NA	NA
		Non-Professional	14.10	15.00	17.21	4.22	7.83	3.07	4.24	3.37	NA	NA
		Professional	16.50	14.20	0.00	0.16	0.00	0.04	0.08	0.00	NA	NA
	Customer Satisfaction	Employee Satisfaction target of 10% improvement on LTW Survey by 2010, i.e. 70% positive rating overall			57%		55.25%		58%		61%	
		Customer Satisfaction target of 83/100 by 2010			79/100		79/100		80/100		80/100	
	Exceptional System Reliability	SAIDI @ 60 minutes by 2005			62.72		79.06		86.10		82.13	
		SAIFI of 0.8 interruptions/yr by 2005			0.88		1.05		0.99		1.02	
		SATLPI of 4.1 average/ yr by 2005			4.50		4.10		4.20		NA	
Energy Resource	Renewable Portfolio Standard & Energy Efficiency	30% renewable energy by 2020			2.16%		3.80%		6.00%		5.8%	
		15% energy efficiency by 2020			6.00%		6.70%		7.30%		8.2%	
		100MW solar generation by 2020			0.33 MW		0.85 MW		1.0 MW		1.6MW	
		2007 MW peak demand savings by 2020*									65.4MW	

*Amended in City Council Resolution No. 20070215-023 establishing the Austin Climate Protection Plan.
In this chart NA means Not Available at this time.

Financial Policies

With increasing competition in the electric utility industry due to regulatory and market changes, Austin Energy continues to maintain strong financial policies aimed at keeping financial integrity while allowing for flexibility should the market change. Some of the more significant financial policies adopted by City Council during the budget process are:

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

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

- The Emergency Reserve shall only be used as a last resort to provide funding in the event of an unanticipated or unforeseen extraordinary need of an emergency nature, such as costs related to a natural disaster, emergency or unexpected costs created by Federal or State legislation. The Emergency Reserve shall be used only after the Contingency Reserve has been exhausted. The Contingency Reserve shall be used for unanticipated or unforeseen events that reduce revenue or increase obligations such as extended unplanned plant outages, insurance deductibles, unexpected costs created by Federal or State legislation, and liquidity support for unexpected changes in fuel costs or purchased power which stabilize fuel rates for our customers. In the event any portion of the Contingency Reserve is used, the balance will be replenished to the targeted amount within two (2) years. The Competitive Reserve may be used to improve the strategic position of Austin Energy including, but not limited to, funding capital needs in lieu of debt issuance, reduction of outstanding debt, rate reductions, acquisitions of new products and services, and new technologies. Funding may be provided from net revenue available after meeting the General Fund Transfer (described below), capital investment (equity contributions from current revenue), Repair and Replacement Fund, and 45 days of working capital.

- The General Fund Transfer shall not exceed 12% of Austin Energy's three-year average revenues, calculated using the current year estimate and the previous two years' actual revenues from the City's Comprehensive Annual Financial Report. (Actual percentage has been 9.1% for the last 8 years, with the exception of 2002 at 8.9%.)

- A decommissioning trust shall be established external to the City to hold the proceeds for moneys collected for the purpose of decommissioning the STP. An external investment manager may be hired to administer the trust investments. See "INVESTMENTS – Legal Investments".

- A Non-Nuclear Plant Decommissioning Fund shall be established to fund plant retirement. The amount set aside will be based on a decommissioning study of the plant site. Funding will be set aside over a minimum of four (4) years prior to the expected plant closure.

A complete listing of Austin Energy's financial policies can be found at http://www.ci.austin.tx.us/budget/07-08/downloads/ab0708support.pdf

Real Estate Taxes

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

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

Rate Regulation

The City's rates, except for wholesale transmission, are regulated by the City Council. Ratepayers can appeal rate changes to the Public Utilities Commission of Texas ("PUCT") under section 33.101 of the Public Utility Regulatory Act

(Title 2 of the Texas Utilities Code, and referred to herein as "PURA") by the filing of a petition with the PUCT containing the requisite number of valid signatures from residential ratepayers who take service outside the City 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.

<u>General Market Framework</u>: 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.

<u>MOUs That Do Not Choose Retail Competition</u>

- 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.

<u>MOU Local Control Preserved</u>

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

– MOU retains metering.

Participation By MOU In Markets Outside Its Area After Choosing Retail Competition
- Limited PUCT jurisdiction over terms and conditions for access, not rates.
- Subject to market power limits and PUCT customer safeguard code of conduct.

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

State Wholesale Market Design Developments

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

On September 23, 2005, ERCOT filed with the PUCT the nodal market Protocols developed through the ERCOT stakeholder process. The nodal Protocols incorporate specific provisions that will allow Austin Energy to hedge congestion risk in the new market. For its generation resources in operation prior to September 1, 1999, Austin Energy will receive preassigned CRRs at a discount to the market price which are available prior to the auction of CRRs. The service territory of Austin Energy will be identified as a load zone for settlement purposes. On February 23, 2006, the PUCT voted to approve the nodal Protocols for the ERCOT region. The nodal market will begin operation on January 1, 2009. In anticipation of the opening of the nodal market, Austin Energy employees are active participants in ERCOT's Transition Plan Task Force (TPTF), the joint ERCOT-stakeholder effort to assure ERCOT-wide readiness with the market change. Austin Energy's Energy and Market Operations staff, system planning and operations staff, and finance and accounting staff are actively taking steps to modify key systems and processes to assure Austin Energy's capability to participate fully in the ERCOT nodal market on schedule.

Federal Rate Regulation

Austin Energy is not subject to Federal regulation in the establishment of rates, the issuance of securities or the operation, maintenance or expansion of Austin Energy under current Federal statutes and regulations. Austin Energy submits various reports to FERC and voluntarily utilizes the FERC System of Accounts in maintaining its books of accounts and records. On April 24, 1996, the FERC issued a Final Rule (the "Final Rule") proposing significant changes regarding transmission service performed by electric utilities subject to the FERC's jurisdiction under sections 205 and 206 of the Federal Power Act. Among other things, the FERC requires utilities to submit open-access, mandatory transmission tariffs. The goal of the Final Rule, according to the FERC, is to deny to an owner of transmission facilities any unfair advantage over its competitors that exists by virtue of such owner's control of its transmission system.

On December 20, 1999, the FERC issued "Order No. 2000" (the "Order") related to the formation of voluntary Regional Transmission Organizations ("RTOs"). The Order required all utilities subject to the FERC's authority under sections 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 sections 205 and 206 of the Federal Power Act. Nevertheless, Austin Energy participates in a stakeholder organization established under Texas law that is similar to the RTOs envisioned in the Order and which predates the Order by several years. Since 1995, the PURA has required open access to the transmission network in ERCOT under comparable terms and conditions for all users of the transmission network. ERCOT is a stakeholder organization that includes stakeholders from all segments of the Texas electric market. The ISO formed by ERCOT in 1996 and mandated by State law in 1999 carries out many of the functions of the RTO discussed in the Order. ERCOT is responsible for the management and oversight of the day-to-day operations of the transmission network. Under PURA, the PUCT has specific responsibilities to oversee ERCOT operations and market participant compliance with ERCOT Protocols.

Under the Energy Policy Act of 2005, municipal entities are now subject to certain FERC authority on reliability. Specific reliability requirements rules have been developed by the FERC. On July 20, 2006, the FERC certified the North American Electric Reliability Council ("NERC") as the nation's Electric Reliability Organization ("ERO"), which will be responsible for developing and enforcing mandatory electric reliability standards under the FERC's oversight. On April 19, 2007, FERC approved the Delegation Agreement between the NERC and ERCOT, which will govern the responsibilities of ERCOT as the Regional Entity responsible for overseeing the NERC reliability standards in the ERCOT region. On June 4, 2007, FERC approved an initial set of 83 NERC reliability standards that apply to entities operating in the ERCOT region. An additional eight Critical Infrastructure Project standards as well as other reliability standards approved by NERC are awaiting formal approval from the FERC. Austin Energy has established compliance programs in its Energy Markets; transmission systems planning, operations and reliability; and Information Technology and Telecommunications units to examine the requirements for compliance with the new standards and to evaluate and implement any needed changes to systems and procedures.

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. The Environmental Care and Protection section interprets existing Federal, State and local regulations and routinely track changes to regulations, which affect Austin Energy processes. Austin Energy has prepared documentation which details roles and responsibilities for environmental compliance throughout the organization. The Environmental Care and Protection section staff and facility personnel monitor conformance with the environmental requirements and report deficiencies to facility management. 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").

In 1999, as part of SB 7, defined above, the Texas Legislature imposed new environmental regulations on power plants constructed prior to 1971 (30 Texas Administration Code ("TAC") 116, Electric Generating Facility Permits, and 30 TAC 101.330, Emissions Banking and Trading of Allowances). All of Austin Energy's then operational units were "grandfathered" from State permitting requirements at the time of the passage of the Texas Clear Air Act in 1971. The SB 7 permitting program instituted a "cap and trade" program for NOx emissions. "Grandfathered" units were allocated allowances of NOx based on an emission rate of 0.14 lbs. of NOx per mmBtu times the 1997 heat input to the unit. Austin Energy's SB 7 permitted units must have enough SB 7 emission allowances available to cover the actual emissions from these units on a yearly basis. 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 1,741 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, now closed, and the new units at the Sand Hill Energy Center to a total of 1,500 tons per year. This commitment was made in order to assist with the Early Action Compact or EAC made between the governmental bodies of the Austin Area and USEPA. Austin Energy's total NOx emissions were 1,232 tons for the latest compliance reporting year ending May 2005. This total was approximately 1,000 tons for the compliance year ending in May 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 December 31, 1995 and located in the east side of Texas (east of I-35) have a yearly average NOx emission rate of 0.165 lb/mmBtu or less. This rule also requires that gas-fired boilers and gas turbines in this same geographic region that were placed into service prior to December 31, 1995 (i.e., all of Austin Energy's currently operational Decker and Holly Street units) have a yearly average NOx emission rate of 0.14 lb/mmBtu or less. Modifications made to the Decker and Holly Street units resulted in an average emission rate of 0.096 lb/mmBtu for 2005. Modifications have been made to the Fayette Power Project Units 1 & 2 (which Austin Energy co-owns with the Lower Colorado River Authority ("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 installing scrubbers for Fayette Power Project Units 1 & 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 ("Seaholm"), 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 market value at December 31, 2007 was $133.5 million. For Fiscal Year 2008, Austin Energy estimates that it will continue to collect approximately $5 million for decommissioning expense. In current dollars (at August 31, 2006), the minimum amount for decommissioning is $342.4 million per unit. See "INVESTMENTS – Legal Investments".

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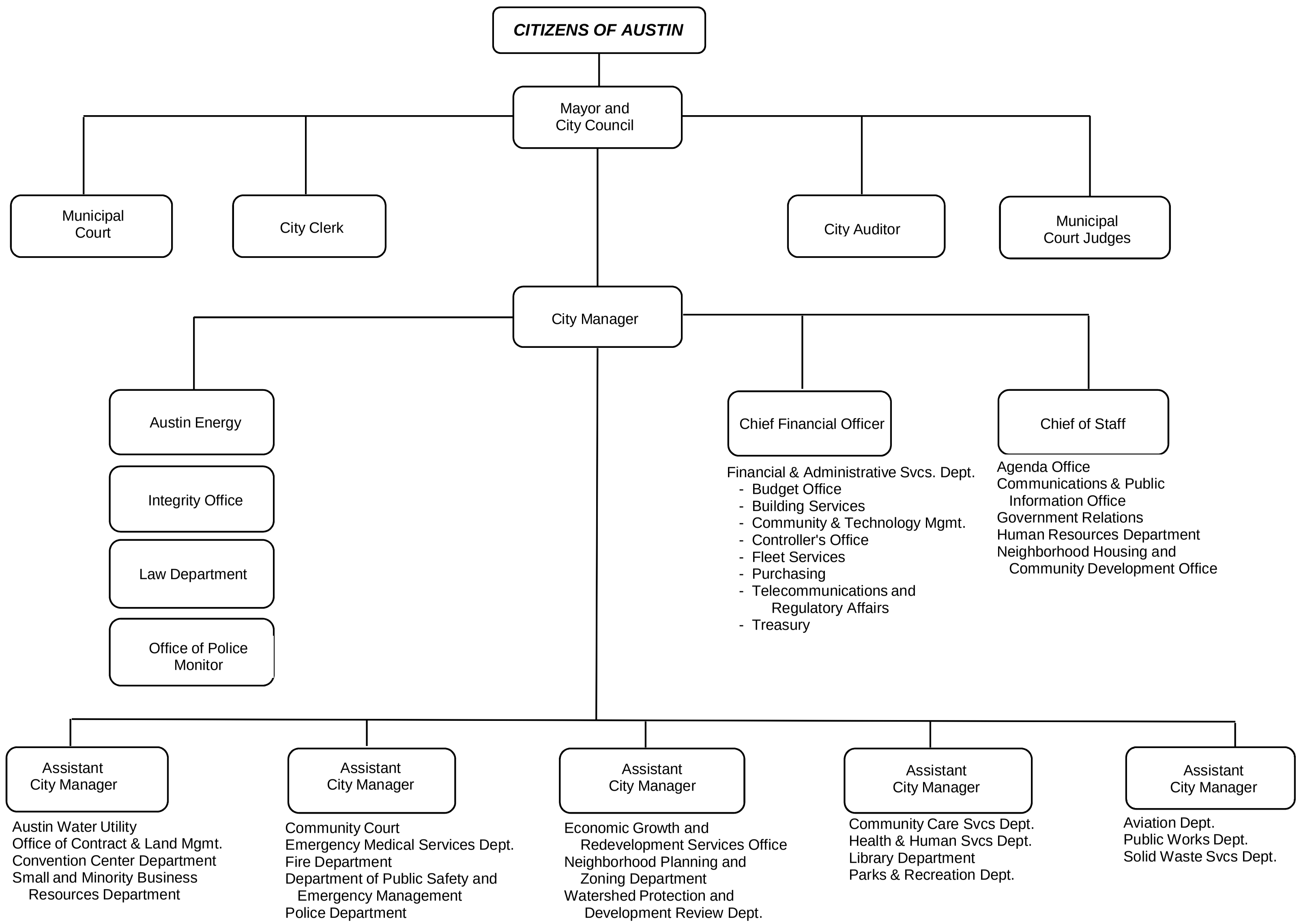
CITY OF AUSTIN, TEXAS
Organization Chart



THE CITY

Administration

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

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

City Manager – Marc A. Ott

Mr. Marc A. Ott earned his bachelor's degree in management with a concentration in economics from Michigan's Oakland University and a master's in public administration from the same university. He is also a graduate of the Program for Senior Executives in State and Local Government at the John F. Kennedy School of Government, Harvard University. Mr. Ott was selected City Manager in January 2008 by the Austin City Council. Mr. Ott previously served as Assistant City Manager for the City of Fort Worth. Prior to his position in Fort Worth, Mr. Ott was City Administrator for the City of Rochester Hills, Michigan.

Chief Financial Officer – Leslie Browder, CPA

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

Services Provided by the City

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

Employees

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

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

Annexation Program

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

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

If the annexation service plan for an annexation area includes a schedule for the provision of full municipal services, the City has two and one-half years from the date of the annexation to substantially complete the capital improvements necessary to provide services to the area. However, if necessary, the City may propose a longer schedule. A wide range of services – police and fire protection, sanitation, and maintenance of public facilities such as water and wastewater facilities, roads, streets, and parks – must be provided immediately following annexation. Failure to provide municipal services in accordance with the service plan may provide grounds for a petition and court action for compliance with the service plan or for disannexation of the area, and may also result in a refund of taxes and fees collected for services not provided. Depending on the type of petition, a court may order the City to comply with the service plan or to disannex the area. The City may not reannex for ten years any area that was disannexed for failure to provide services.

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

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

The City Charter and the State's annexation laws provide the City with the ability to undertake two types of annexation. "Full purpose" annexation, discussed above, annexes territory into the City for all purposes, including the assessment and collection of ad valorem taxes on taxable property. The second type of annexation is known as "limited purpose" annexation by which territory may be annexed for the limited purposes of "Planning and Zoning" and "Health and Safety." Territory so annexed is subject to ordinances achieving these purposes: chiefly, the City's zoning ordinance, building code, and related ordinances regulating land development. Taxes may not be imposed on property annexed for limited purposes; municipal services are not provided; and residents of the area are restricted to voting only in City elections for City Council and Charter amendments. The City believes that limited purpose annexation is a valuable growth management tool. Since 1999 the City has annexed over 10,200 acres of territory for limited purposes. Strategic Annexation Programs are developed annually. These programs prioritize areas to be considered for annexation, usually at the end of the calendar year, thereby minimizing the fiscal impact to the City due to annexation.

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

Calendar Year	Full Purpose Acres (1)	Limited Purpose Acres
1997 (2)	15,083	0
1998	2,660	1,698
1999	90	588
2000	4,057	4,184
2001	3,908	15
2002	2,019	1,957
2003	3,253	0
2004	1,114	7,030
2005	1,914	1,234
2006	351	621
2007	2,466	1,266

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

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

Recent Annexation

2007 saw the conversion of Watersedge, Ribelin Ranch, and approximately one-half of Goodnight Ranch from limited purposes to full purposes. In addition, the final remaining portions of Avery Ranch, annexed for limited purposes in 2000, were converted to full purposes. Several planned residential subdivisions in the ETJ were annexed. In total, 2,466 full purpose acres and $22 million in taxable property value were annexed in 2007.

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

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

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

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

Future Annexation

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

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

Pension Plans

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

The Police Officers contribute 13.0% and the City contributes 18% of payroll. The Municipal employees and the City each contribute 8.0%. The Firefighters (who are not members of the Social Security System) contribute 15.7% of payroll, and 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 23.8 years as of December 31, 2007. As of December 31 2007, the amortization period of the unfunded actuarial accrued liability for the Municipal Employees Fund and the Firefighters Fund was infinite. The Firefighters Fund performs an actuarial study every two years and the 2007 study has not been completed. As of December 31, 2005, the amortization period of the unfunded actuarial accrued liability for the Firefighters Fund was 115.9 years.

The actuarial accrued liability for the Municipal Employees Fund as of December 31, 2007 was $2,112,811,292 and the funded ratio was 78.3%. The actuarial accrued liability for the Police Officers' Fund as of December 31, 2007 was $637,559,674 and the funded ratio was 75.6%. The actuarial accrued liability for the Firefighters Pension Fund as of December 31, 2005, was $580,053,954 and the funded ratio was 85.1%

As reported in the actuarial valuation of the Municipal Employees Fund prepared for the period ending December 31, 2007, due to significant asset losses that occurred in 2000-2002, current contributions to the Municipal Employees Fund are not sufficient to amortize the unfunded liability of the fund over 30 years. Accordingly, as of December 31, 2002, the Municipal Employees Fund had an infinite funding period and, in the absence of significant actuarial gains, then current contribution rates were not sufficient to support the current benefit structure of the Municipal Employees Fund. However, in 2005, the City implemented a Supplemental Funding Plan ("SFP") which is expected to gradually increase the City's contribution rate to the Municipal Employees Fund to 12.0%. The additional contribution provided pursuant to the SFP is intended to remain in place until the funding period of the Municipal Employees Fund is reduced to below 30 years. Once this occurs the City, at its discretion, may reduce the additional contribution rate provided pursuant to the SFP to a rate that produces a 30-year funding period. Based on current projections and in the absence of significant actuarial losses, the City expects the SFP to enable the Municipal Employees Fund to reduce its funding period to 30 years by the time of the valuation for the period ending December 31, 2017.

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

Other Post-Employment Benefits

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

The City recognizes the cost of providing these benefits as payroll expenses/expenditures in an operating fund with corresponding revenue in the Employee Benefits Fund. The estimated cost of providing these benefits for approximately 3,845 retirees was $16.9 million in 2007 and 2,682 retirees was $15.57 million in 2006 for approximately 3,643 retirees and $13.3 million in 2005 for 2,554 retirees.

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

An actuarial valuation has been completed by an outside consultant regarding the City's OPEB obligations. The valuation estimates an OPEB liability in the range of $556 million to $1 billion, depending upon the City's ability to fund the ARC. The City continues to gather information to determine its approach to implementing GASB 45. The City has been working with a task force consisting of employees and retirees to determine which elements of the retiree health care plan they value most highly. Using their input and information from other sources, the City has run alternate scenarios to assess the effect these would have on reducing the City's OPEB liability and related ARC. As described in the following paragraph the City also plans to continue evaluating the delivery of its current health plans, as well as implementation of a Medicare Advantage program, to identify potential cost savings for the future. The City will also assess the strategies that other jurisdictions are planning in their implementation of GASB 45.

Insurance

The Liability Reserve Fund is the insurance fund of the City for settled claims, expenses, and reserves relating to fifth party liability claims for injury and property damage, including professional liability. The Liability Reserve Fund is used to pay for actual claims incurred and related expenses for settling these claims, for budgeted administrative costs for the fund's operations, and to estimate incurred, but not reported claims. The Liability Reserve Fund had accrued liabilities of approximately $5.6 million for claims and damages at the end of fiscal year 2007. Employee injuries are covered by the Workers' Compensation Fund, and health claims are protected by the Employee Benefits Fund.

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

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

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

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

Material Event Notices

The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the 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) redemptions; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Obligations; and (11) rating changes. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIRs and SID

The City has agreed to provide the foregoing information only to NRMSIRs and the SID. The information will be available to Holders of 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 Municipal Advisory Council of Texas (the "MAC") has been designated by the State of Texas as a SID. The address of the MAC is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512 476-6947.

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

Limitations and Amendments

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

The City may amend its continuing disclosure agreement 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, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Undertakings

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

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. 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 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 "AAA" 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 "AAA" by S&P, "AA+" by Fitch and "Aa1" by Moody's. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if in the judgment of one or all such companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or by any one of them, may have an adverse effect on the market price of the Obligations. The City will undertake no responsibility to notify the owners of the Obligations of any such revisions or withdrawal of ratings.

Litigation

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 28, 2008.

/s/Will Wynn
Mayor
City of Austin, Texas

ATTEST:

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

APPENDIX A

General Information Regarding the City

The following information has been presented for informational purposes only.

AUSTIN'S GOVERNMENT, ECONOMY AND OUTLOOK

General Information

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

Austin, the capital of Texas, is the fourth largest city in the State (behind Houston, Dallas, and San Antonio), with a population of more than 732,000 in 2007. Over the past ten years, Austin's population has increased by approximately 124,000 residents, or 14.7 percent. Geographically, Austin consists of approximately 297 square miles. For the fiscal year ended September 30, 2007, the estimated median household income and per capita income for the Austin-Round Rock Metropolitan Statistical Area (MSA) were $42,263 and $38,243, respectively.

Austin is frequently recognized as a great place to live for all ages, from young to retired: Forbes.com lists Austin as one of the Best Places for Singles because of nightlife, culture and low cost of living, and *AARP The Magazine* names Austin as one of the top four cities to watch as a retirement community.

Austin is also a great place for work, entertainment and healthy living. Moody's Economy.com rates Austin as one of the best places for business in the U.S., and *MovieMaker* magazine names Austin as the Top City in America to live and make movies. Austin offers a wide variety of entertainment, with music as a special element. Known as the "Live Music Capital of the World," Austin has more than 120 live music venues and is host to the annual South by Southwest and Austin City Limits music festivals. Austin's many public parks, exercise facilities and low stress factors lead *Latina Magazine* to rank Austin tenth of the top 25 healthiest cities. MSN.com lists Austin among America's Greenest Cities, based on the City's green energy program and climate protection plan.

The City also offers a broad range of educational opportunities. Austin is a highly educated city, with approximately 43 percent of adults twenty-five years or older holding a bachelor's or advanced degree, compared to 27 percent for the U.S. as a whole. With its seven institutions of higher learning and more than 117,000 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.

Recent Economic Performance

Austin's economic growth continued during 2007, with increased tourism and low unemployment rates. Hotel occupancy rates averaged over 69%, resulting in increased bed tax revenues of approximately 15% from the previous year. Forbes magazine credits a strong economy to the combination of high-tech employers and engineering talent provided by the University of Texas. Since 1998, employment in Austin increased by more than 151,000 jobs. The Bureau of Labor Statistics reports the 2007 Austin MSA employment base at 826,000, a gain of more than 10,000 over 2006. Unemployment continued to remain low, up slightly from 3.3 percent in 2006 to 3.6 percent at the end of 2007.

The State of Texas reported that the state economy grew more slowly in 2007 than during 2006, but still added more jobs than any other state. For the first time since 2001, the Texas unemployment rate dropped below the national average during 2007. According to the Bureau of Labor statistics, Texas ended the year with an unemployment rate of 4.2 percent. The State Comptroller attributes the comparatively better performance of the Texas economy to the U.S. economy to a greater concentration of the strong oil and gas industry and a housing market that has dropped less abruptly than the national average.

The national economy continued to cool during 2007, hampered by subprime mortgage losses, drops in housing sales and construction, and higher fuel costs. The Bureau of Labor Statistics reports the unemployment rate fluctuated between 4.4 and 4.8 percent most of the year, and ended the year at 5 percent. Inflation increases during 2007 were similar at the State and national levels. The Texas Comptroller's *Fiscal Notes* reported the Texas Consumer Price Index

(CPI-U) increased four percent from December 2006 to 2007, with a corresponding increase at the national level of 4.1 percent in December. The Bureau of Labor Statistics cited rising fuel, food and medical care costs as the primary sources of the increases at the national level.

Home sales are an important indicator of the local and national economy. In the Austin market, annual home sales declined, but remained stronger than the national average. Data compiled by the Real Estate Research Center at Texas A&M shows the percent change in Austin sales declined by 7.6 percent, with an ending inventory of 4.2 months. Texas sales show similar decreases, with annual home sales declining 6.1 percent, and an ending inventory of 5.7 months. The total nationwide housing inventory at the end of the year was more than a nine month supply, compared to about half that amount in Austin.

Economic Outlook

For several years, the Austin-area economy has been one of the most rapidly growing in the nation. One of the region's leading economists, Angelos Angelou, forecasts modest job growth for Austin in 2008, with growth in services, trade and government. The area's population is expected to grow by 85,000 over the next two years. The national real estate crunch is likely to have the most significant impact on the local economy. The local building industry has reacted to national concerns, and cut back on housing starts. This cut back, combined with expected growth, should result in a strong demand for rental property.

Southwest Economy, published by the Federal Reserve Bank of Dallas, expects the Texas economy to encounter lower economic growth in 2008, but still perform better than the nation. Texas should experience modest job growth. Businesses will continue to be attracted to Texas due to a relatively low cost of living. To its advantage, Texas is one of the few states that gains from high energy prices.

Long-term financial planning

A key City financial policy requires annual preparation of a five-year financial forecast projecting revenues and expenditures for all operating funds. This forecast is used as a planning tool in developing the following year's operating budget. In recent years, the City emphasized structural budgeting, which simply means not spending any more in a given year than collected in revenue. Standard and Poor's recognized Austin's sound financial management when the rating agency upgraded the City's general obligation bond rating to AAA status in January 2008.

The FY 2007-2008 Budget identified the most significant cost driver facing the General Fund as public safety staffing policies – maintaining 2.0 police officers per 1,000 population and enhanced task force staffing in the Austin Fire Department, as well as public safety labor contracts. Other cost factors are increased operations and maintenance costs for new or expanded facilities, additional street maintenance and rising personnel costs. The FY 2007-2008 budget authorized almost $23 million of the budget stabilization reserves to address costs due to growth trends, new investment in core services, replacement of critical equipment and other one-time needs. The Approved Budget projects budget reserves of $70 million at the end of 2008.

Austin includes several enterprise activities. A key enterprise is Austin Energy, which is the ninth largest U.S. public power utility in customers served, according to the latest available data from the American Public Power Association. The utility has over $1.1 billion in annual revenues, nearly 389,000 retail metered customers and almost 11,000 miles of overhead and underground distribution lines. The utility has a well rounded generation portfolio with adequate capacity to meet native load. The budget includes funding for 100 megawatts of additional peaking generation capacity at Sand Hill which is expected to be online in 2009.

The City enterprise activities also include the Austin Water Utility, which provides water and wastewater services. The FY 2007-2008 operating expense budget of $394.7 million provides for increased funding for water conservation, environmental protection, and repair contracts to improve response times for leaks and breaks. The five-year forecast projects an average growth in base revenue of two percent annually. The Utility projects debt service to increase over the next five years to fund capital improvements estimated at $1.3 billion.

Other enterprise funds and their FY 2007-2008 expense budgets include Aviation ($75.6 million), Convention Center ($54.9 million) and Solid Waste Services ($57.8 million).

Major Initiatives
The City of Austin's vision of being the most livable city in the country means that Austin is a place where all residents participate in its opportunities, its vibrancy and its richness of culture and diversity.

Austin's City Council began defining its policy priorities in the early 1990s. In April 2007, the City Council adopted four priorities:

- Rich social and cultural community
- Healthy, safe city
- Vibrant urban fabric
- Sustainable economic development and financial health

These Council priorities serve as an organizing framework for how the City does business, providing the continuity and direction needed to develop business plans that build upon each other, year after year, to help achieve longer-ranging goals. The current status of a few key initiatives are described below:

Waller Creek Tunnel Project. This project is a stormwater bypass tunnel that will include the stretch of Waller Creek from Waterloo Park to Lady Bird Lake. The project will take more than one million square feet of prime downtown land out of the floodplain and allow denser development. In March 2007, the Travis County Commissioners Court voted to join the City of Austin in the creation of a Tax Increment Financing District to fund the construction of the tunnel. The project has received the endorsement of the community, as well as key stakeholder groups. Estimated project cost at June 2007 was $127,547,000 plus operations and maintenance costs. The four-year construction process is expected to begin in August 2010.

Zero Waste Master Plan. In January 2006, the City Council adopted guiding principles for the delivery of solid waste services. The Solid Waste Services Department, working with the Solid Waste Advisory Commission and other area solid waste representatives, is charged with developing a 50-year waste management plan to address landfill availability and waste reduction issues. In November 2007, the City Council approved a consultant contract to develop a zero waste plan for the City of Austin and surrounding regions, including Travis, Williamson, Bastrop, Caldwell, Hays, Blanco and Burnet counties. The consultant will take into consideration current and planned public and private solid waste infrastructure, as well as the City of Austin's Climate Protection Program. Recommendations developed through this process will be integral to achieve the U.N. Urban Environmental Accord's goal to reduce by 20% the per capita solid waste disposal to landfills by 2012 and zero waste by 2040.

Redevelopment of Green Water Treatment Plant. The Thomas C. Green Water Treatment Plant, the City's oldest water treatment plant, is reaching the end of its useful life. Located on the west edge of Downtown, a former warehouse and industrial district, it is now surrounded by a rapidly developing mixed-use urban neighborhood. The site's location between the City Hall / Second Street Retail District and the Seaholm Redevelopment makes it a strategic opportunity in the City's Downtown Redevelopment initiatives.

Austin Climate Protection Plan. Austin City Council passed the Austin Climate Protection Plan in February 2007. The plan directs staff to take the following actions to make Austin a carbon neutral community by the year 2020:

- City of Austin facilities, fleets and operations will be carbon-neutral by 2020.
- Implement the most aggressive utility greenhouse gas reduction plan in the nation through dramatic increases in conservation, efficiency and renewable programs. Require carbon neutrality on any new generation. Establish a CO^2 cap and a reduction plan for all utility emissions.
- Austin building codes for both residential and commercial properties will be the most energy efficient in the nation.
- Develop a comprehensive plan to reduce greenhouse gas emissions from sources community-wide.
- Provide mechanisms for all businesses and individuals to reduce their carbon footprint to zero.

Status as of June 2007, includes the following:

- Austin Energy to provide renewable energy for all city facilities by 2009.
- Austin Energy's baseline greenhouse gas inventory is complete and certified by California Climate Action Registry; Austin Water Utility is working on a similar baseline inventory.
- The City's Fleet Services Department is developing a baseline inventory of all city vehicles and continues to purchase alternative fueled or hybrid vehicles.

Affordable Housing. The City manages housing gap financing programs and direct housing services programs under the framework of the Housing Continuum and S.M.A.R.T Housing™. The City Council has also taken action to enable the creation of new and additional tools to achieve deeper affordable housing levels with the following major initiatives:

- Affordable Housing Incentives Task Force. The City Council appointed this task force to explore ways to provide incentives for the construction of affordable housing in Austin. In May 2007, the task force reported to the Council, followed by staff recommendations. These include key core values of deeper affordability targets, long-term affordability, and geographic dispersion, as well as zoning incentives. Categories include the Central Business District, Downtown Mixed Use, Multi-Family, and Single Family.
- General Obligation Bonds. In November 2006, citizens of Austin approved the use of $55 million of general obligation bonds to increase homeownership and rental opportunities for low-to-moderate income households. The City Council approved a process for allocating housing bond funds and three categories by which bond funds can be accessed, within prescribed limits. In April 2007, the City Council approved the Stoneridge redevelopment project, the first project for the housing bonds.
- Other City Council Affordable Housing Initiatives include Vertical Mixed Use Developments, Affordable Housing Partnership Agreements (Green Water Treatment Redevelopment), Transit Oriented Developments, and Downtown Affordable Housing.

OTHER

Financial Policies

To help ensure that the City's financial resources are managed in a prudent manner, the City has adopted a comprehensive set of Financial Policies. These policies are reviewed as part of the annual budget process and are published in the Approved Budget.

Internal Controls

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

Budgetary Control

The annual operating budget is proposed by the City Manager and enacted by the City Council after public discussion. Annual updates to the Capital Improvements Program budgets follow a similar process. Primary responsibility for fiscal analysis of budget to actual expense or revenue and overall program fiscal standing rests with the department operating the program. As demonstrated by the statements and schedules included in the City's 2007 CAFR, the City continues to meet its responsibility for sound financial management.

Cash Management

The City's investment policy is to minimize credit and market risk while maintaining a competitive portfolio yield. Cash balances of all City funds are invested in consideration of five factors: safety, term, liquidity, market exposure, and rate of return. Cash balances of most funds, except for debt service and other legally restricted funds, are pooled for investment purposes. The City's investments are made in accordance with the Texas Public Funds Investment Act and the City of Austin Investment Policy. During 2007, the City's cash resources were invested in local government investment pools and U.S. Treasury and Agency issues.

Risk Management

The City maintains internal service funds to account for its risk of loss associated with torts and employee and workers' compensation benefits. In addition, the City continues to be self-insured for liabilities for most health benefits, third-party claims, and workers' compensation.

Pensions

The City participates in three contributory, defined benefit retirement plans for City employees. The plans are authorized by State Legislation, which governs the benefit and contribution provisions.

Employment by Industry in the Austin Metropolitan Area (a)

Employment Characteristics

Industrial Classification	2000	% of Total	2005	% of Total	2006	% of Total	2007	% of Total	June, 2008	% of Total
Manufacturing	84,000	12.3%	57,500	8.4%	57,400	7.9%	60,600	7.9%	58,300	7.5%
Government	137,100	20.1%	146,800	21.5%	156,600	21.5%	158,400	20.8%	157,700	20.3%
Trade, transportation & utilities	116,000	17.0%	118,600	17.3%	151,400	20.8%	159,800	21.0%	160,200	20.7%
Services and miscellaneous	267,100	39.1%	281,300	41.1%	275,800	37.9%	290,100	38.0%	301,600	38.9%
Finance, insurance and real estate	35,400	5.2%	40,200	5.9%	42,500	5.8%	45,200	5.9%	46,700	6.0%
Natural resources, mining & construction	42,700	6.3%	39,800	5.8%	44,600	6.1%	49,200	6.4%	51,400	6.6%
Total	682,300	100.0%	684,200	100.0%	728,300	100.0%	763,300	100.0%	775,900	100.0%

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

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

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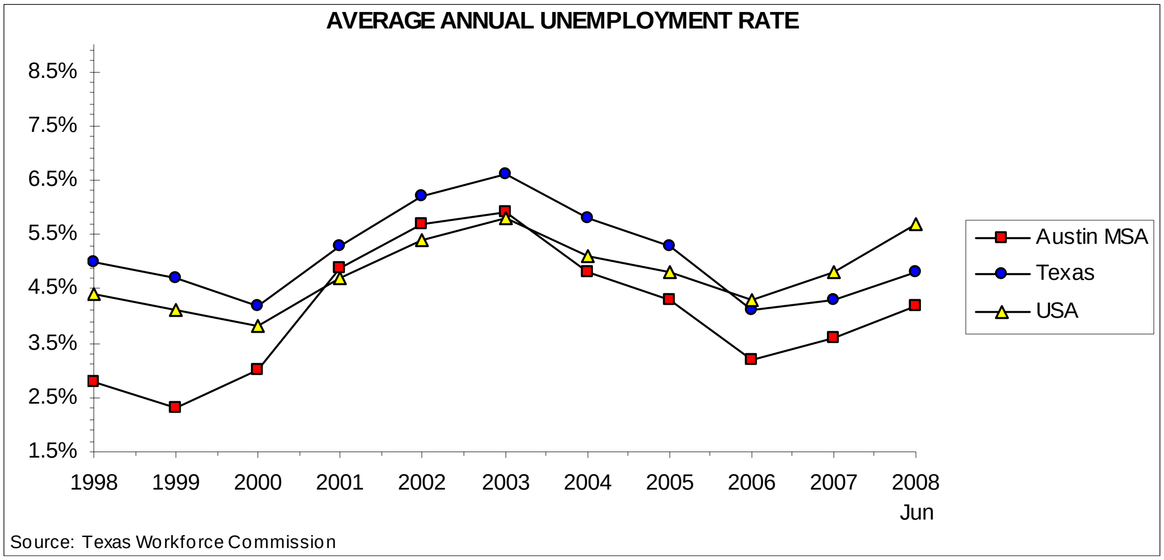
Average Annual Unemployment Rate



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

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

City Sales Tax Collections (In Millions)

Period	Amount	Period	Amount	Period	Amount	Period	Amount	Period	Amount
1-1-04	$ 8.883	1-1-05	$ 9.076	1-1-06	$10.334	1-1-07	$11.422	1-1-08	$11.639
2-1-04	12.382	2-1-05	13.171	2-1-06	14.818	2-1-07	16.371	2-1-08	16.569
3-1-04	8.693	3-1-05	9.049	3-1-06	10.051	3-1-07	11.080	3-1-08	12.109
4-1-04	8.534	4-1-05	8.660	4-1-06	9.930	4-1-07	11.414	4-1-08	11.355
5-1-04	10.867	5-1-05	11.795	5-1-06	12.950	5-1-07	14.611	5-1-08	13.882
6-1-04	9.384	6-1-05	9.718	6-1-06	10.725	6-1-07	11.748	6-1-08	12.185
7-1-04	8.980	7-1-05	8.936	7-1-06	11.981	7-1-07	12.011	7-1-08	12.129
8-1-04	11.474	8-1-05	12.004	8-1-06	11.880	8-1-07	14.101	8-1-08	14.486
9-1-04	9.157	9-1-05	9.938	9-1-06	11.152	9-1-07	11.883	9-1-08	
10-1-04	9.214	10-1-05	10.182	10-1-06	11.535	10-1-07	12.257	10-1-08	
11-1-04	11.340	11-1-05	11.735	11-1-06	13.401	11-1-07	14.774	11-1-08	
12-1-04	9.354	12-1-05	10.532	12-1-06	11.525	12-1-07	12.365	12-1-08	

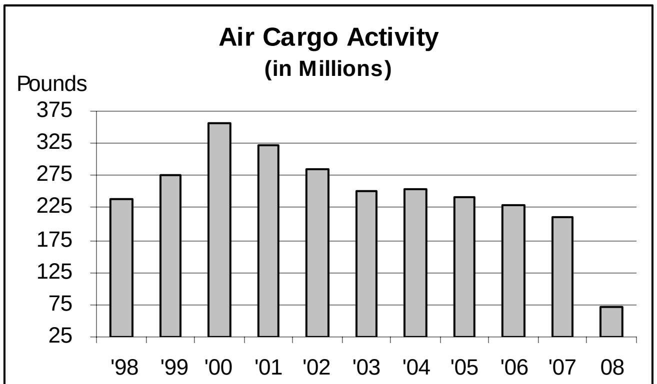
Source: City of Austin, Budget Office.

Ten Largest Employers (As of September 30, 2007)

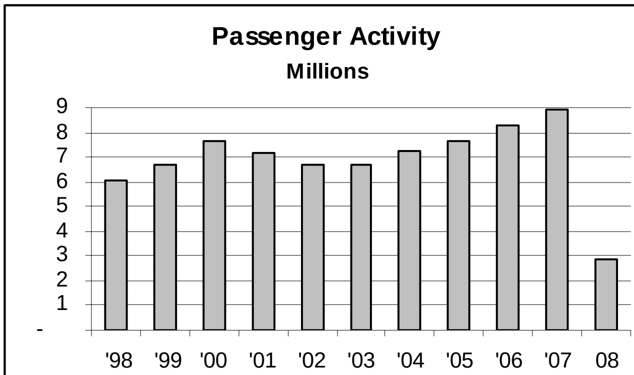
Employer	Product or Service	Employees
State Government	State Government	37,349
The University of Texas at Austin	Education	23,294
Dell Computer Corporation	Computers	17,000
City of Austin	City Government	11,795
Austin Independent School District	Education	11,423
Federal Government	Federal Government	10,700
HEB	Retail	7,095
Seton Healthcare Network	Healthcare	6,743
Wal-Mart	Retail	6,500
IBM Corporation	Computers	6,300

Source: 2007 Comprehensive Annual Financial Report.

Transportation



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



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

Austin-Bergstrom International Airport

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

The City of Austin's Austin-Bergstrom International Airport, which opened for passenger service on May 23, 1999, is served by 11 major airlines with scheduled air service: Aeromexico, American, Continental, Delta, Frontier, JetBlue, Midwest, Northwest, Southwest, United, and US Airways. Non-stop service is available to 44 U.S. destinations and 1 international destination.

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

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

Wealth Indicators

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

Year	City of Austin Population (1)	Area of Incorporation (Sq. Miles) (1)	Population MSA (2)(3)	Income (MSA) (Thousands of Dollars) (2)	Median Household Income MSA (4)	Capita Personnel Income MSA (2)	Unemployment Rate (MSA) (3)
1998	608,214	254	1,155,579	33,116,579	33,690	28,658	2.9
1999	619,038	252	1,205,898	37,408,615	36,532	31,021	2.3
2000	628,667	265	1,249,763	41,157,290	36,321	32,548	3.0
2001	661,639	266	1,319,797	42,489,015	39,811	32,213	4.9
2002	671,044	273	1,341,464	41,908,425	47,089	31,128	5.8
2003	674,719	276	1,376,008	43,104,097	41,909	31,325	6.0
2004	683,551	291	1,411,483	46,191,915	39,227	32,726	4.8
2005	695,881	294	1,454,706	50,101,884	40,335	34,441	4.4
2006	714,237	296	1,513,565	54,954,527	40,888	36,308	3.9
2007	732,381	297	1,567,317 (5)	59,938,903 (5)	42,263	38,243 (5)	3.7
1998-2008 Change	16.95%	14.71%	26.27%	44.75%	20.28%	25.06%	

(1) Source: City Demographer, City of Austin, Neighborhood Planning and Zoning Department based on full purpose area as of September 30.
(2) Source: Bureau of Economic Analysis.
(3) Source: Bureau of Labor Statistics, Texas A&M University as of September 30.
(4) Source: Claritas, a Nielsen Company.
(5) Data not available for 2007. Figures are estimated.

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Growth Indicators

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

Connections and Permits

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

Source: 2006 Comprehensive Annual Financial Report.

Housing Units

The average two-bedroom apartment in the Austin MSA was $841 per month, with an occupancy rate of 93.0% for the first quarter 2008.

Residential Sales Data

Year	Number of Sales	Total Volume	Average Price
1997	12,439	1,762,198,574	$141,667
1998	15,583	2,334,200,698	149,791
1999	18,135	2,963,915,274	163,436
2000	18,621	3,561,039,919	191,238
2001	18,392	3,556,546,121	193,375
2002	18,716	3,695,947,381	197,475
2003	19,793	3,899,018,519	196,990
2004	22,567	4,487,464,528	198,851
2005	26,905	5,660,934,916	210,405
2006	30,278	6,960,536,304	229,888
2007	28,047	6,910,684,916	246,397
2008 June	12,072	2,951,114,273	244,459

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

City-Wide Austin Office Occupancy Rate

Year	Occupancy Rate
1999	92.8%
2000	96.0%
2001	81.2%
2002	77.1%
2003	76.5%
2004	76.7%
2005	83.1%
2006	87.5%
2007	85.6%
2008 (1st qtr)	84.0%

Source: Oxford Commercial

Education

The Austin Independent School District had an enrollment of 82,541 for the 2008 school year. This reflects an increase of 3.0% in enrollment from the end of the 2007 school year. The District includes 113 campus buildings.

School Year	Average Daily Membership	Average Daily Attendance
1996/97	74,315	70,361
1997/98	75,693	71,241
1998/99	75,915	71,491
1999/00	76,268	71,583
2000/01	76,447	71,518
2001/02	76,347	71,638
2002/03	77,009	72,494
2003/04	77,313	73,085
2004/05	77,937	73,572
2005/06	79,500	74,860
2006/07	82,145	76,821
2007/08	81,332	76,096

Source: Austin Independent School District. (Data for the sixth six weeks, as of 6-04-08)

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

The University of Texas at Austin had a preliminary enrollment of 47,568 for the spring semester of 2008 and is a major research university with many nationally ranked academic programs at the graduate level. It is also known for its library collections and research resources. The present site has expanded more than 300 acres since classes began on the original 40 acres near downtown Austin. Additionally, University-owned property located in other areas of Austin includes the Pickle Research Center and the Brackenridge Tract, partially used for married student housing. The McDonald Observatory on Mount Locke in West Texas, the Marine Science Institute at Port Aransas and the Institute for Geophysics (Galveston) on the Gulf Coast operate as specialized research units of The University of Texas at Austin.

Tourism

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

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

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APPENDIX B

Excerpts From the Annual Financial Report

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

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Austin, Texas ("City"), as of and for the year ended September 30, 2007, 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, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U. S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 25, 2008 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying introduction, combining and fund financial statements and schedules, supplemental schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and fund financial statements and schedules, and supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introduction and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

R. Mendoza & Company, P.C.

Austin, Texas
April 25, 2008

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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, 2007. We encourage readers to consider the information presented here in conjunction with additional information furnished in our letter of transmittal.

The financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB). The City has implemented GASB Statements No. 1 through No. 42, No. 44 and No. 46.

FINANCIAL HIGHLIGHTS

Government-wide financial statements
The assets of the City exceeded its liabilities at the end of the fiscal year 2007, resulting in $4.3 billion of net assets. Net assets associated with governmental activities are approximately $1.6 billion, or 38% of the total net assets of the City. Net assets associated with business-type activities are approximately $2.7 billion, or 62% of the total net assets of the City. The largest portion of net assets consists of investment in capital assets, net of related debt, which is $3.2 billion, or 73% of total net assets.

Unrestricted net assets, which may be used to meet the City's future obligations, are $591 million, or 14% of the City's total net assets. Unrestricted net assets for governmental activities are approximately $28 million, or 2% of total governmental net assets; unrestricted net assets for business-type activities are approximately $563 million, or 21% of total business-type net assets.

Total net assets for the City of Austin increased $211.5 million, or 5.1% during fiscal year 2007. Of this amount, governmental activities increased $67.1 million, or 4.3% from the previous year and business-type activities increased $144.4 million, or 5.6% from the previous year.

Total revenues for the City decreased $395 thousand; revenues for governmental activities increased $21.4 million; revenues for business-type activities decreased $21.8 million. Total expenses for the City increased $60.6 million; expenses for governmental activities increased $21.9 million; expenses for business-type activities increased $38.7 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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

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

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

b -- Fund financial statements

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

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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

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

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

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

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

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

c -- Notes to the financial statements

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

d – Other information

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

a -- Net assets

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

Net Assets
as of September 30
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current assets	$ 520,779	547,513	1,413,295	1,276,240	1,934,074	1,823,753
Capital assets	2,167,656	2,099,504	5,592,256	5,426,068	7,759,912	7,525,572
Other noncurrent assets	3,609	3,639	585,745	585,186	589,354	588,825
Total assets	2,692,044	2,650,656	7,591,296	7,287,494	10,283,340	9,938,150
Current liabilities	229,183	220,389	473,123	419,196	702,306	639,585
Noncurrent liabilities	834,640	869,169	4,414,160	4,308,650	5,248,800	5,177,819
Total liabilities	1,063,823	1,089,558	4,887,283	4,727,846	5,951,106	5,817,404
Net assets:						
Invested in capital assets, net of related debt	1,530,124	1,399,316	1,648,758	1,538,572	3,178,882	2,937,888
Restricted	69,982	84,218	492,356	469,238	562,338	553,456
Unrestricted	28,115	77,564	562,899	551,838	591,014	629,402
Total net assets	$ 1,628,221	1,561,098	2,704,013	2,559,648	4,332,234	4,120,746

Total assets of the City increased by $345.2 million in the current fiscal year. Total liabilities increased by $133.7 million. Within the increase, governmental-type total assets increased by $41.4 million and business-type increased $303.8 million. Governmental-type liabilities decreased by $25.7 million and business-type increased $159.4 million.

Significant factors in the increase of governmental total assets include an increase in capital assets of $68.2 million, an increase in pooled investments and cash of $37.1 million and a decrease in accounts receivable of $51.2 million. Factors in the increase of governmental-type liabilities include an increase in current liabilities of $8.8 million, consisting of increases to accounts payable of $10.7 million, accrued compensated absences of $3.8 million, and a decrease to deferred credits and other liabilities of $4.1 million. Noncurrent liabilities decreased $34.5 million, consisting primarily of a decrease to general obligation bonds payable of $58.1 million and increases to pension obligation payable of $10.1 million and accrued compensated absences of $10.9 million.

Significant factors in the increase of business-type total assets include an increase in current assets of $137.1 million and noncurrent assets of $166.7 million. Within current assets, significant factors include an increase in pooled investments and cash of $142.5 million and a decrease in restricted investments of $10.3 million. Noncurrent assets increased due to an increase in capital assets of $166.2 million. Total liabilities increased by $159.4 million; significant increases include accounts and retainage payable from restricted assets of $10 million, bonded debt obligations of $72.9 million, decommissioning expense payable of $14.1 million, deferred credits and other liabilities of $38.2 and pension obligation of $9.3 million.

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by $4.3 billion at the end of the current fiscal year. However, the largest portion of the City's net assets are invested in capital assets, net of related debt (e.g. land, building, and equipment), which are $3.2 billion, or 73% of the total amount of the City's net assets. The City uses these capital assets to provide services to citizens. Capital assets are generally not highly liquid; consequently, they are not considered future available resources. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion, $562.3 million of the City's net assets, represents resources that are subject to external restrictions on how they may be used in the future. The remaining balance, $591 million of unrestricted net assets, may be used to meet the government's future obligations. Unrestricted net assets decreased $38.4 million in the current fiscal year.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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.

b -- Changes in net assets

Total net assets of the City increased by $211.5 million in the current fiscal year. Governmental net assets increased $67.1 million. The increase is attributable to transfers from other funds of $67.4 million. Business-type net assets increased by $144.4 million due to revenues exceeding expenses by $211.7 million, net of transfers to other funds of $67.4 million.

Changes in Net Assets
September 30
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Program revenues:						
Charges for services	$ 132,670	139,776	1,594,441	1,610,435	1,727,111	1,750,211
Operating grants and contributions	57,331	77,923	--	--	57,331	77,923
Capital grants and contributions	2,942	1,111	50,898	69,804	53,840	70,915
General revenues:						
Property tax	258,943	236,146	--	--	258,943	236,146
Sales tax	153,098	139,289	--	--	153,098	139,289
Franchise fees and gross receipts tax	87,180	79,755	--	--	87,180	79,755
Grants and contributions not restricted to specific programs	73,711	90,083	--	--	73,711	90,083
Interest and other	54,963	35,315	60,970	47,905	115,933	83,220
Total revenues	820,838	799,398	1,706,309	1,728,144	2,527,147	2,527,542
Program expenses:						
General government	76,136	84,693	--	--	76,136	84,693
Public safety	397,583	373,361	--	--	397,583	373,361
Transportation, planning and sustainability	48,758	25,426	--	--	48,758	25,426
Public health	94,158	94,697	--	--	94,158	94,697
Public recreation and culture	72,082	65,453	--	--	72,082	65,453
Urban growth management	93,185	81,439	--	--	93,185	81,439
Unallocated depreciation expense - infrastructure	--	35,357	--	--	--	35,357
Interest on debt	39,166	38,766	--	--	39,166	38,766
Electric	--	--	929,057	918,369	929,057	918,369
Water	--	--	162,158	161,516	162,158	161,516
Wastewater	--	--	144,573	132,005	144,573	132,005
Airport	--	--	80,368	78,487	80,368	78,487
Convention	--	--	43,956	41,992	43,956	41,992
Environmental and health services	--	--	55,386	50,290	55,386	50,290
Public recreation	--	--	9,800	9,225	9,800	9,225
Urban growth management	--	--	69,293	63,981	69,293	63,981
Total expenses	821,068	799,192	1,494,591	1,455,865	2,315,659	2,255,057
Excess (deficiency) before special items and transfers	(230)	206	211,718	272,279	211,488	272,485
Transfers	67,353	65,974	(67,353)	(65,974)	--	--
Increase in net assets	67,123	66,180	144,365	206,305	211,488	272,485
Beginning net assets	1,561,098	1,494,918	2,559,648	2,353,343	4,120,746	3,848,261
Ending net assets	$ 1,628,221	1,561,098	2,704,013	2,559,648	4,332,234	4,120,746

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

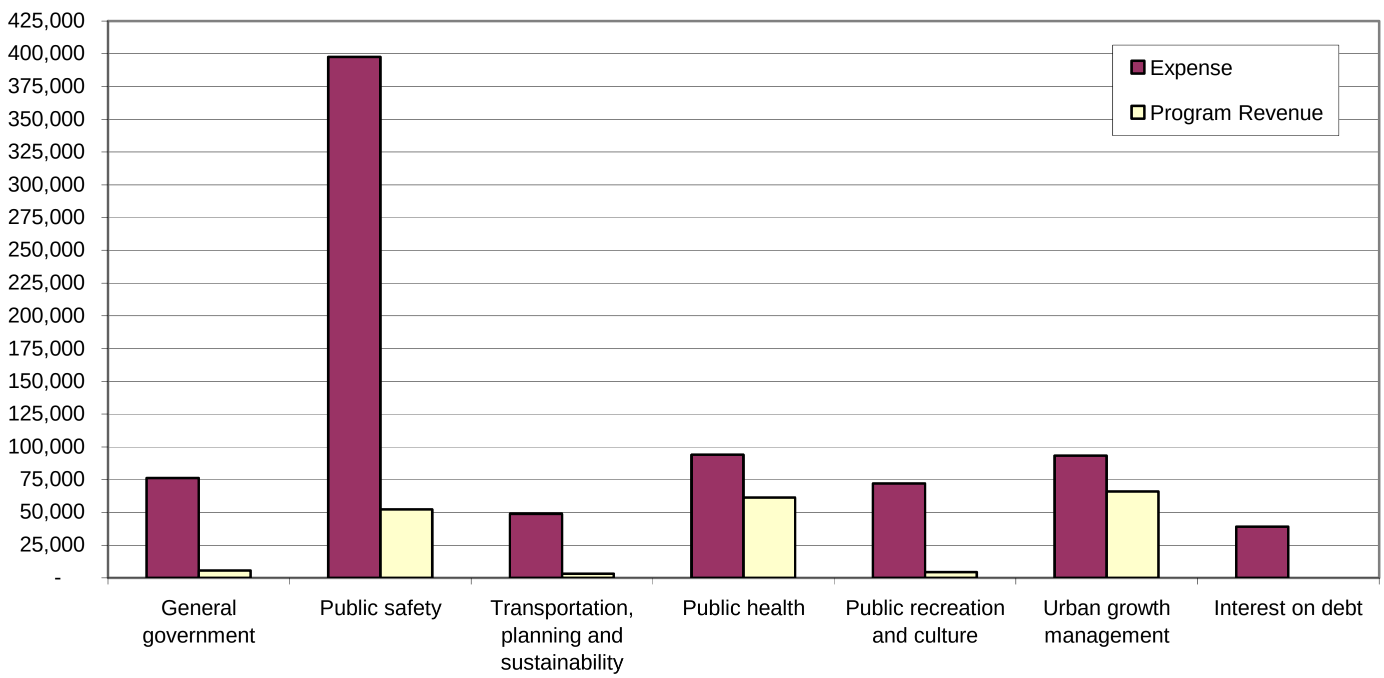
c -- Program revenues and expenses -- governmental activities

Governmental activities increased the City's net assets by $67.1 million in fiscal year 2007, a 4.3% increase of governmental net assets from the previous year. Key factors for the change from fiscal year 2006 to 2007 are as follows:

- The City's property tax revenue increased by $22.8 million from the previous year, despite a decrease in the City's tax rate from 44.3 cents to 41.3 per $100 valuation as a result of an increase in assessed property values.
- Sales tax revenue increased $13.8 million from the previous year, an increase of 10%.
- Franchise fees and gross receipts taxes increased $7.4 million, largely due to a $4.8 million increase in hotel occupancy tax collections and a $1.6 million increase in franchise fees.
- Grants and contributions not restricted to specific programs decreased $16.4 million, primarily due to a decrease in internal service capital contributions. Grants and contributions restricted to specific programs decreased $18.8 million, primarily as a result of lower intergovernmental grant revenues.

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

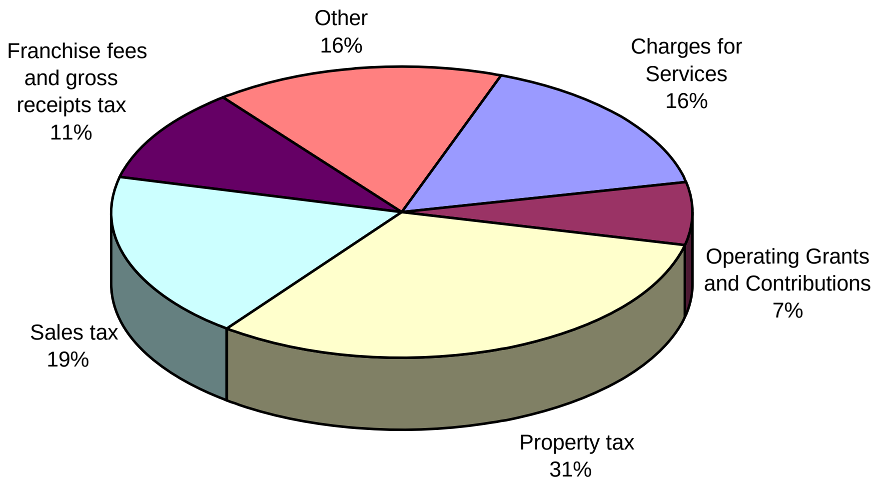
Government-wide Program Expenses and Revenues – Governmental Activities
(in thousands)



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

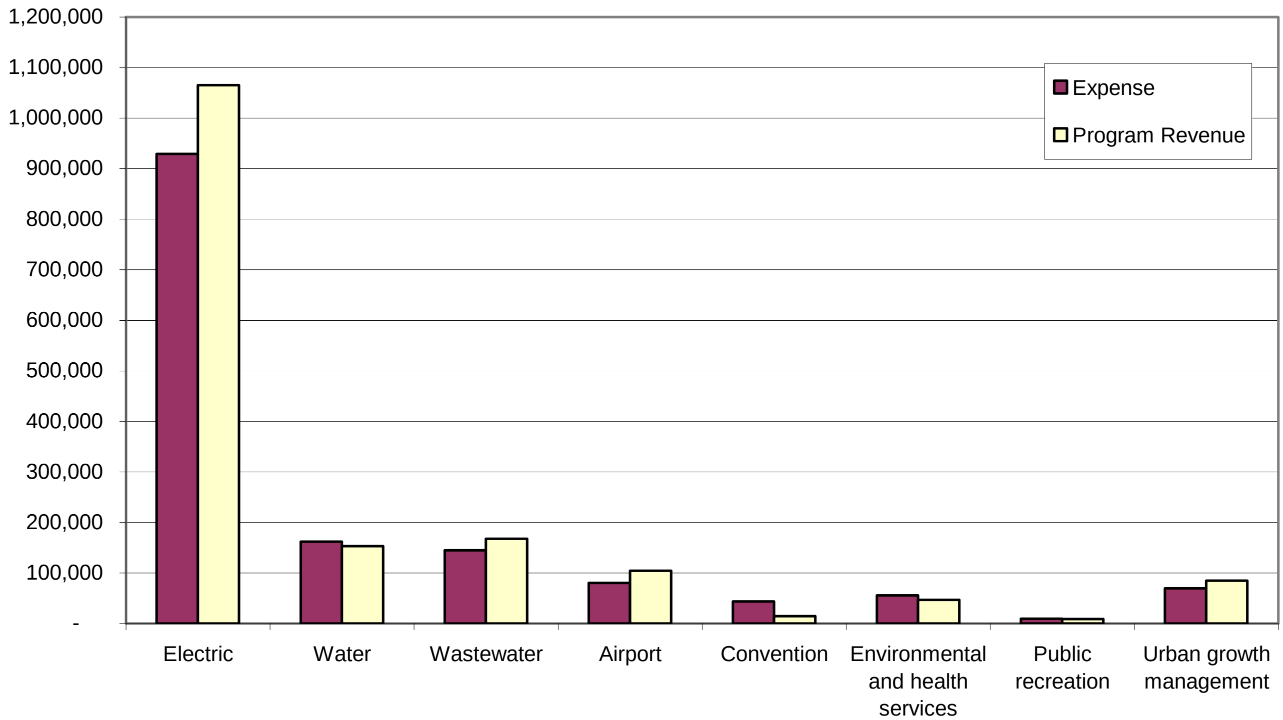
Business-type activities increased the City's net assets by approximately $144.4 million, accounting for a 3.5% increase in the City's total net assets. Key factors include:

- Electric net assets increased approximately $91.8 million. This increase is due primarily to an increase in electric consumption due to customer growth. Revenues decreased 2% due to decreased fuel costs while expenses increased 1% due to increased operating costs.
- Water and Wastewater net assets decreased approximately $7.2 million. This decrease is due primarily to decreased water consumption due to weather conditions. Water revenue for 2007 decreased by approximately 16.2% from the prior year. Wastewater revenue increased by 6.3% from the prior year due to a rate increase.
- Airport net assets increased approximately $31.6 million. Revenues increased due to an increase in passenger traffic, which was 9% higher than the previous calendar year. Expenses increased due to an increase in operations and maintenance costs.
- Convention net assets increased approximately $11.9 million. Revenue was 3% less than the prior year due to decreased 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 $7.4 million. This decrease is primarily attributed to inadequate revenues needed to cover expenses in solid waste services operations.
- Public recreation activities are comprised of nonmajor enterprise funds that include the Golf Fund and Recreation Program Fund. Net assets decreased by $466,000, primarily due to insufficient Golf Fund operating revenues to cover operating costs.
- Urban growth management activities are comprised of nonmajor enterprise funds that include the Drainage Fund and Transportation Fund. Net assets increased by approximately $23.4 million. This increase is primarily attributed to an increase in revenue of $2.9 million due to system growth and capital contributions. Operating expenses increased by $5.3 million due to salary increases, additional positions and programs added during the fiscal year.

As shown in the following chart, the electric utility, with expenses of $929 million, is the City's largest business-type activity, followed by water ($162 million), wastewater ($145 million), airport ($80 million), urban growth management ($69 million), environmental and health services ($55 million), convention ($44 million), and public recreation ($10 million). For the fiscal year, operating revenues exceeded operating expenses for all business-type activities except water, convention, public recreation, and environmental and health services.

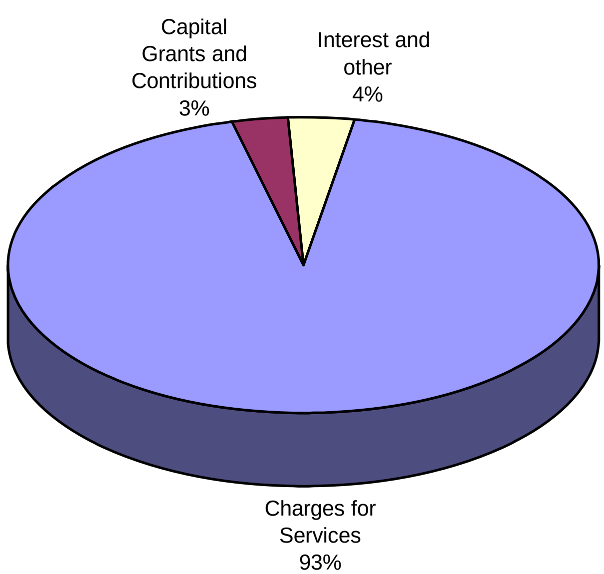
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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



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

Government-wide Revenue by Source – Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND LEVEL STATEMENTS

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

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

At the end of the fiscal year, the City of Austin's governmental funds reported combined ending fund balances of $310.8 million, a decrease of $38.8 million from the previous year. Approximately $193 million represents unreserved ending balance, which is available for future use. The remainder of fund balance is reserved and only available for commitments for the purchase of goods and services, receivables, property held for resale, legally restricted permanent fund resources, and certain debt service amounts. Reserved fund balance increased $28 million in comparison to the prior year, primarily due to an increase in the reservation for encumbrances of $24.2 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 $97.4 million, while total fund balance was $106.8 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 18% of total General Fund expenditures of $535.9 million, and total fund balance represents 20% of expenditures. The City's financial policies provide that surplus fund balance be designated for budget stabilization. This amount is a component of unreserved fund balance. The fund balance designated for budget stabilization was $51.4 million. The balance designated for budget stabilization may be appropriated to fund capital or other one-time expenditures in the subsequent fiscal year, but such appropriation will not normally exceed one-third of the total designated amount, with the other two-thirds designated for budget stabilization in future years.

The General Fund fund balance decreased $5 million during the fiscal year, while unreserved fund balance decreased $7.7 million. Significant differences from the previous year include:

- Property tax revenues increased $17.8 million due to an increase in assessed property values. The City's property tax rate decreased from 44.3 cents to 41.3 cents per $100 valuation.
- Sales tax revenues increased $13.8 million.
- Licenses, permits, and inspections revenues increased $3.5 million largely due to increased building permits and inspections.
- General fund expenditures increased $55 million, due primarily to an increase in public safety expenditures of $35.5 million, an increase in general government expenditures of $8.3 million and an increase in public recreation and culture expenditures of $5.2 million.

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 $144.4 million.

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

OTHER INFORMATION

a -- General Fund budgetary highlights

The original expenditure budget of the General Fund was amended during fiscal year 2007 for increased public safety costs and general city responsibilities. The final expenditure budget was $893,000 higher than the original budget. The General Fund transfer budget was also amended by $2.1 million for increased internal service transfers.

During the year, revenues were $12.7 million more than budgeted. The difference resulted from higher than anticipated property tax and sales tax collections, in addition to an increase in building permit and development fees.

Actual General Fund budget-basis expenditures were $2.2 million less than budgeted. Police expenditures exceeded budget by $391,000; while all other General Fund departments were under budget. The total budget-basis fund balance at year-end amounted to $94.7 million, which was $18.9 million higher than budgeted.

b -- Capital assets

The City's capital assets for governmental and business-type activities as of September 30, 2007, total $7.8 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, equipment, vehicles, infrastructure, construction in progress, nuclear fuel, and plant held for future use. The total increase in the City's capital assets for the current fiscal year was $234 million (3.1%), with an increase of 3.3% for governmental activities and an increase of 3.1% 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	
	2007	2006	2007	2006	2007	2006
Land and improvements	$ 261	240	365	295	626	535
Other assets not depreciated	19	19	1	1	20	20
Building and improvements	425	412	1,367	1,385	1,792	1,797
Equipment	81	80	3,071	2,813	3,152	2,893
Vehicles	32	28	52	45	84	73
Infrastructure	1,167	1,140	--	--	1,167	1,140
Construction in progress	183	181	680	830	863	1,011
Nuclear fuel, net of amortization	--	--	28	29	28	29
Plant held for future use	--	--	28	28	28	28
Total net assets	$ 2,168	2,100	5,592	5,426	7,760	7,526

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

- Governmental capital assets increased $68 million primarily due to infrastructure additions, land acquisitions, and facility and system improvements.
- Business-type activities purchased or completed construction on capital assets of $166 million. The increase was largely due to Wastewater Fund expenditures for the South Austin Regional Wastewater Treatment Plant, the Northeast Austin Wastewater Treatment Plant, and Walnut Creek Wastewater Treatment Plant improvements, as well as for wastewater projects associated with the Austin Clean Water Program and Electric Fund expenditures for general infrastructure improvements.

OTHER INFORMATION, continued

c -- Debt administration

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

Outstanding Debt
General Obligation and Revenue Debt
(in millions)

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
General obligation bonds and other tax supported debt, net	$ 787	847	101	111	888	958
Commercial paper notes, net	--	--	309	240	309	240
Revenue notes	--	--	28	28	28	28
Revenue bonds, net	--	--	3,194	3,201	3,194	3,201
Capital lease obligations	--	1	4	6	4	7
Total	$ 787	848	3,636	3,586	4,423	4,434

During fiscal year 2007, the City's total outstanding debt decreased by $11 million. The City issued new debt and refinanced portions of existing debt to achieve lower borrowing costs. Debt issues include the following:

- Bond debt for governmental activities decreased $60 million due to the payment of existing debt. No new debt was issued.
- Outstanding debt for business-type functions increased $50 million. The City issued Electric Fund and Water and Wastewater Fund separate lien revenue refunding bonds to refund commercial paper and existing debt.

During the current year the City's general obligation and combined utility revenue bond ratings remained unchanged while the Water and Wastewater separate lien revenue bonds received a favorable bond rating upgrade. Ratings at September 30, 2007 of the City's obligations for various debt instruments are as follows:

Debt	Moody's Investors Service, Inc		Standard & Poor's		Fitch, Inc.	
	2007	2006	2007	2006	2007	2006
General obligation bonds and other tax supported debt	Aa1	Aa1	AA+	AA+	AA+	AA+
Commercial paper notes	P-1	P-1	A-1+	A-1+	F1+	F1+
Commercial paper notes - taxable	P-1	P-1	A-1+	A-1+	F1+	F1+
Utility revenue bonds - prior lien	A1	A1	AA-	AA-	AA-	AA-
Utility revenue bonds - subordinate lien	A1	A1	A+	A+	AA-	AA-
Utility revenue bonds - separate lien:						
Electric	A1	A1	A+	A+	AA-	AA-
Water and Wastewater	Aa3	A1	A+	A	AA-	AA-
Airport system revenue bonds	NUR(1)	NUR(1)	A-	A-	NUR(1)	NUR(1)
Airport variable rate bonds	P-1	P-1	NUR(1)	NUR(1)	NUR(1)	NUR(1)
Convention Center revenue bonds	NUR(1)	NUR(1)	A-	A-	NUR(1)	NUR(1)

(1) No underlying rating

OTHER INFORMATION, continued

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

The local economy continued to grow in 2007, with sales tax revenues and property tax collections both increasing by 10% as compared to 2006. Job growth for the area continues to increase, with moderate growth forecasted in 2008. The local economy is expected to encounter lower economic growth in 2008, but is expected to perform better than the national economy. Nationally, the U.S. economy continues to be impacted by the housing crisis and rising oil prices. These issues are expected to significantly impact the local economy as well.

For the upcoming 2008 budget, the City will continue to focus on a multi-year budget horizon by judiciously adding to the budget for critical ongoing needs and one-time needs while maintaining a structurally balanced budget. The Austin City Council has adopted a comprehensive set of financial policies to provide the foundation for long-range financial sustainability. These financial policies are directly aligned with the City Council's priority of affordability, and continue to position the City to invest in its future economic development, infrastructure needs, and quality of life. These policies are also crucial in maintaining the City's favorable bond ratings. City management will continue to monitor the economy and will be prepared to take any corrective actions to help mitigate unfavorable economic events.

The assessed taxable property value within the City increased by 13.6% for 2007. The property tax rate for fiscal year 2008 is 40.34 cents per $100 valuation. The tax rate consists of 27.30 cents for the General Fund and 13.04 cents for debt service. Each 1 cent of the property tax rate is equivalent to $6,873,679 of tax levy, as compared to $6,051,232 in the previous year. Rate increases for the Water and Wastewater Fund are: 6.9% for Water and 12.7% for Wastewater for a combined increase of 9.8%.

e -- Requests for Information

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

(In thousands)

	Governmental Activities	Business-type Activities	2007 Total (†)
ASSETS			
Current assets:			
Cash	$ 90	63	153
Pooled investments and cash	376,730	365,810	742,540
Pooled investments and cash - restricted	--	400,380	400,380
Total pooled investments and cash	376,730	766,190	1,142,920
Investments, at fair value	15,201	2,889	18,090
Investments, at fair value - restricted	--	325,035	325,035
Cash held by trustee	4,017	--	4,017
Cash held by trustee - restricted	--	34,756	34,756
Working capital advances	--	5,100	5,100
Property taxes receivable	11,017	--	11,017
Less allowance for uncollectible taxes	(3,206)	--	(3,206)
Net property taxes receivable	7,811	--	7,811
Accounts and other receivables	166,443	206,465	372,908
Less allowance for doubtful accounts	(85,763)	(7,575)	(93,338)
Net accounts receivable	80,680	198,890	279,570
Receivables from other governments	14,147	--	14,147
Notes receivable, net of allowance	9,607	--	9,607
Internal balances	(1,564)	1,564	--
Internal balances - restricted	(1,065)	1,065	--
Inventories, at cost	1,988	70,556	72,544
Real property held for resale	11,831	--	11,831
Prepaid items	50	1,807	1,857
Other assets	1,256	2,214	3,470
Other receivables - restricted	--	3,166	3,166
Total current assets	520,779	1,413,295	1,934,074
Noncurrent assets:			
Investments held by trustee - restricted	--	99,200	99,200
Interest receivable - restricted	--	1,481	1,481
Capital assets			
Land and other nondepreciable assets	280,242	366,201	646,443
Property, plant, and equipment in service	2,540,623	7,269,960	9,810,583
Less accumulated depreciation	(836,439)	(2,779,471)	(3,615,910)
Net property, plant, and equipment in service	1,704,184	4,490,489	6,194,673
Construction in progress	183,230	680,161	863,391
Nuclear fuel, net of amortization	--	27,622	27,622
Plant held for future use	--	27,783	27,783
Total capital assets	2,167,656	5,592,256	7,759,912
Intangible assets, net of amortization	--	80,102	80,102
Other long-term assets	--	144	144
Deferred costs and expenses, net of amortization	3,609	404,818	408,427
Total noncurrent assets	2,171,265	6,178,001	8,349,266
Total assets	$ 2,692,044	7,591,296	10,283,340

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

(Continued)

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

(In thousands)

	Governmental Activities	Business-type Activities	2007 Total (†)
LIABILITIES			
Current liabilities:			
Accounts payable	$ 35,771	77,255	113,026
Accounts and retainage payable from restricted assets	--	43,733	43,733
Accrued payroll	22,535	11,752	34,287
Accrued compensated absences	39,404	18,876	58,280
Due to other governments	1	--	1
Claims payable	12,030	--	12,030
Accrued interest payable from restricted assets	--	49,856	49,856
Interest payable on other debt	3,313	4,762	8,075
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	57,174	7,120	64,294
General obligation bonds payable and other tax supported debt payable from restricted assets, net of discount and inclusive of premium	--	3,153	3,153
Revenue bonds payable	--	36,960	36,960
Revenue bonds payable payable from restricted assets	--	128,589	128,589
Capital lease obligations payable	159	1,805	1,964
Customer and escrow deposits payable from restricted assets	--	28,336	28,336
Nuclear fuel expense payable from restricted assets	--	23,714	23,714
Accrued landfill closure and postclosure costs	--	1,265	1,265
Deferred credits and other liabilities	58,796	35,947	94,743
Total current liabilities	229,183	473,123	702,306
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	52,698	5,124	57,822
Claims payable	10,191	--	10,191
Capital appreciation bond interest payable	--	232,175	232,175
Commercial paper notes payable, net of discount	--	309,003	309,003
Revenue notes payable	--	28,000	28,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	729,733	90,655	820,388
Revenue bonds payable, net of discount and inclusive of premium	--	3,028,054	3,028,054
Pension obligation payable	24,022	21,049	45,071
Capital lease obligations payable	316	2,767	3,083
Accrued landfill closure and postclosure costs	--	8,810	8,810
Decommissioning expense payable from restricted assets	--	148,763	148,763
Deferred credits and other liabilities	17,680	537,080	554,760
Other liabilities payable from restricted assets	--	2,680	2,680
Total noncurrent liabilities	834,640	4,414,160	5,248,800
Total liabilities	1,063,823	4,887,283	5,951,106
NET ASSETS			
Invested in capital assets, net of related debt	1,530,124	1,648,758	3,178,882
Restricted for:			
Debt service	14,548	107,187	121,735
Strategic reserve	--	169,479	169,479
Capital projects	37,608	116,719	154,327
Renewal and replacement	--	73,480	73,480
Passenger facility charges	--	16,266	16,266
Operating reserve	--	9,225	9,225
Perpetual Care:			
Expendable	660	--	660
Nonexpendable	1,040	--	1,040
Other purposes	16,126	--	16,126
Unrestricted	28,115	562,899	591,014
Total net assets	$ 1,628,221	2,704,013	4,332,234

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

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

(In thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	2007 Total
Governmental activities							
General government	$ 76,136	2,633	103	2,942	(70,458)	--	(70,458)
Public safety	397,583	40,529	11,788	--	(345,266)	--	(345,266)
Transportation, planning, and sustainability	48,758	3,260	--	--	(45,498)	--	(45,498)
Public health	94,158	40,238	20,983	--	(32,937)	--	(32,937)
Public recreation and culture	72,082	2,998	1,507	--	(67,577)	--	(67,577)
Urban growth management	93,185	43,012	22,950	--	(27,223)	--	(27,223)
Interest on debt	39,166	--	--	--	(39,166)	--	(39,166)
Total governmental activities	821,068	132,670	57,331	2,942	(628,125)	--	(628,125)
Business-type activities							
Electric	929,057	1,056,488	--	8,513	--	135,944	135,944
Water	162,158	138,350	--	14,798	--	(9,010)	(9,010)
Wastewater	144,573	154,118	--	13,733	--	23,278	23,278
Airport	80,368	96,562	--	7,900	--	24,094	24,094
Convention	43,956	14,577	--	--	--	(29,379)	(29,379)
Environmental and health services	55,386	46,310	--	330	--	(8,746)	(8,746)
Public recreation	9,800	8,784	--	289	--	(727)	(727)
Urban growth management	69,293	79,252	--	5,335	--	15,294	15,294
Total business-type activities	1,494,591	1,594,441	--	50,898	--	150,748	150,748
Total	$ 2,315,659	1,727,111	57,331	53,840	(628,125)	150,748	(477,377)
General revenues:							
Property tax					258,943	--	258,943
Sales tax					153,098	--	153,098
Franchise fees and gross receipts tax					87,180	--	87,180
Grants and contributions not restricted to specific programs					73,711	--	73,711
Interest and other					54,963	60,970	115,933
Transfers-internal activities					67,353	(67,353)	--
Total general revenues and transfers					695,248	(6,383)	688,865
Change in net assets					67,123	144,365	211,488
Beginning net assets					1,561,098	2,559,648	4,120,746
Ending net assets					$ 1,628,221	2,704,013	4,332,234

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

(In thousands)

	2007		
	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash	$ 68	5	73
Pooled investments and cash	90,921	191,739	282,660
Investments, at fair value	--	15,201	15,201
Cash held by trustee	--	3,185	3,185
Property taxes receivable	6,694	4,323	11,017
Less allowance for uncollectible taxes	(2,013)	(1,193)	(3,206)
Net property taxes receivable	4,681	3,130	7,811
Accounts and other receivables	136,336	25,766	162,102
Less allowance for doubtful accounts	(82,625)	(2,916)	(85,541)
Net accounts receivable	53,711	22,850	76,561
Receivables from other governments	--	14,147	14,147
Notes receivable, net of allowance	--	9,607	9,607
Due from other funds	237	37,944	38,181
Advances to other funds	--	7,721	7,721
Inventories, at cost	833	--	833
Real property held for resale	--	11,831	11,831
Prepaid items	31	--	31
Other assets	60	1,196	1,256
Total assets	150,542	318,556	469,098
LIABILITIES AND FUND BALANCES			
Accounts payable	6,038	19,035	25,073
Accrued payroll	17,457	1,048	18,505
Accrued compensated absences	410	--	410
Due to other funds	630	38,169	38,799
Due to other governments	1	--	1
Deferred revenue	15,784	9,606	25,390
Advances from other funds	--	348	348
Deposits and other liabilities	3,412	46,382	49,794
Total liabilities	43,732	114,588	158,320
Fund balances			
Reserved:			
Encumbrances	8,594	60,278	68,872
Inventories and prepaid items	864	--	864
Notes receivable	--	9,607	9,607
Advances receivable	--	7,721	7,721
Real property held for resale	--	11,831	11,831
Debt service	--	17,861	17,861
Permanent funds	--	1,040	1,040
Unreserved, designated:			
Emergencies	40,000	--	40,000
Contingencies	5,089	--	5,089
Future use	845	--	845
Budget stabilization	51,418	--	51,418
Unreserved, undesignated:			
Special revenue	--	48,916	48,916
Capital projects	--	46,054	46,054
Permanent funds	--	660	660
Total fund balances	106,810	203,968	310,778
Total liabilities and fund balances	$ 150,542	318,556	469,098

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, 2007
(In thousands)

Total fund balances - Governmental funds	$ 310,778
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.	2,115,170
Other long-term assets are not available as current-period resources and are not reported in the funds.	4,255
Long-term liabilities are not payable in the current period and are not reported in the funds.	(881,116)
Internal service funds are used by management to charge the costs of capital project management, combined emergency communication center, employee benefits, fleet maintenance, information systems, liability reserve, support services, wireless communication, and workers' compensation to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	79,134
Total net assets - Governmental activities	$ 1,628,221

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

(In thousands)

	2007		
	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes	$ 168,292	83,178	251,470
Sales taxes	153,098	--	153,098
Franchise fees and other taxes	37,461	49,719	87,180
Fines, forfeitures and penalties	16,094	4,865	20,959
Licenses, permits and inspections	25,635	--	25,635
Charges for services/goods	26,357	61,579	87,936
Intergovernmental	--	73,886	73,886
Property owners' participation and contributions	--	2,639	2,639
Interest and other	13,602	41,920	55,522
Total revenues	440,539	317,786	758,325
EXPENDITURES			
Current:			
General government	57,593	1,450	59,043
Public safety	369,535	14,150	383,685
Transportation, planning and sustainability	949	4,610	5,559
Public health	32,857	57,862	90,719
Public recreation and culture	54,827	7,751	62,578
Urban growth management	20,106	57,822	77,928
Debt service:			
Principal	--	59,929	59,929
Interest	--	39,156	39,156
Fees and commissions	--	10	10
Capital outlay-capital project funds	--	94,228	94,228
Total expenditures	535,867	336,968	872,835
Excess (deficiency) of revenues over expenditures	(95,328)	(19,182)	(114,510)
OTHER FINANCING SOURCES (USES)			
Transfers in	107,241	64,754	171,995
Transfers out	(16,907)	(79,341)	(96,248)
Total other financing sources (uses)	90,334	(14,587)	75,747
Net change in fund balances	(4,994)	(33,769)	(38,763)
Fund balances at beginning of year	111,804	237,737	349,541
Fund balances at end of year	$ 106,810	203,968	310,778

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

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities **Exhibit B-2.1**
For the year ended September 30, 2007
(In thousands)

Net change in fund balances - Governmental funds	$	(38,763)
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.		12,879
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		55,159
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.		59,929
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.		(22,936)
The net revenue of certain activities of internal service funds is reported with governmental activities.		855
Change in net assets - Governmental activities	$	67,123

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

Proprietary Funds
Statement of Net Assets
September 30, 2007
(In thousands)

	Electric	Water and Wastewater	Airport
ASSETS			
Current assets:			
Cash	$ 18	9	6
Pooled investments and cash	233,974	24,945	931
Pooled investments and cash - restricted	175,587	24,107	132,177
Total pooled investments and cash	409,561	49,052	133,108
Investments, at fair value	--	--	--
Investments, at fair value - restricted	249,940	59,857	12,998
Cash held by trustee	--	--	--
Cash held by trustee - restricted	28,762	5,994	--
Working capital advances	5,100	--	--
Accounts receivable	140,474	44,650	5,204
Less allowance for doubtful accounts	(2,004)	(715)	(165)
Net accounts receivable	138,470	43,935	5,039
Due from other funds	225	--	--
Due from other funds - restricted	--	27	617
Inventories, at cost	68,019	1,997	--
Prepaid expenses	1,670	125	12
Other assets	2,214	--	--
Other receivables - restricted	58	155	258
Total current assets	904,037	161,151	152,038
Noncurrent assets:			
Advances to other funds	2,460	--	--
Advances to other funds - restricted	--	81	140
Investments held by trustee - restricted	99,200	--	--
Interest receivable - restricted	1,481	--	--
Capital assets			
Land and other nondepreciable assets	59,662	145,357	88,428
Property, plant, and equipment in service	3,536,625	2,622,641	666,855
Less accumulated depreciation	(1,614,321)	(889,671)	(151,145)
Net property, plant, and equipment in service	1,922,304	1,732,970	515,710
Construction in progress	192,047	435,118	16,303
Nuclear fuel, net of amortization	27,622	--	--
Plant held for future use	27,783	--	--
Total capital assets	2,229,418	2,313,445	620,441
Intangible assets, net of amortization	--	80,102	--
Other long-term assets	144	--	--
Deferred costs and expenses, net of amortization	214,622	183,807	3,615
Total noncurrent assets	2,547,325	2,577,435	624,196
Total assets	$ 3,451,362	2,738,586	776,234

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

	Nonmajor Enterprise Funds	2007 Total	Governmental Activities-Internal Service Funds
ASSETS			
Current assets:			
Cash	30	63	17
Pooled investments and cash	105,960	365,810	94,070
Pooled investments and cash - restricted	68,509	400,380	--
Total pooled investments and cash	174,469	766,190	94,070
Investments, at fair value	2,889	2,889	--
Investments, at fair value - restricted	2,240	325,035	--
Cash held by trustee	--	--	832
Cash held by trustee - restricted	--	34,756	--
Working capital advances	--	5,100	--
Accounts receivable	16,137	206,465	3,651
Less allowance for doubtful accounts	(4,691)	(7,575)	(222)
Net accounts receivable	11,446	198,890	3,429
Due from other funds	905	1,130	948
Due from other funds - restricted	--	644	--
Inventories, at cost	540	70,556	1,155
Prepaid expenses	--	1,807	19
Other assets	--	2,214	--
Other receivables - restricted	2,695	3,166	--
Total current assets	195,214	1,412,440	100,470
Noncurrent assets:			
Advances to other funds	1	2,461	--
Advances to other funds - restricted	200	421	--
Investments held by trustee - restricted	--	99,200	--
Interest receivable - restricted	--	1,481	--
Capital assets			
Land and other nondepreciable assets	72,754	366,201	712
Property, plant, and equipment in service	443,839	7,269,960	84,871
Less accumulated depreciation	(124,334)	(2,779,471)	(37,178)
Net property, plant, and equipment in service	319,505	4,490,489	47,693
Construction in progress	36,693	680,161	4,081
Nuclear fuel, net of amortization	--	27,622	--
Plant held for future use	--	27,783	--
Total capital assets	428,952	5,592,256	52,486
Intangible assets, net of amortization	--	80,102	--
Other long-term assets	--	144	--
Deferred costs and expenses, net of amortization	2,774	404,818	44
Total noncurrent assets	431,927	6,180,883	52,530
Total assets	627,141	7,593,323	153,000

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

Proprietary Funds
Statement of Net Assets
September 30, 2007
(In thousands)

	Electric	Water and Wastewater	Airport
LIABILITIES			
Current liabilities:			
Accounts payable	$ 66,474	2,849	2,043
Accounts and retainage payable from restricted assets	13,086	25,018	1,703
Accrued payroll	5,088	2,546	787
Accrued compensated absences	8,471	4,568	1,146
Claims payable	--	--	--
Due to other funds	--	--	10
Accrued interest payable from restricted assets	22,875	25,420	1,561
Interest payable on other debt	923	1,049	1
General obligation bonds payable and other tax supported debt	--	--	23
General obligation bonds payable and other tax supported debt payable from restricted assets	152	3,001	--
Revenue bonds payable	--	33,520	--
Revenue bonds payable from restricted assets	89,185	27,624	11,780
Capital lease obligations payable	30	1,327	446
Customer and escrow deposits payable from restricted assets	18,549	6,165	461
Nuclear fuel expense payable from restricted assets	23,714	--	--
Accrued landfill closure and postclosure costs	--	--	--
Deferred credits and other liabilities	27,940	7,077	527
Total current liabilities	276,487	140,164	20,488
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	2,345	805	167
Claims payable	--	--	--
Advances from other funds	--	4,506	--
Capital appreciation bond interest payable	112,506	119,669	--
Commercial paper notes payable, net of discount	149,941	159,062	--
Revenue notes payable	--	--	28,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	1,596	16,475	311
Revenue bonds payable, net of discount and inclusive of premium	1,078,114	1,415,507	318,055
Pension obligation payable	9,382	4,741	1,478
Capital lease obligations payable	1,212	--	1,555
Accrued landfill closure and postclosure costs	--	--	--
Decommissioning expense payable from restricted assets	148,763	--	--
Deferred credits and other liabilities	76,003	456,238	617
Other liabilities payable from restricted assets	--	2,439	241
Total noncurrent liabilities	1,579,862	2,179,442	350,424
Total liabilities	1,856,349	2,319,606	370,912
NET ASSETS			
Invested in capital assets, net of related debt	898,760	321,975	263,883
Restricted for:			
Debt service	57,585	34,437	12,925
Strategic reserve	169,479	--	--
Capital projects	13,100	--	89,489
Renewal and replacement	61,559	--	10,000
Passenger facility charges	--	--	16,266
Operating reserve	--	--	7,882
Unrestricted	394,530	62,568	4,877
Total net assets	$ 1,595,013	418,980	405,322
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	3,306	2,746	953
Total net assets - Business-type activities	$ 1,598,319	421,726	406,275

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

	Nonmajor Enterprise Funds	2007 Total	Governmental Activities- Internal Service Funds
LIABILITIES			
Current liabilities:			
Accounts payable	5,889	77,255	10,698
Accounts and retainage payable from restricted assets	3,926	43,733	--
Accrued payroll	3,331	11,752	4,030
Accrued compensated absences	4,691	18,876	6,257
Claims payable	--	--	12,030
Due to other funds	1,130	1,140	964
Accrued interest payable from restricted assets	--	49,856	--
Interest payable on other debt	2,789	4,762	76
General obligation bonds payable and other tax supported debt	7,097	7,120	3,459
General obligation bonds payable and other tax supported debt payable from restricted assets	--	3,153	--
Revenue bonds payable	3,440	36,960	--
Revenue bonds payable from restricted assets	--	128,589	--
Capital lease obligations payable	2	1,805	1
Customer and escrow deposits payable from restricted assets	3,161	28,336	--
Nuclear fuel expense payable from restricted assets	--	23,714	--
Accrued landfill closure and postclosure costs	1,265	1,265	--
Deferred credits and other liabilities	403	35,947	1,096
Total current liabilities	37,124	474,263	38,611
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	1,807	5,124	896
Claims payable	--	--	10,191
Advances from other funds	5,496	10,002	253
Capital appreciation bond interest payable	--	232,175	--
Commercial paper notes payable, net of discount	--	309,003	--
Revenue notes payable	--	28,000	--
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	72,273	90,655	14,800
Revenue bonds payable, net of discount and inclusive of premium	216,378	3,028,054	--
Pension obligation payable	5,448	21,049	--
Capital lease obligations payable	--	2,767	--
Accrued landfill closure and postclosure costs	8,810	8,810	--
Decommissioning expense payable from restricted assets	--	148,763	--
Deferred credits and other liabilities	4,222	537,080	--
Other liabilities payable from restricted assets	--	2,680	--
Total noncurrent liabilities	314,434	4,424,162	26,140
Total liabilities	351,558	4,898,425	64,751
NET ASSETS			
Invested in capital assets, net of related debt	164,140	1,648,758	33,055
Restricted for:			
Debt service	2,240	107,187	--
Strategic reserve	--	169,479	--
Capital projects	14,130	116,719	14,943
Renewal and replacement	1,921	73,480	--
Passenger facility charges	--	16,266	--
Operating reserve	1,343	9,225	--
Unrestricted	91,809	553,784	40,251
Total net assets	275,583	2,694,898	88,249
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	2,110	9,115	
Total net assets - Business-type activities	277,693	2,704,013	

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, 2007
(In thousands)

	Electric	Water and Wastewater	Airport
OPERATING REVENUES			
Utility services	$ 1,056,488	292,468	--
User fees and rentals	--	--	79,871
Billings to departments	--	--	--
Employee contributions	--	--	--
Operating revenues from other governments	--	--	--
Other operating revenues	--	--	--
Total operating revenues	1,056,488	292,468	79,871
OPERATING EXPENSES			
Operating expenses before depreciation	711,181	134,824	47,298
Depreciation and amortization	115,166	73,592	17,722
Total operating expenses	826,347	208,416	65,020
Operating income (loss)	230,141	84,052	14,851
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	40,381	4,007	7,548
Interest on revenue bonds and other debt	(90,006)	(90,951)	(16,501)
Interest capitalized during construction	--	--	1,478
Passenger facility charges	--	--	16,691
Amortization of bond issue cost	(723)	(721)	(229)
Cost (recovered) to be recovered in future years	6,487	(9,623)	--
Other nonoperating expense	(19,300)	2,770	(24)
Total nonoperating revenues (expenses)	(63,161)	(94,518)	8,963
Income (loss) before contributions and transfers	166,980	(10,466)	23,814
Capital contributions	8,513	28,531	7,900
Transfers in	--	--	--
Transfers out	(84,500)	(25,491)	--
Change in net assets	90,993	(7,426)	31,714
Total net assets - beginning	1,504,020	426,406	373,608
Total net assets - ending	$ 1,595,013	418,980	405,322
Reconciliation to government-wide Statement of Activities			
Change in net assets	90,993	(7,426)	31,714
Adjustment to consolidate internal service activities	832	210	(72)
Change in net assets - Business-type activities	$ 91,825	(7,216)	31,642

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

	Nonmajor Enterprise Funds	2007 Total	Governmental Activities- Internal Service Funds
OPERATING REVENUES			
Utility services	--	1,348,956	--
User fees and rentals	148,923	228,794	--
Billings to departments	--	--	253,305
Employee contributions	--	--	31,441
Operating revenues from other governments	--	--	3,285
Other operating revenues	--	--	2,669
Total operating revenues	148,923	1,577,750	290,700
OPERATING EXPENSES			
Operating expenses before depreciation	147,022	1,040,325	272,260
Depreciation and amortization	18,818	225,298	9,223
Total operating expenses	165,840	1,265,623	281,483
Operating income (loss)	(16,917)	312,127	9,217
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	9,034	60,970	1,303
Interest on revenue bonds and other debt	(13,972)	(211,430)	(698)
Interest capitalized during construction	1,671	3,149	--
Passenger facility charges	--	16,691	--
Amortization of bond issue cost	(149)	(1,822)	(2)
Cost (recovered) to be recovered in future years	--	(3,136)	--
Other nonoperating expense	(842)	(17,396)	(4,007)
Total nonoperating revenues (expenses)	(4,258)	(152,974)	(3,404)
Income (loss) before contributions and transfers	(21,175)	159,153	5,813
Capital contributions	5,954	50,898	5,103
Transfers in	45,458	45,458	--
Transfers out	(2,820)	(112,811)	(8,394)
Change in net assets	27,417	142,698	2,522
Total net assets - beginning	248,166	2,552,200	85,727
Total net assets - ending	275,583	2,694,898	88,249
Reconciliation to government-wide Statement of Activities			
Change in net assets	27,417	142,698	
Adjustment to consolidate internal service activities	697	1,667	
Change in net assets - Business-type activities	28,114	144,365	

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

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2007
(In thousands)

	Electric	Water and Wastewater	Airport
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	$ 1,114,389	298,204	78,135
Cash payments to suppliers for goods and services	(570,583)	(69,867)	(32,164)
Cash payments to employees for services	(120,578)	(61,685)	(14,111)
Cash payments to claimants/beneficiaries	--	--	--
Taxes collected and remitted to other governments	(29,628)	--	--
Net cash provided (used) by operating activities	393,600	166,652	31,860
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	--	--	--
Transfers out	(84,500)	(25,491)	--
Interest paid on revenue notes and other debt	(73)	(24)	--
Increase in deferred assets	1,867	--	--
Loans to other funds	(225)	--	--
Loans from other funds	--	725	10
Loan repayments to other funds	--	--	--
Loan repayments from other funds	435	27	668
Net cash provided (used) by noncapital financing activities	(82,496)	(24,763)	678
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	95,500	107,630	--
Proceeds from the sale of general obligation bonds and other tax supported debt	--	4,420	--
Principal paid on long-term debt	(103,580)	(50,493)	(10,084)
Purchased interest received	593	507	--
Interest paid on revenue bonds and other debt	(69,969)	(71,214)	(15,651)
Passenger facility charges	--	--	16,691
Acquisition and construction of capital assets	(183,160)	(138,133)	(19,994)
Contributions from municipality	--	--	--
Contributions from state and federal governments	--	--	12,016
Contributions in aid of construction	9,671	12,853	--
Bond issuance costs	--	165	--
Bond premiums	115	55	--
Cash paid for nuclear fuel inventory	(8,957)	--	--
Net cash provided (used) by capital and related financing activities	$ (259,787)	(134,210)	(17,022)

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

	Nonmajor Enterprise Funds	2007 Total	Governmental Activities-Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	148,878	1,639,606	288,002
Cash payments to suppliers for goods and services	(63,385)	(735,999)	(104,975)
Cash payments to employees for services	(75,233)	(271,607)	(95,562)
Cash payments to claimants/beneficiaries	--	--	(68,543)
Taxes collected and remitted to other governments	--	(29,628)	--
Net cash provided (used) by operating activities	10,260	602,372	18,922
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	45,458	45,458	--
Transfers out	(2,820)	(112,811)	(8,394)
Interest paid on revenue notes and other debt	(3)	(100)	--
Increase in deferred assets	--	1,867	--
Loans to other funds	(573)	(798)	(230)
Loans from other funds	524	1,259	730
Loan repayments to other funds	(339)	(339)	(30)
Loan repayments from other funds	87	1,217	--
Net cash provided (used) by noncapital financing activities	42,334	(64,247)	(7,924)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	--	203,130	--
Proceeds from the sale of general obligation bonds and other tax supported debt	9,700	14,120	--
Principal paid on long-term debt	(7,247)	(171,404)	(3,328)
Purchased interest received	37	1,137	--
Interest paid on revenue bonds and other debt	(13,342)	(170,176)	(709)
Passenger facility charges	--	16,691	--
Acquisition and construction of capital assets	(31,665)	(372,952)	(9,923)
Contributions from municipality	--	--	2,419
Contributions from state and federal governments	--	12,016	--
Contributions in aid of construction	3,454	25,978	--
Bond issuance costs	(35)	130	--
Bond premiums	96	266	--
Cash paid for nuclear fuel inventory	--	(8,957)	--
Net cash provided (used) by capital and related financing activities	(39,002)	(450,021)	(11,541)

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

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2007
(In thousands)

	Electric	Water and Wastewater	Airport
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	$ (295,744)	(83,884)	(27,839)
Proceeds from sale and maturities of investment securities	313,565	73,069	38,891
Interest on investments	36,710	3,857	6,931
Net cash provided (used) by investing activities	54,531	(6,958)	17,983
Net increase in cash and cash equivalents	105,848	721	33,499
Cash and cash equivalents, October 1	332,493	54,334	99,615
Cash and cash equivalents, September 30	438,341	55,055	133,114
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	230,141	84,052	14,851
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	115,166	71,092	17,722
Amortization	--	2,500	--
Change in assets and liabilities:			
Increase in working capital advances	(1,084)	--	--
(Increase) decrease in accounts receivable	(3,181)	4,466	(1,353)
Increase (decrease) in allowance for doubtful accounts	(267)	22	15
Decrease in due from other funds	--	--	--
(Increase) decrease in inventory	(7,006)	(349)	--
Decrease in prepaid expenses and other assets	6,084	4	--
Decrease in deferred costs and other expenses	9,073	--	--
(Increase) decrease in other long-term assets	523	--	--
Increase (decrease) in accounts payable	(696)	21	518
Increase in accrued payroll and compensated absences	1,268	550	357
Decrease in claims payable	--	--	--
Increase in pension obligations payable	4,128	2,058	621
Increase (decrease) in deferred credits and other liabilities	35,316	868	(989)
Increase in customer deposits	4,135	1,368	118
Total adjustments	163,459	82,600	17,009
Net cash provided (used) by operating activities	$ 393,600	166,652	31,860

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

	Nonmajor Enterprise Funds	2007 Total	Governmental Activities- Internal Service Funds
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	(12,859)	(420,326)	--
Proceeds from sale and maturities of investment securities	11,232	436,757	--
Interest on investments	9,036	56,534	1,303
Net cash provided (used) by investing activities	7,409	72,965	1,303
Net increase in cash and cash equivalents	21,001	161,069	760
Cash and cash equivalents, October 1	153,498	639,940	94,159
Cash and cash equivalents, September 30	174,499	801,009	94,919
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	(16,917)	312,127	9,217
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	18,818	222,798	9,223
Amortization	--	2,500	--
Change in assets and liabilities:			
Increase in working capital advances	--	(1,084)	--
(Increase) decrease in accounts receivable	(1,041)	(1,109)	(1,970)
Increase (decrease) in allowance for doubtful accounts	664	434	--
Decrease in due from other funds	(25)	(25)	(511)
(Increase) decrease in inventory	286	(7,069)	(84)
Decrease in prepaid expenses and other assets	15	6,103	3
Decrease in deferred costs and other expenses	--	9,073	28
(Increase) decrease in other long-term assets	--	523	(31)
Increase (decrease) in accounts payable	2,241	2,084	1,080
Increase in accrued payroll and compensated absences	1,444	3,619	1,164
Decrease in claims payable	--	--	1,012
Increase in pension obligations payable	2,485	9,292	--
Increase (decrease) in deferred credits and other liabilities	1,806	37,001	(209)
Increase in customer deposits	484	6,105	--
Total adjustments	27,177	290,245	9,705
Net cash provided (used) by operating activities	10,260	602,372	18,922

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

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2007
(In thousands)

	Electric	Water and Wastewater	Airport
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
(Increase) decrease in deferred assets/expenses	$ (11,215)	128	--
Increase in capital appreciation bond interest payable	9,219	11,535	--
Capital assets contributed from (to) other funds	(149)	--	(70)
Increase in contributed facilities	--	15,883	--
Net increase in the fair value of investments	(4,050)	(450)	(666)
Amortization of bond issue costs	(689)	(721)	(229)
Amortization of bond discounts and premiums	(3,942)	(3,420)	(276)
Amortization of deferred loss on refundings	9,657	8,604	1,085
Gain (loss) on disposal of assets	(19,300)	2,769	(24)
Deferred loss on bond refunding	(20,433)	--	--
Bond issuance costs, discounts, premiums, and accrued interest written off due to refunding	14,848	--	--
Deferred costs (recovered) to be recovered	6,487	(9,623)	--
Contributions from other funds	--	--	--
Increase in deferred credits and other liabilities	11,086	--	--
Capital lease obligations	1	--	2,320
Bonds issued for the advance refundings of debt	284,439	135,000	--
Bond issuance costs on advance refundings	(1,579)	(1,288)	--
Bond discounts on advance refundings	(1,291)	--	--
Bond premiums on advance refundings	18,192	488	--
Reduction of long-term debt due to advance refundings	(293,875)	(134,200)	--

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

	Nonmajor Enterprise Funds	2007 Total	Governmental Activities- Internal Service Funds
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
(Increase) decrease in deferred assets/expenses	(28)	(11,115)	--
Increase in capital appreciation bond interest payable	--	20,754	--
Capital assets contributed from (to) other funds	(41)	(260)	2,703
Increase in contributed facilities	--	15,883	--
Net increase in the fair value of investments	(999)	(6,165)	--
Amortization of bond issue costs	(148)	(1,787)	--
Amortization of bond discounts and premiums	(599)	(8,237)	(5)
Amortization of deferred loss on refundings	1,135	20,481	2
Gain (loss) on disposal of assets	(865)	(17,420)	(1,052)
Deferred loss on bond refunding	--	(20,433)	--
Bond issuance costs, discounts, premiums, and accrued interest written off due to refunding	--	14,848	--
Deferred costs (recovered) to be recovered	--	(3,136)	--
Contributions from other funds	--	--	199
Increase in deferred credits and other liabilities	--	11,086	(258)
Capital lease obligations	3	2,324	--
Bonds issued for the advance refundings of debt	--	419,439	--
Bond issuance costs on advance refundings	--	(2,867)	--
Bond discounts on advance refundings	--	(1,291)	--
Bond premiums on advance refundings	--	18,680	--
Reduction of long-term debt due to advance refundings	--	(428,075)	--

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

(In thousands)

	Private-purpose Trust	Agency
ASSETS		
Pooled investments and cash	$ 1,155	3,625
Other assets	121	--
Total assets	1,276	3,625
LIABILITIES		
Accounts payable	--	80
Due to other governments	--	2,704
Deposits and other liabilities	538	841
Total liabilities	538	3,625
NET ASSETS		
Held in trust	738	
Total net assets	$ 738	

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

		Private-purpose Trust
ADDITIONS		
Contributions	$	271
Interest and other		54
Total additions		325
DEDUCTIONS		
Benefit payments		370
Total deductions		370
Net additions (deductions) before transfers		(45)
Total net assets - beginning		783
Total net assets - ending	$	738

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The City of Austin’s charter requires an annual audit by an independent certified public accountant. These financial statements have been prepared in accordance with GAAP for local governments as prescribed by the GASB. The City has implemented GASB Statements No. 1 through No. 42, No. 44, and No. 46. The more significant accounting and reporting policies and practices used by the City are described below.

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

a -- Reporting Entity

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

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

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

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

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

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

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

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

b -- Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

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

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

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

The City reports the following major governmental fund:

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

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

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

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

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

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

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

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

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

The City reports the following major enterprise funds:

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

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

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

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

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

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

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

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

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

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

d -- Budget

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

Annual budgets are legally adopted for the General Fund, certain special revenue funds, and debt service funds. Additional information related to special revenue funds with legally adopted budgets can be found in Exhibit E-13. Annual budgets are also adopted for enterprise and internal service funds, although they are not legally required. Multi-year budgets are adopted for capital projects and grant funds, where appropriations remain authorized for the life of the 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 general city responsibilities.

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, 2007. Investments in local government investment pools are carried at amortized cost, which approximates fair value.

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

Accounts Receivable -- Balances of accounts receivable, reported on the government-wide statement of net assets, are aggregations of different components such as charges for services, fines, and balances due from taxpayers or other governments. In order to assist the reader, the following information has been provided regarding significant components of receivable balances as of September 30, 2007 (in thousands):

	Charges for Services	Fines	Taxes	Other Govern-ments	Other	Total
Governmental activities						
General Fund	$ 76,380	26,354	34,292	--	--	137,026
Nonmajor governmental funds	2,590	21	12,389	6,843	3,923	25,766
Internal service funds	3,651	--	--	--	--	3,651
Allowance for doubtful accounts	(72,779)	(12,984)	--	--	--	(85,763)
Total	$ 9,842	13,391	46,681	6,843	3,923	80,680

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

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

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

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

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

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

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

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

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

Restricted assets -- Restricted assets are assets whose use is subject to constraints that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Since the Electric Fund and Water and Wastewater Fund report in accordance with FASB Statement No. 71, enabling legislation also includes restrictions on asset use established by its governing board which is the City Council.

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

	Electric	Water and Wastewater	Airport	Nonmajor Enterprise	Total Restricted Assets
Strategic reserve	$ 169,697	--	--	--	169,697
Capital projects	48,044	21,762	94,384	53,073	217,263
Customer and escrow deposits	20,416	8,602	461	3,162	32,641
Debt service	80,461	59,857	12,925	2,440	155,683
Federal grants	--	--	258	--	258
Plant decommissioning	149,483	--	--	--	149,483
Nuclear fuel inventory replacement	25,368	--	--	--	25,368
Operating reserve account	--	--	7,882	7,876	15,758
Passenger facility charge account	--	--	20,280	--	20,280
Renewal and replacement account	61,559	--	10,000	7,093	78,652
	$ 555,028	90,221	146,190	73,644	865,083

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

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

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

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

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

		Business-type Activities			
Assets	**Governmental Activities (1)**	**Electric**	**Water and Wastewater**	**Airport**	**Nonmajor Enterprise**
Buildings	5-40	15-50	15-50	15-40	12-40
Equipment	5-50	6-40	5-60	4-50	5-40
Vehicles	3-20	3-40	3-20	3-20	3-30
Communication equipment	7-15	7-18	7	7	7
Furniture and fixtures	7-12	12-40	12	10-12	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.

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

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

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

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

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

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

	Work-week	Non-Civil Service Employees (1)	Civil Service Police (2)	Civil Service Fire (3)
Vacation	0-40	240	240	240
	42	270	N/A	N/A
	48	309	N/A	N/A
	53	N/A	N/A	360
	56	360	N/A	N/A
Sick leave	0-40	720	1020	720
	42	756	N/A	N/A
	48	926	N/A	N/A
	53	N/A	N/A	1080
	56	1080	N/A	N/A

(1) Non-civil service employees are eligible for accumulated sick leave payout if hired on or before October 1, 1986.
(2) Civil service police employees with 5 years of actual service are eligible for accumulated sick leave payout.
(3) Civil service fire employees are eligible for accumulated sick leave payout regardless of hire date.

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

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

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

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

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

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

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

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

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	$	3,538
Water and Wastewater Fund		1,072
Airport		82
Nonmajor Enterprise Funds		703

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 or in future months. The City reported fuel costs on the same basis as it recognized revenue in 2007 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, 2007. The amount of unbilled revenue recorded, as of September 30, 2007, for the Electric Fund was $39.7 million. The Water and Wastewater Fund recorded unbilled revenue as earned based upon the percentage of October's billing that represented water usage through September 30, 2007. The amount of unbilled revenue recorded as of September 30, 2007 was $9.1 million for water and $9 million for wastewater.

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

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

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

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

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

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

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

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

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

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

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

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

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 ($310.8 million) differs from the net assets reported in governmental activities within the government-wide financial statements ($1.63 billion). The differences result from the long-term economic resources measurement focus in the government-wide statement of net assets versus the current financial resources measurement focus of the governmental fund balance sheets. The differences are shown below (in thousands):

Total fund balances - Governmental funds - balance sheet		$ 310,778
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	2,914,431	
Less: accumulated depreciation	(799,261)	
Total		2,115,170
Other long-term assets are not available as current-period resources and are not reported in the funds.		
Accounts and other taxes receivable	690	
Deferred costs and expenses	3,565	
Total		4,255
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	(768,648)	
Pension obligation payable	(24,022)	
Capital lease obligations payable	(474)	
Compensated absences	(84,539)	
Interest payable	(3,237)	
Deferred credits and other liabilities	(196)	
Total		(881,116)
Internal service funds		79,134
Total net assets - Governmental activities		$ 1,628,221

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 ($38.8 million) differs from the change in net assets for governmental activities ($67.1 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):

Net change in fund balances - Governmental funds		$ (38,763)
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	93,984	
Depreciation expense	(81,036)	
Loss on disposal of capital assets	(69)	
Total		12,879
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		
Property taxes	7,473	
Charges for services	(5,635)	
Operating grants and contributions	(715)	
Interest and other	(3)	
Capital assets contribution	54,039	
Total		55,159
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.		
Principal repayment on long-term debt	59,929	
Total		59,929
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	(13,836)	
Pension obligation	(10,108)	
Interest and other	1,008	
Total		(22,936)
Internal services. The net revenue (expense) of the internal service funds is reported with the governmental activities.		855
Change in net assets - Governmental activities		$ 67,123

3 – DEFICITS IN FUND BALANCES AND NET ASSETS

At September 30, 2007, the following funds reported deficits in fund balances or net assets. Management intends to recover these deficits through future operating revenues, transfers, or debt issues.

Nonmajor Governmental	Deficit (in thousands)
Special Revenue Funds:	
Medicaid Administrative Claims	$ 696
Cable TV	104
Rutherford Lane Facility Fund	501
City Hall Fund	328
RMMA Reimbursement	18
Capital Projects Funds:	
Parks and recreation facilities	283
Radio Trunking	3,434
Transportation	1,239
Drainage & Open Spaces	3,253
Parks	2,799
Cultural Facilities	3
Public Safety	163
Health projects	73
Build Austin	574
Build Central Texas	1,860
CMTA Mobility	1,926
Capital reserve	3,944
Public Works	268
Watershed Protection	657
City Hall, plaza, parking garage	7,082
Conservation Land	15
Internal Service Funds:	
Capital Projects Management	469

4 – POOLED INVESTMENTS AND CASH

The following summarizes the amounts of pooled investments and cash by fund at September 30, 2007 (in thousands):

	Pooled Investments and Cash	
	Unrestricted	**Restricted**
General Fund	$ 90,921	--
Nonmajor governmental funds	191,739	--
Electric	233,974	175,587
Water and Wastewater	24,945	24,107
Airport	931	132,177
Nonmajor enterprise funds	105,960	68,509
Internal service funds	94,070	--
Fiduciary funds	4,780	--
Subtotal pooled investments and cash	747,320	400,380
Total pooled investments and cash	$ 1,147,700	

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.

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.

5 – INVESTMENTS AND DEPOSITS, continued
a -- Investments

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, 2007, TexPool and TexasDAILY had a weighted average maturity of 54 days and 42 days, respectively. The City considers the holdings in these funds to have a weighted average maturity of one day, due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

The City did not participate in any reverse repurchase agreements or security lending agreements during fiscal year 2007.

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, 2007 (in thousands):

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Non-pooled investments:				
Local Government Investment Pools	$ 15,201	164,439	--	179,640
US Treasury Notes	--	111,835	--	111,835
US Agency Bonds	--	150,850	--	150,850
Total non-pooled investments	15,201	427,124	--	442,325
Pooled investments:				
Local Government Investment Pools	119,505	242,908	1,465	363,878
US Treasury Notes	4,944	10,056	63	15,063
US Agency Bonds	250,073	508,515	3,252	761,840
Total pooled investments (1)	374,522	761,479	4,780	1,140,781
Total investments	$ 389,723	1,188,603	4,780	1,583,106

(1) A difference of $6.9 million exists between the investment portfolio balance and book balance, primarily due to deposits in transit offset by outstanding checks.

At September 30, 2007, the City of Austin was exposed to concentration of credit risk since it held investments with more than five percent of the total investment portfolio balances of the City in securities of the following issuers (in thousands): Federal Home Loan Bank ($387,002 or 24%), Federal Home Loan Mortgage Corporation ($164,236 or 10%), and Federal National Mortgage Association ($249,814 or 16%).

b -- Investment categories

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

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

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

5 – INVESTMENTS AND DEPOSITS, continued
b – Investment categories

Operating Funds (excluding special project fund)
As of September 30, 2007, the City operating funds (excluding the special project fund) had the following investments:

	Fair Value (in thousands)				
Investment Type	Governmental Activities	Business-type Activities	Fiduciary Funds	Total	Weighted Average Maturity (days)
Local Government Invest Pools	$ 119,505	242,908	1,465	363,878	1
US Treasury Notes	4,944	10,056	63	15,063	350
US Agency Bonds	250,073	508,515	3,252	761,840	461
Total pooled investments	$ 374,522	761,479	4,780	1,140,781	312

Credit Risk
Approximately 8% of the portfolio consists of direct obligations of the US government. As of September 30, 2007, Standard and Poor's issued the following ratings for other investments:

Investment Type	Portfolio %	Rating
LGIPs	34	AAAm
US Agency Bonds and Step Bonds	58	AAA

At September 30, 2007, the operating funds held investments with more than 5 percent of the total in securities of the following issuers: Federal Home Loan Bank ($326 million or 29 percent), Federal National Mortgage Association ($215 million or 19 percent), Federal Home Loan Mortgage Corporation ($150 million or 13 percent) and Federal Farm Credit Bank ($70 million or 6%).

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, 2007, nearly a third 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 312 days, which was less than the threshold of 365 days.

Debt Service Funds
As of September 30, 2007, the City's debt service funds had the following investments:

	Fair Value (in thousands)		
	Governmental Activities	Business-type Activities	Final Maturity
General Obligation Debt Service			
TexPool (LGIPs)	$ 15,201	–	N/A
Enterprise-Utility (1)			
TexPool (LGIPs)	--	140,019	N/A
US Treasury SLG 3.937% of 11/17/07	--	297	11/17/2007
Enterprise-Airport			
TexPool (LGIPs)	--	12,925	N/A
Nonmajor Enterprise-Convention Center			
TexPool (LGIPs)	--	5,129	N/A
Total	$ 15,201	158,370	

(1) Includes combined pledge debt service

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

Credit Risk
As of September 30, 2007, 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, 2007, portfolios in this category held investments in AAAm rated LGIPs or direct obligations of the US Treasury.

Special Project Fund
As of September 30, 2007, the City's special project fund had the following investments:

	Fair Value (in thousands) Business-type Activities	Final Maturity
Airport Construction		
TexPool (LGIPs)	$ 73	N/A
Total special projects fund	$ 73	

Credit Risk
As of September 30, 2007, Standard and Poor's rated TexPool AAAm.

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

At September 30, 2007, the portfolios held investments in an AAAm rated LGIP and US Agencies with maturities that will meet anticipated cash flow requirements.

Special Purpose Funds
Austin Energy Strategic Reserve Fund
As of September 30, 2007, the City's Special Purpose Fund (Austin Energy Strategic Reserve Fund) had the following investments:

Investment Type	Fair Value (in thousands)	Weighted Average Maturity (days)
Local Government Investment Pools	$ 6,293	1
US Treasury Notes	70,720	1,254
US Agency Bonds	92,468	1,332
Total	$ 169,481	1,250

Credit Risk
At September 30, 2007, 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, 2007, the Austin Energy Strategic Reserve Fund held investments with more than 5 percent of the total in securities of the following issuers: Federal Farm Credit Bank ($23 million or 14 percent), and Federal Home Loan Bank ($44 million or 26 percent), and Federal National Mortgage Association ($25 million or 15%).

5 – INVESTMENTS AND DEPOSITS, continued
b -- Investment categories, 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, 2007, the portfolios held investments in TexPool (AAAm rated LGIP), US Treasuries, and US Agencies with maturities that will meet anticipated cash flow requirements and an overall dollar weighted average maturity of 1,250 days (3.42 years).

Austin Energy Nuclear Decommissioning Trust Funds
As of September 30, 2007, the Austin Energy's Special Purpose Fund (Nuclear Decommissioning Trust Funds, NDTF) had the following investments:

Investment Type	Fair Value (in thousands)	Weighted Average Maturity (years)
US Treasury Notes	$ 40,818	4.45
US Agency Bonds	58,382	5.06
Total	$ 99,200	4.82

Credit Risk
As of September 30, 2007, Standard and Poor's rate the US Agency Bonds AAA. The remaining securities are direct obligations of the US government.

At September 30, 2007, the NDTF held investments with more than 5 percent of the total in securities of the following issuers: Federal Home Loan Bank ($16 million or 16 percent), Federal Home Loan Mortgage Corporation ($14 million or 14 percent), Federal National Mortgage Association ($10 million or 10 percent), and Federal Farm Credit Bank ($18 million or 18 percent).

Interest Rate Risk
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy for the Decommissioning Trust Fund portfolios requires that the dollar weighted average maturity, using final stated maturity dates, shall not exceed seven years, although the portfolio's weighted average maturity may be substantially shorter if market conditions so dictate. At September 30, 2007, the dollar weighted average maturity was 4.82 years.

Investments and deposits at September 30, 2007, are as follows (in thousands):

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Non-pooled investments and cash	$ 19,308	461,943	--	481,251
Pooled investments and cash	374,952	762,355	4,780	1,142,087
Total investments and cash	394,260	1,224,298	4,780	1,623,338
Unrestricted cash	4,107	63	--	4,170
Restricted cash	--	34,756	--	34,756
Pooled cash	374,952	762,355	4,780	1,142,087
Investments	15,201	427,124	--	442,325
Total investments and cash	$ 394,260	1,224,298	4,780	1,623,338

A difference of $5.6 million exists between bank balance and book balance, primarily due to deposits in transit offset by outstanding checks.

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

Deposits
The September 30, 2007, carrying amount of deposits is as follows (in thousands):

	Governmental Activities	Business-Type Activities	Total
Cash			
Unrestricted	$ 90	63	153
Cash held by trustee			
Unrestricted	4,017	--	4,017
Restricted	--	34,756	34,756
Pooled cash	430	876	1,306
Total deposits	$ 4,537	35,695	40,232

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, 2007.

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, 2006, upon which the 2007 levy was based, was $60,512,328,889.

Taxes are due by January 31 following the October 1 levy date. During the year ended September 30, 2007, 99.61% of the current tax levy (October 1, 2006) was collected. The statutory lien date is January 1.

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

The appraisal of property within the City is the responsibility of the Travis Central Appraisal District 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.

6 – PROPERTY TAXES, continued

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, 2007, was $.2760 per $100 assessed valuation. The City has a tax margin for general governmental purposes of $.7240 per $100 assessed valuation, and could levy approximately $438,109,261 in additional taxes from the assessed valuation of $60,512,328,889 before the legislative limit is reached.

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE

The City has recorded capitalized interest for fiscal year 2007 in the following funds related to the construction of various enterprise fund capital improvement projects (in thousands):

Enterprise Funds	
Major fund:	
Airport	$ 1,478
Nonmajor enterprise funds:	
Convention Center	366
Drainage	1,168
Golf	16
Solid Waste Services	115
Transportation	6

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

Capital asset balances as of September 30, 2007 (in thousands):

	Governmental Activities	Business-type Activities	Total
Capital assets not depreciated			
Land and improvements	$ 261,328	364,811	626,139
Arts and treasures	5,153	1,390	6,543
Library collections	13,761	--	13,761
Total	280,242	366,201	646,443
Depreciable property, plant, and equipment in service			
Building and improvements	570,368	2,035,399	2,605,767
Equipment	152,248	5,120,246	5,272,494
Vehicles	81,723	114,315	196,038
Infrastructure	1,736,284	--	1,736,284
Total	2,540,623	7,269,960	9,810,583
Less accumulated depreciation for			
Building and improvements	(145,571)	(668,039)	(813,610)
Equipment	(70,835)	(2,048,831)	(2,119,666)
Vehicles	(50,221)	(62,601)	(112,822)
Infrastructure	(569,812)	--	(569,812)
Total	(836,439)	(2,779,471)	(3,615,910)
Net property, plant, and equipment in service	1,704,184	4,490,489	6,194,673
Other capital assets not depreciated			
Construction in progress	183,230	680,161	863,391
Nuclear fuel, net of amortization	--	27,622	27,622
Plant held for future use	--	27,783	27,783
Total capital assets	$ 2,167,656	5,592,256	7,759,912

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Governmental Activities

Capital asset activity for the year ended September 30, 2007, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 240,388	20,940	--	261,328
Arts and treasures	5,029	124	--	5,153
Library collections	13,761	--	--	13,761
Total	259,178	21,064	--	280,242
Depreciable property, plant, and equipment in service				
Building and improvements	540,350	30,018	--	570,368
Equipment	134,344	18,317	(413)	152,248
Vehicles	71,672	10,467	(416)	81,723
Infrastructure	1,659,449	76,835	--	1,736,284
Total	2,405,815	135,637	(829)	2,540,623
Less accumulated depreciation for				
Building and improvements	(129,212)	(16,359)	--	(145,571)
Equipment	(54,154)	(17,028)	347	(70,835)
Vehicles	(43,369)	(7,156)	304	(50,221)
Infrastructure	(520,096)	(49,716)	--	(569,812)
Total	(746,831)	(90,259) (2)	651	(836,439)
Net property, plant, and equipment in service	1,658,984	45,378	(178)	1,704,184
Other capital assets not depreciated				
Construction in progress	181,342	97,446	(95,558)	183,230
Total capital assets	$ 2,099,504	163,888	(95,736)	2,167,656

(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	$ 3,536
Public safety	11,940
Transportation, planning, and sustainability	42,647
Public health	1,414
Public recreation and culture	7,670
Urban growth management	13,829
Internal service funds	9,223
Total increases in accumulated depreciation	$ 90,259

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Electric Fund

Capital asset activity for the year ended September 30, 2007, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 40,469	19,193	--	59,662
Total	40,469	19,193	--	59,662
Depreciable property, plant, and equipment in service				
Building and improvements	661,898	2,340	(12,158)	652,080
Equipment	2,777,448	142,558	(60,781)	2,859,225
Vehicles	23,309	2,278	(267)	25,320
Total	3,462,655	147,176	(73,206)	3,536,625
Less accumulated depreciation for				
Building and improvements	(302,506)	(18,311)	9,913	(310,904)
Equipment	(1,236,557)	(95,357)	44,577	(1,287,337)
Vehicles	(14,802)	(1,498)	220	(16,080)
Total	(1,553,865)	(115,166) (1)	54,710	(1,614,321)
Net property, plant, and equipment in service	1,908,790	32,010	(18,496)	1,922,304
Other capital assets not depreciated				
Construction in progress	170,114	22,887	(954)	192,047
Nuclear fuel, net of amortization	29,284	--	(1,662)	27,622
Plant held for future use	27,783	--	--	27,783
Total capital assets	$ 2,176,440	74,090	(21,112)	2,229,418

(1) Components of accumulated depreciation increases:	
Current year depreciation	$ 115,166
Total increases in accumulated depreciation	$ 115,166

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Water and Wastewater Fund

Capital asset activity for the year ended September 30, 2007, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 141,356	4,001	--	145,357
Total	141,356	4,001	--	145,357
Depreciable property, plant, and equipment in service				
Building and improvements	417,389	12,535	--	429,924
Equipment	1,892,156	274,914	(184)	2,166,886
Vehicles	21,557	4,314	(40)	25,831
Total	2,331,102	291,763	(224)	2,622,641
Less accumulated depreciation for				
Building and improvements	(133,228)	(12,861)	--	(146,089)
Equipment	(671,535)	(56,712)	102	(728,145)
Vehicles	(13,974)	(1,519)	56	(15,437)
Total	(818,737)	(71,092) (2)	158	(889,671)
Net property, plant, and equipment in service	1,512,365	220,671	(66)	1,732,970
Other capital assets not depreciated				
Construction in progress	569,945	147,201	(282,028)	435,118
Total capital assets	$ 2,223,666	371,873	(282,094)	2,313,445

(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	$ 34,627
Wastewater	36,465
Total increases in accumulated depreciation	$ 71,092

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Airport Fund

Capital asset activity for the year ended September 30, 2007, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 58,632	29,018	--	87,650
Arts and treasures	778	--	--	778
Total	59,410	29,018	--	88,428
Depreciable property, plant, and equipment in service				
Building and improvements	615,985	25,451	--	641,436
Equipment	16,915	3,199	(213)	19,901
Vehicles	4,968	696	(146)	5,518
Total	637,868	29,346	(359)	666,855
Less accumulated depreciation for				
Building and improvements	(125,187)	(15,836)	--	(141,023)
Equipment	(5,932)	(1,518)	71	(7,379)
Vehicles	(2,412)	(368)	37	(2,743)
Total	(133,531)	(17,722) (1)	108	(151,145)
Net property, plant, and equipment in service	504,337	11,624	(251)	515,710
Other capital assets not depreciated				
Construction in progress	50,887	20,110	(54,694)	16,303
Total capital assets	$ 614,634	60,752	(54,945)	620,441

(1) Components of accumulated depreciation increases:	
Current year depreciation	$ 17,722
Total increases in accumulated depreciation	$ 17,722

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Nonmajor Enterprise Funds

Capital asset activity for the year ended September 30, 2007, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 54,799	17,343	--	72,142
Arts and treasures	612	--	--	612
Total	55,411	17,343	--	72,754
Depreciable property, plant, and equipment in service				
Building and improvements	310,677	1,282	--	311,959
Equipment	62,131	12,398	(295)	74,234
Vehicles	49,860	8,882	(1,096)	57,646
Total	422,668	22,562	(1,391)	443,839
Less accumulated depreciation for				
Building and improvements	(59,993)	(10,030)	--	(70,023)
Equipment	(22,121)	(3,858)	9	(25,970)
Vehicles	(23,443)	(4,930)	32	(28,341)
Total	(105,557)	(18,818) (2)	41	(124,334)
Net property, plant, and equipment in service	317,111	3,744	(1,350)	319,505
Other capital assets not depreciated				
Construction in progress	38,806	28,019	(30,132)	36,693
Total capital assets	$ 411,328	49,106	(31,482)	428,952

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

(2) Components of accumulated depreciation increases:

Current year depreciation	
Convention Center	$ 8,574
Other nonmajor enterprise funds	10,244
Total increases in accumulated depreciation	$ 18,818

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Total

Capital asset activity for the year ended September 30, 2007, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 295,256	69,555	--	364,811
Arts and treasures	1,390	--	--	1,390
Total	296,646	69,555	--	366,201
Depreciable property, plant, and equipment in service				
Building and improvements	2,005,949	41,608	(12,158)	2,035,399
Equipment	4,748,650	433,037	(61,441)	5,120,246
Vehicles	99,694	16,103	(1,482)	114,315
Total	6,854,293	490,748	(75,081)	7,269,960
Less accumulated depreciation for				
Building and improvements	(620,914)	(57,038)	9,913	(668,039)
Equipment	(1,936,145)	(157,445)	44,759	(2,048,831)
Vehicles	(54,631)	(8,315)	345	(62,601)
Total	(2,611,690)	(222,798) (2)	55,017	(2,779,471)
Net property, plant, and equipment in service	4,242,603	267,950	(20,064)	4,490,489
Other capital assets not depreciated				
Construction in progress	829,752	218,217	(367,808)	680,161
Nuclear fuel, net of amortization	29,284	--	(1,662)	27,622
Plant held for future use	27,783	--	--	27,783
Total capital assets	$ 5,426,068	555,722	(389,534)	5,592,256

(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	$ 115,166
Water	34,627
Wastewater	36,465
Airport	17,722
Convention Center	8,574
Other nonmajor enterprise funds	10,244
Total increases in accumulated depreciation	$ 222,798

8 – RETIREMENT PLANS
a -- Description

The City participates in funding three contributory, defined benefit retirement plans: City of Austin Employees' Retirement and Pension Fund, City of Austin Police Officers' Retirement and Pension Fund, and Fire Fighters' Relief and Retirement Fund of Austin, Texas. An independent board of trustees administers each plan. These plans are Citywide single employer funded plans that cover substantially all full-time employees. The fiscal year of each pension fund ends December 31. The most recently available financial statements of the pension funds are for the year ended December 31, 2006. Membership in the plans at December 31, 2006, 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	4,181	432	443	5,056
Current employees	8,055	1,455	974	10,484
Total	12,236	1,887	1,417	15,540

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%	11.0%	15.7%
City's contribution (percent of earnings)	8.0% (1)	18.0%	18.05%

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

While the contribution requirements are not actuarially determined, state law requires that a qualified actuary approve each plan of benefits adopted. The actuary for the Police Officers plan has certified that the contribution commitment by the participants and the City provides an adequate financing arrangement. Contributions for fiscal year ended September 30, 2007, are as follows (in thousands):

	City Employees	Police Officers	Fire Fighters	Total
City	$ 31,634	18,047	12,389	62,070
Employees	31,529	11,021	10,819	53,369
Total contributions	$ 63,163	29,068	23,208	115,439

c -- Annual Pension Cost and Net Pension Obligation

The City's annual pension cost of $79,602,000 for fiscal year ended September 30, 2007, was $17,532,000 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):				
2005	$ 32,438	15,451	10,746	58,635
2006	40,988	18,047	12,976	72,011
2007	49,818	18,047	11,737	79,602
Percentage of APC contributed:				
2005	82%	100%	100%	N/A
2006	73%	100%	92%	N/A
2007	63%	100%	106%	N/A
Net Pension Obligation:				
2005	$ 11,761	--	--	11,761
2006	24,061	--	1,609	25,670
2007	43,334	--	1,737	45,071

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

The Net Pension Obligation associated with the City Employees Retirement and Pension Fund and the Fire Fighters' Relief and Retirement Fund for the fiscal year ended December 31, 2006 (in thousands):

	City Employees	Fire Fighters	Total
Annual required contribution	$ 49,391	13,346	62,737
Interest in net pension obligation	1,865	--	1,865
Adjustment to annual required contribution	(1,438)	(1,609)	(3,047)
Annual pension cost	49,818	11,737	61,555
Employer contributions	(30,545)	(11,609)	(42,154)
Change in net pension obligation	19,273	128	19,401
Beginning net pension obligation	24,061	1,609	25,670
Net pension obligation	$ 43,334	1,737	45,071

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

	City Employees	Police Officers	Fire Fighters
Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method
Asset Valuation Basis	5-year smoothed market	5-year smoothed market	5-year smoothed market
Inflation Rate	3.5%	4%	3.15%
Projected Annual Salary Increases	5% to 6%	6.8% average	8.0%
Post retirement benefit increase	None	None	1%
Assumed Rate of Return on Investments	7.75%	8%	7.75%
Amortization method	Level percent of projected pay, open	Level percent of projected pay, open	Level percent of projected pay, open
Remaining Amortization Period	30 years	30 years	30 years

9 – SELECTED REVENUES
a -- Major enterprise funds

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

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

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

Airport
The City has entered into certain lease agreements as lessor for concessions at the Airport. These lease agreements qualify as operating leases for accounting purposes. In fiscal year 2007, the Airport Fund revenues included minimum concession guarantees of $7,774,303.

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, 2007 (in thousands):

Fiscal Year Ended September 30	Enterprise Airport Lease Payments
2008	$ 6,719
2009	4,533
2010-2014	811
2015-2019	392
2020-2024	392
2025-2029	392
2030-2034	65
Totals	$ 13,304

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

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

The following is a summary of long-term obligations. Balances at September 30, 2007 (in thousands):

Description	Governmental Activities	Business-Type Activities	Total
Long-term obligations			
General obligation bonds	$ 659,761	16,593	676,354
Certificates of obligation	94,919	47,413	142,332
Contractual obligations	32,227	29,154	61,381
Other tax supported debt	--	7,768	7,768
General obligation bonds and other tax supported debt total	786,907	100,928	887,835
Commercial paper	--	309,003	309,003
Revenue notes	--	28,000	28,000
Revenue bonds	--	3,191,180	3,191,180
Contract revenue bonds	--	2,423	2,423
Capital lease obligations	475	4,572	5,047
Debt service requirements total	787,382	3,636,106	4,423,488
Other long-term obligations			
Accrued compensated absences	92,102	24,000	116,102
Claims payable	22,221	--	22,221
Pension obligation payable	24,022	21,049	45,071
Accrued landfill closure and postclosure costs	--	10,075	10,075
Decommissioning expense payable	--	148,763	148,763
Deferred credits and other liabilities	76,476	604,043	680,519
	214,821	807,930	1,022,751
Total long-term obligations	$ 1,002,203	4,444,036	5,446,239

This schedule excludes select current liabilities of $61,620 for governmental activities and $211,072 for business-type activities and long-term interest payable of $232,175 for business-type activities.

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

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

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

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

The following is a summary of changes in long-term obligations. Certain long-term obligations provide financing to both governmental and business-type activities. Balances at September 30, 2007 are (in thousands):

Description	September 30, 2006	Increases	Decreases	September 30, 2007	Amounts Due Within One Year
Governmental activities (1)					
General obligation bonds, net	$ 709,172	--	(49,411)	659,761	45,727
Certificates of obligation, net	101,334	--	(6,415)	94,919	6,733
Contractual obligations, net	37,229	--	(5,002)	32,227	4,714
General obligation bonds and other tax supported debt total	847,735	--	(60,828)	786,907	57,174
Capital lease obligations	514	--	(39)	475	159
Debt service requirements total	848,249	--	(60,867)	787,382	57,333
Other long-term obligations					
Accrued compensated absences	77,393	14,833	(124)	92,102	39,404
Claims payable	21,209	9,805	(8,793)	22,221	12,030
Pension obligation payable	13,912	10,110	--	24,022	--
Deferred credits and other liabilities	79,155	3,659	(6,338)	76,476	58,796
Governmental activities total	1,039,918	38,407	(76,122)	1,002,203	167,563
Business-type activities:					
Electric activities					
General obligation bonds, net	1,293	--	(62)	1,231	12
Contractual obligations	719	--	(202)	517	140
General obligation bonds and other tax supported debt total	2,012	--	(264)	1,748	152
Commercial paper notes, net	54,326	95,615	--	149,941	--
Revenue bonds, net	1,260,174	280,907	(373,782)	1,167,299	89,185
Capital lease obligations	3,253	1	(2,012)	1,242	30
Debt service requirements total	1,319,765	376,523	(376,058)	1,320,230	89,367
Other long-term obligations					
Accrued compensated absences	9,644	1,205	(33)	10,816	8,471
Decommissioning expense payable	134,664	14,099	--	148,763	--
Pension obligation payable	5,254	4,128	--	9,382	--
Deferred credits and other liabilities	93,578	94,282	(65,368)	122,492	46,489
Electric activities total	1,562,905	490,237	(441,459)	1,611,683	144,327
Water and Wastewater activities					
General obligation bonds, net	3,810	--	(1,076)	2,734	739
Contractual obligations, net	10,470	55	(1,551)	8,974	1,668
Other tax supported debt, net	8,405	--	(637)	7,768	594
General obligation bonds and other tax supported debt total	22,685	55	(3,264)	19,476	3,001
Commercial paper notes, net	185,632	107,630	(134,200)	159,062	--
Revenue bonds, net	1,378,835	135,488	(40,095)	1,474,228	60,394
Contract revenue bonds, net	3,134	--	(711)	2,423	750
Capital lease obligations	2,566	--	(1,239)	1,327	1,327
Debt service requirements total	1,592,852	243,173	(179,509)	1,656,516	65,472
Other long-term obligations					
Accrued compensated absences	4,871	2,447	(1,945)	5,373	4,568
Pension obligation payable	2,683	2,058	--	4,741	--
Deferred credits and other liabilities	460,117	12,122	(320)	471,919	13,242
Water and Wastewater activities total	2,060,523	259,800	(181,774)	2,138,549	83,282

(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
a -- Long-Term Liabilities, continued

Business-type activities (continued):

Description	September 30, 2006	Increases	Decreases	September 30, 2007	Amounts Due Within One Year
Airport activities					
General obligation bonds, net	386	--	(52)	334	23
Contractual obligations	12	--	(12)	--	--
General obligation bonds and other tax supported debt total	398	--	(64)	334	23
Revenue notes	28,000	--	--	28,000	--
Revenue bonds, net	338,578	--	(8,743)	329,835	11,780
Capital lease obligations	149	2,320	(468)	2,001	446
Debt service requirements total	367,125	2,320	(9,275)	360,170	12,249
Other long-term obligations					
Accrued compensated absences	1,020	293	--	1,313	1,146
Pension obligation payable	857	621	--	1,478	-
Deferred credits and other liabilities	3,333	2,599	(4,086)	1,846	988
Airport activities total	372,335	5,833	(13,361)	364,807	14,383
Nonmajor activities					
General obligation bonds, net	13,307	--	(1,013)	12,294	1,220
Certificates of obligation, net	49,760	--	(2,347)	47,413	2,373
Contractual obligations	22,313	96	(2,746)	19,663	3,504
General obligation bonds and other tax supported debt total	85,380	96	(6,106)	79,370	7,097
Revenue bonds, net	220,409	--	(591)	219,818	3,440
Capital lease obligations	16	--	(14)	2	2
Debt service requirements total	305,805	96	(6,711)	299,190	10,539
Other long-term obligations					
Accrued compensated absences	5,428	1,079	(9)	6,498	4,691
Accrued landfill closure and postclosure costs	8,379	1,696	--	10,075	1,265
Pension obligation payable	2,964	2,484	--	5,448	--
Deferred credits and other liabilities	2,931	5,446	(591)	7,786	3,564
Nonmajor activities total	325,507	10,801	(7,311)	328,997	20,059
Total business-type activities					
General obligation bonds, net	18,796	--	(2,203)	16,593	1,994
Certificates of obligation, net	49,760	--	(2,347)	47,413	2,373
Contractual obligations, net	33,514	151	(4,511)	29,154	5,312
Other tax supported debt, net	8,405	--	(637)	7,768	594
General obligation bonds and other tax supported debt total	110,475	151	(9,698)	100,928	10,273
Commercial paper notes, net	239,958	203,245	(134,200)	309,003	--
Revenue notes	28,000	--	--	28,000	--
Revenue bonds, net	3,197,996	416,395	(423,211)	3,191,180	164,799
Contract revenue bonds	3,134	--	(711)	2,423	750
Capital lease obligations	5,984	2,321	(3,733)	4,572	1,805
Debt service requirements total	3,585,547	622,112	(571,553)	3,636,106	177,627
Other long-term obligations					
Accrued compensated absences	20,963	5,024	(1,987)	24,000	18,876
Accrued landfill closure and postclosure costs	8,379	1,696	--	10,075	1,265
Decommissioning expense payable	134,664	14,099	--	148,763	--
Pension obligation payable	11,758	9,291	--	21,049	--
Deferred credits and other liabilities	559,959	114,449	(70,365)	604,043	64,283
Business-type activities total	4,321,270	766,671	(643,905)	4,444,036	262,051
Total long-term liabilities	$ 5,361,188	805,078	(720,027)	5,446,239	429,614

This schedule excludes current liabilities of $61,620 for governmental activities and $211,072 for business-type activities and long-term interest payable of $232,175 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, 2007, including those reported in certain proprietary funds (in thousands):

Series	Date Issued	Original Amount Issue	Principal Outstanding	Aggregate Interest Requirements Outstanding		Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
Series 1993	February 1993	$ 71,600	7,615	599	(1)	5.75%	9/1/2008-2009
Series 1996	October 1996	30,550	4,590	417	(1)	6.00%	9/1/2008-2009
Series 1997	October 1997	2,120	215	16	(1)	4.90 - 5.00%	9/1/2008-2009
Series 1998	January 1998	110,300	85,445	19,242	(1)	4.60 - 5.25%	9/1/2008-2016
Assumed MUD Debt	December 1997	33,680	8,645	2,864	(3)(4)	4.40 - 10.50%	11/15/2007-2017
Series 1998	October 1998	13,430	9,690	3,409	(1)	4.40 - 7.13%	9/1/2008-2018
Series 1998	October 1998	22,770	11,920	4,164	(1)	4.30 - 4.75%	9/1/2008-2018
Series 1999	October 1999	51,100	3,136	324	(1)	4.88 - 5.25%	9/1/2008-2009
Series 1999	October 1999	5,590	1,060	138	(1)	5.00 - 5.25%	9/1/2008-2011
Series 2000	October 2000	52,930	19,770	7,157	(1)	4.60 - 6.00%	9/1/2008-2017
Series 2000	October 2000	6,060	2,065	442	(1)	5.00 - 5.25%	9/1/2008-2014
Series 2001	June 2001	123,445	33,030	7,666	(1)	4.75 - 5.50%	9/1/2008-2022
Series 2001	October 2001	79,650	44,970	19,404	(1)	4.00 - 5.25%	9/1/2008-2021
Series 2001	October 2001	2,650	660	26	(2)	3.75 - 3.88%	11/1/2007-2008
Series 2001	October 2001	65,335	45,600	14,094	(1)	4.38 - 5.25%	9/1/2008-2021
Series 2002	July 2002	12,190	11,440	2,991	(1)	3.50 - 5.00%	3/1/2008-2017
Series 2002	July 2002	2,495	925	46	(1)	4.63 - 5.00%	3/1/2008-2009
Series 2002	September 2002	99,615	89,400	35,939	(1)	3.25 - 5.00%	9/1/2008-2022
Series 2002	September 2002	8,690	3,470	174	(2)	2.80 - 3.40%	11/1/2007-2009
Series 2002	September 2002	34,095	23,975	9,108	(1)	3.00 - 5.38%	9/1/2008-2022
Series 2003	June 2003	62,585	28,720	4,260	(1)	5.00%	9/1/2008-2013
Series 2003	September 2003	68,855	64,195	28,877	(1)	3.75 - 5.00%	9/1/2008-2023
Series 2003A	September 2003	2,530	1,835	321	(1)	4.00 - 5.00%	9/1/2008-2013
Series 2003	September 2003	4,450	3,855	1,642	(1)	4.00 - 4.80%	9/1/2008-2023
Series 2003	September 2003	8,610	4,640	294	(2)	2.38 - 3.38%	11/1/2007-2010
Series 2004	September 2004	67,835	65,270	28,890	(1)	3.00 - 5.00%	9/1/2008-2024
Series 2004A	September 2004	2,430	2,020	413	(1)	4.00 - 4.75%	9/1/2008-2014
Series 2004	September 2004	25,000	22,560	11,162	(1)	3.00 - 5.00%	9/1/2008-2024
Series 2004	September 2004	21,830	15,120	1,214	(2)	2.20 - 3.35%	11/1/2007-2011
Series 2005	March 2005	145,345	145,345	59,629	(1)	5.00%	9/1/2008-2020
Series 2005	September 2005	19,535	19,535	9,091	(1)	3.50 - 5.00%	9/1/2008-2025
Series 2005	September 2005	7,185	6,750	3,047	(1)	3.50 - 6.50%	9/1/2008-2025
Series 2005	September 2005	14,940	12,040	1,279	(2)	3.00 - 3.75%	11/1/2007-2012
Series 2006	September 2006	31,585	31,585	20,838	(1)	4.00 - 5.38%	9/1/2009-2026
Series 2006	September 2006	24,150	23,420	11,526	(1)	4.00 - 5.00%	9/1/2008-2026
Series 2006	September 2006	14,120	13,335	1,982	(2)	4.00 - 4.25%	11/1/2007-2013
Series 2006	September 2006	12,000	12,000	6,261	(1)(5)	4.00 - 6.00%	9/1/2009-2026
			$ 879,846				

(1) Interest is paid semiannually on March 1 and September 1.
(2) Interest is paid semiannually on May 1 and November 1.
(3) Interest is paid semiannually on May 15 and November 15.
(4) Includes Water and Wastewater Fund principal of $7,808 and interest of $2,607.
(5) Included with contractual obligations are Mueller Local Government Corporation contract revenue bonds.

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

General obligation bonds authorized and unissued amounted to $642,335,000 at September 30, 2007. Bond ratings at September 30, 2007, were Aa1 (Moody's Investor Services, Inc.), AA+ (Standard & Poor's), and AA+ (Fitch).

c -- Business-Type Activities Long-Term Liabilities

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

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

The total combined utility systems revenue bond obligations at September 30, 2007, exclusive of discounts, premiums, and loss on refundings consists of $417,288,752 prior lien bonds and $248,964,512 subordinate lien bonds. Aggregate interest requirements for all prior lien and subordinate lien bonds are $594,082,479 at September 30, 2007. Revenue bonds authorized and unissued amount to $1,492,642,660 at that date. Bond ratings at September 30, 2007, for the prior lien and subordinate lien bonds were, respectively, A1 and A1 (Moody's Investor Services, Inc.), AA- and A+ (Standard & Poor's), and AA- and AA- (Fitch).

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

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

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.

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

Combined Utility Systems Debt -- Bonds Issued and Outstanding - The following schedule shows the original and refunding revenue bonds outstanding at September 30, 2007 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
1990B Refunding	February 1990	$ 236,009	3,668	20,502 (1)	7.35%	11/15/2014-2017
1992 Refunding	March 1992	265,806	30,116	78,049 (1)	6.80 - 6.85%	11/15/2009-2012
1992A Refunding	May 1992	351,706	78,971	112,368 (1)	6.70 - 12.50%	11/15/2007-2011
1993 Refunding	February 1993	203,166	54,916	36,749 (1)	6.20 - 6.30%	11/15/2007-2014
1993A Refunding	June 1993	263,410	12,814	19,601 (1)	5.60 - 5.95%	05/15/2008-2010
1994 Refunding	October 1994	142,559	26,894	96,961 (1)	6.60%	05/15/2017-2019
1996A Refunding	September 1996	198,260	41,475	2,709 (1)	5.00 - 5.13%	11/15/2007-2009
1997 Refunding	August 1997	227,215	66,220	24,945 (1)	4.80 - 5.13%	11/15/2008-2020
1998 Refunding	August 1998	180,000	102,215	21,599 (1)	6.50 -6.75%	11/15/2007-2012
1998 Refunding	November 1998	139,965	139,070	96,926 (1)	4.00 - 5.25%	05/15/2008-2025
1998A Refunding	November 1998	105,350	102,944	82,198 (1)	4.25 - 5.00%	05/15/2008-2028
1998B	November 1998	10,000	6,950	1,475 (1)	3.10 - 3.75%	11/15/2007-2017
			$ 666,253			

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

Combined Utility Systems Debt -- Commercial Paper Notes - The City is authorized by ordinance to issue commercial paper notes in an aggregate principal amount not to exceed $350,000,000 outstanding at any one time. Proceeds from the notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2007, were P-1 (Moody's Investor Services, Inc.), A-1+ (Standard & Poor's), and F1+ (Fitch). The notes are in denominations of $100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the notes are payable from the combined net revenues of the City's Electric Fund and Water and Wastewater Fund.

At September 30, 2007, the Electric Fund had outstanding commercial paper notes of $107,257,000 and the Water and Wastewater Fund had $159,062,000 of commercial paper notes outstanding. Interest rates on the notes range from 3.45 % to 3.97%, which are adjusted daily. Subsequent issues cannot exceed the maximum rate of 15%. The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.

Combined Utility Systems Debt -- Taxable Commercial Paper Notes - The City is authorized by ordinance to issue taxable commercial paper notes (the "taxable notes") in an aggregate principal amount not to exceed $50,000,000 outstanding at any time. Proceeds from the taxable notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2007, were P-1 (Moody's Investor Services, Inc.), A-1+ (Standard & Poor's), and F1+ (Fitch).

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

At September 30, 2007, the Electric Fund had outstanding taxable notes of $42,684,000 (net of discount of $126,503), and the Water and Wastewater Fund had no taxable notes outstanding. Interest rates on the taxable notes range from 5.05% to 5.6%. 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.

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

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

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

Bond ratings at September 30, 2007, were A1 (Moody's Investor Services, Inc.), A+ (Standard & Poor's), and AA- (Fitch).

Electric Utility System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all electric system original and refunding revenue bonds outstanding at September 30, 2007 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2001 Refunding	February 2001	$ 126,700	76,200	70,117 (1)	5.00 - 7.25%	11/15/2007-2030
2002 Refunding	March 2002	74,750	66,570	17,387 (1)	3.75 - 5.50%	11/15/2007-2014
2002A Refunding	August 2002	172,880	115,800	37,729 (1)	4.00 - 5.50%	11/15/2007-2016
2003 Refunding	March 2003	182,100	158,800	102,561 (1)	3.00 - 5.25%	11/15/2007-2028
2006 Refunding	June 2006	150,000	150,000	132,832 (1)	4.00 - 5.00%	11/15/2008-2035
2006A Refunding	November 2006	137,800	137,800	55,688 (1)	5.00%	11/15/2009-2022
2007 Refunding	August 2007	146,635	146,635	52,534 (1)	5.00%	11/15/2007-2020
			$ 851,805			

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

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

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

Bond ratings at September 30, 2007, were Aa3 (Moody's Investor Services, Inc.), A+ (Standard & Poor's), and AA- (Fitch).

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

Water and Wastewater System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all water and wastewater system original and refunding revenue bonds outstanding at September 30, 2007 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
North Austin MUD #1, 2003 RFD	August 2003	$ 4,510	2,445	120 (1)	3.00 - 3.25%	11/15/2007-2009
2000 Refunding	June 2000	100,000	6,200	826 (1)	6.50%	11/15/2007-2010
2001A Refunding	June 2001	152,180	87,960	79,728 (1)	4.38 - 6.00%	11/15/2007-2031
2001B Refunding	June 2001	73,200	42,135	38,562 (1)	5.13 - 6.00%	11/15/2007-2031
2001C Refunding	December 2001	95,380	40,805	6,201 (1)	4.00 - 5.38%	11/15/2007-2015
2002A Refunding	August 2002	139,695	99,440	31,642 (1)	4.00 - 5.50%	11/15/2007-2016
2003 Refunding	March 2003	121,500	89,300	61,099 (1)	2.50 - 5.00%	11/15/2007-2028
2004 Refunding	August 2004	132,475	116,575	44,686 (2)	3.93%	11/15/2007-2024
2004A Refunding	October 2004	165,145	165,145	112,323 (1)	5.00%	11/15/2007-2029
2005 Refunding	November 2005	198,485	198,485	126,654 (1)	4.00 - 5.00%	05/15/2012-2030
2005A Refunding	June 2005	142,335	140,890	112,281 (1)	4.00 - 5.00%	11/15/2007-2035
2006 Refunding	August 2006	63,100	62,150	31,422 (1)	5.00%	11/15/2007-2025
2006A Refunding	December 2006	135,000	135,000	112,013 (1)	3.50 - 5.00%	11/15/2008-2036
			$ 1,186,530			

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

Airport -- Revenue Bonds - The City's Airport Fund issues airport system revenue bonds to fund Airport Fund capital projects. Principal and interest on these bonds are payable solely from the net revenues of the Airport Fund. At September 30, 2007, the total airport system obligation for prior lien bonds is $345,545,000 exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior lien bonds are $161,343,498 at September 30, 2007. Revenue bonds authorized and unissued amount to $735,795,000.

Bond ratings at September 30, 2007, 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, 2007 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2003 Refunding	December 2003	$ 54,250	54,245	22,325 (1)	3.00 - 5.25%	11/15/2007-2018
2005 Refunding	August 2005	306,225	291,300	139,018 (2)	4.37%	11/15/2007-2025
			$ 345,545			

(1) Interest is paid semiannually on May 15 and November 15.
(2) Interest is paid monthly and is based on a variable rate. Subsequent to year-end, the rates have ranged from 3.9% on October 25, 2007 to 10.5% on March 31, 2008.

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, 2007, 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 $10,355,359, including accrued interest, at September 30, 2007, and was restricted within the airport system. During fiscal year 2007, interest rates on the notes ranged from 3.47% to 4.09%, adjusted weekly at market rates; subsequent rate changes cannot exceed the maximum rate of 15%. Subsequent to year-end, the rates have ranged from 1.26% on October 3, 2007 to 3.67% on March 31, 2008. Principal and interest on the notes are payable from the net revenues of the airport system.

The bond rating at September 30, 2007, for the airport variable rate notes was P-1 (Moody's Investor Services, Inc.).

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

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, 2007, the total convention center obligation for prior and subordinate lien bonds is $234,400,000, exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior and subordinate lien bonds are $125,215,817 at September 30, 2007. Revenue bonds authorized and unissued amount to $760,000 at September 30, 2007.

Bond ratings at September 30, 2007, for the revenue bonds were NUR (Moody's Investor Services, Inc.), A- (Standard & Poor's), and NUR (Fitch).

The following table summarizes Convention Center original and refunding revenue bonds outstanding at September 30, 2007 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
1999A	June 1999	$ 25,000	23,130	17,306 (1)	4.90 - 5.50%	11/15/2007-2029
1999	November 1999	40,000	2,545	265 (1)	6.75%	11/15/2007-2009
2004 Refunding	February 2004	52,715	52,715	18,583 (1)	2.00 - 5.00%	11/15/2007-2019
2005 Refunding	May 2005	36,720	36,720	27,072 (1)	3.30 - 5.00%	11/15/2011-2029
2005 Refunding	August 2005	119,290	119,290	61,990 (2)	3.85%	11/15/2009-2029
			$ 234,400			

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

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
2008	$ 45,727	30,770	6,733	4,344	4,714	1,121
2009	44,979	28,630	7,103	4,026	5,258	991
2010	47,432	26,449	6,616	3,688	4,957	828
2011	48,203	24,234	6,970	3,378	4,153	670
2012	47,240	21,982	7,200	3,052	2,629	534
2013-2017	214,419	77,812	29,634	10,773	3,335	2,014
2018-2022	161,266	30,548	22,042	4,894	3,615	1,301
2023-2027	41,614	4,124	8,606	914	3,563	411
	650,880	244,549	94,904	35,069	32,224	7,870
Less: Unamortized bond discounts	(748)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(9,106)	--	--	--	--	--
Add: Unamortized bond premiums	18,735	--	15	--	3	--
Net debt service requirements	659,761	244,549	94,919	35,069	32,227	7,870

Fiscal Year Ended September 30	Capital Lease Obligations		Total Governmental Debt Service Requirements		
	Principal	Interest	Principal	Interest	Total
2008	159	12	57,333	36,247	93,580
2009	316	5	57,656	33,652	91,308
2010	--	--	59,005	30,965	89,970
2011	--	--	59,326	28,282	87,608
2012	--	--	57,069	25,568	82,637
2013-2017	--	--	247,388	90,599	337,987
2018-2022	--	--	186,923	36,743	223,666
2023-2027	--	--	53,783	5,449	59,232
	475	17	778,483	287,505	1,065,988
Less: Unamortized bond discounts	--	--	(748)	--	(748)
Unamortized gain(loss) on bond refundings	--	--	(9,106)	--	(9,106)
Add: Unamortized bond premiums	--	--	18,753	--	18,753
Net debt service requirements	$ 475	17	787,382	287,505	1,074,887

d -- Debt Service Requirements

Electric Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Contractual Obligations Principal	Contractual Obligations Interest	Commercial Paper Notes (1) Principal	Commercial Paper Notes (1) Interest
2008	$ 12	58	140	14	150,068	927
2009	18	57	146	11	--	--
2010	53	56	152	6	--	--
2011	63	54	79	1	--	--
2012	69	50	--	--	--	--
2013-2017	668	167	--	--	--	--
2018-2022	275	24	--	--	--	--
	1,158	466	517	32	150,068	927
Less: Unamortized bond discount	(3)	--	--	--	(127)	--
Add: Unamortized bond premium	76	--	--	--	--	--
Net debt service requirements	1,231	466	517	32	149,941	927

Fiscal Year Ended September 30	Revenue Bonds Principal	Revenue Bonds Interest	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Total Electric Debt Service Requirements Principal	Total Electric Debt Service Requirements Interest	Total Electric Debt Service Requirements Total
2008	89,185	63,647	30	61	239,435	64,707	304,142
2009	78,773	82,114	31	60	78,968	82,242	161,210
2010	64,739	87,190	32	58	64,976	87,310	152,286
2011	73,765	79,632	34	57	73,941	79,744	153,685
2012	74,413	73,432	36	55	74,518	73,537	148,055
2013-2017	384,531	171,215	207	245	385,406	171,627	557,033
2018-2022	159,553	95,646	266	187	160,094	95,857	255,951
2023-2027	152,736	51,121	341	111	153,077	51,232	204,309
2028-2032	95,100	17,908	265	22	95,365	17,930	113,295
2033-2037	34,001	3,500	--	--	34,001	3,500	37,501
	1,206,796	725,405	1,242	856	1,359,781	727,686	2,087,467
Less: Unamortized bond discounts	(5,016)	--	--	--	(5,146)	--	(5,146)
Unamortized gain(loss) on bond refundings	(81,823)	--	--	--	(81,823)	--	(81,823)
Add: Unamortized bond premiums	47,342	--	--	--	47,418	--	47,418
Net debt service requirements	$ 1,167,299	725,405	1,242	856	1,320,230	727,686	2,047,916

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

e - Debt Service Requirements

Water and Wastewater Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Contractual Obligations Principal	Contractual Obligations Interest	Tax Supported Debt Principal	Tax Supported Debt Interest
2008	$ 739	232	1,668	305	594	401
2009	471	194	1,633	250	532	374
2010	589	170	1,550	196	564	348
2011	562	138	1,557	141	596	319
2012	527	108	1,309	84	627	288
2013-2017	1,223	221	1,216	48	4,274	846
2018-2022	335	38	--	--	621	31
	4,446	1,101	8,933	1,024	7,808	2,607
Less: Unamortized bond discounts	(21)	--	--	--	(40)	--
Unamortized gain(loss) on bond refundings	(1,911)	--	--	--	--	--
Add: Unamortized bond premiums	220	--	41	--	--	--
Net debt service requirements	2,734	1,101	8,974	1,024	7,768	2,607

Fiscal Year Ended September 30	Commercial Paper Notes (1) Principal	Commercial Paper Notes (1) Interest	Revenue Bonds Principal	Revenue Bonds Interest	Municipal Utility District Contract Revenue Bonds Principal	Municipal Utility District Contract Revenue Bonds Interest
2008	159,062	1,322	60,394	70,764	750	64
2009	--	--	58,309	77,978	780	41
2010	--	--	51,023	85,189	915	15
2011	--	--	47,174	80,904	--	--
2012	--	--	54,440	77,772	--	--
2013-2017	--	--	392,288	306,304	--	--
2018-2022	--	--	269,331	250,131	--	--
2023-2027	--	--	302,541	102,567	--	--
2028-2032	--	--	197,551	35,983	--	--
2033-2037	--	--	62,296	7,370	--	--
	159,062	1,322	1,495,347	1,094,962	2,445	120
Less: Unamortized bond discounts	--	--	(9,581)	--	(11)	--
Unamortized gain(loss) on bond refundings	--	--	(54,780)	--	(26)	--
Add: Unamortized bond premiums	--	--	43,242	--	15	--
Net debt service requirements	$ 159,062	1,322	1,474,228	1,094,962	2,423	120

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

e - Debt Service Requirements

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
2008	$ 1,327	53	224,534	73,141	297,675
2009	--	--	61,725	78,837	140,562
2010	--	--	54,641	85,918	140,559
2011	--	--	49,889	81,502	131,391
2012	--	--	56,903	78,252	135,155
2013-2017	--	--	399,001	307,419	706,420
2018-2022	--	--	270,287	250,200	520,487
2023-2027	--	--	302,541	102,567	405,108
2028-2032	--	--	197,551	35,983	233,534
2033-2037	--	--	62,296	7,370	69,666
	1,327	53	1,679,368	1,101,189	2,780,557
Less: Unamortized bond discounts	--	--	(9,653)	--	(9,653)
Unamortized gain(loss) on bond refundings	--	--	(56,717)	--	(56,717)
Add: Unamortized bond premiums	--	--	43,518	--	43,518
Net debt service requirements	$ 1,327	53	1,656,516	1,101,189	2,757,705

d -- Debt Service Requirements

Airport Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Revenue Notes (1) Principal	Revenue Notes (1) Interest	Revenue Bonds Principal	Revenue Bonds Interest
2008	$ 23	16	--	1,106	11,780	15,050
2009	16	15	--	1,106	12,325	14,533
2010	23	14	--	1,106	12,910	13,982
2011	26	13	--	1,106	13,515	13,406
2012	28	11	--	1,106	14,165	12,791
2013-2017	145	34	--	5,530	82,720	53,492
2018-2022	54	5	28,000	551	105,105	30,933
2023-2027	--	--	--	--	93,025	7,156
	315	108	28,000	11,611	345,545	161,343
Less: Unamortized bond discounts	(1)	--	--	--	(1,159)	--
Unamortized gain(loss) on bond refundings	1	--	--	--	(17,674)	--
Add: Unamortized bond premiums	19	--	--	--	3,123	--
Net debt service requirements	334	108	28,000	11,611	329,835	161,343

Fiscal Year Ended September 30	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Total Airport Debt Service Requirements Principal	Total Airport Debt Service Requirements Interest	Total Airport Debt Service Requirements Total
2008	446	65	12,249	16,237	28,486
2009	459	48	12,800	15,702	28,502
2010	476	32	13,409	15,134	28,543
2011	493	14	14,034	14,539	28,573
2012	127	1	14,320	13,909	28,229
2013-2017	--	--	82,865	59,056	141,921
2018-2022	--	--	133,159	31,489	164,648
2023-2027	--	--	93,025	7,156	100,181
	2,001	160	375,861	173,222	549,083
Less: Unamortized bond discounts	--	--	(1,160)	--	(1,160)
Unamortized gain(loss) on bond refundings	--	--	(17,673)	--	(17,673)
Add: Unamortized bond premiums	--	--	3,142	--	3,142
Net debt service requirements	$ 2,001	160	360,170	173,222	533,392

(2) These are variable rate notes with an assumed rate of 3.95%.

d -- Debt Service Requirements

Nonmajor Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Certificates of Obligation Principal	Certificates of Obligation Interest	Contractual Obligations Principal	Contractual Obligations Interest
2008	$ 1,220	632	2,373	2,165	3,504	678
2009	1,064	570	2,497	2,073	3,658	562
2010	1,604	515	2,204	1,975	3,411	435
2011	1,450	434	2,305	1,891	3,141	318
2012	1,249	363	2,250	1,782	2,963	200
2013-2017	4,736	919	15,901	6,968	2,914	109
2018-2022	1,230	114	15,123	3,147	--	--
2023-2027	--	--	3,864	270	--	--
	12,553	3,547	46,517	20,271	19,591	2,302
Less: Unamortized bond discounts	(41)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(914)	--	--	--	--	--
Add: Unamortized bond premiums	696	--	896	--	72	--
Net debt service requirements	12,294	3,547	47,413	20,271	19,663	2,302

Fiscal Year Ended September 30	Revenue Bonds Principal	Revenue Bonds Interest	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Total Nonmajor Debt Service Requirements Principal	Total Nonmajor Debt Service Requirements Interest	Total Nonmajor Debt Service Requirements Total
2008	3,440	10,046	2	--	10,539	13,521	24,060
2009	4,720	9,901	--	--	11,939	13,106	25,045
2010	7,935	9,627	--	--	15,154	12,552	27,706
2011	8,265	9,314	--	--	15,161	11,957	27,118
2012	9,170	8,965	--	--	15,632	11,310	26,942
2013-2017	55,985	37,815	--	--	79,536	45,811	125,347
2018-2022	57,560	24,330	--	--	73,913	27,591	101,504
2023-2027	51,180	13,121	--	--	55,044	13,391	68,435
2028-2032	36,145	2,097	--	--	36,145	2,097	38,242
	234,400	125,216	2	--	313,063	151,336	464,399
Less: Unamortized bond discounts	(1,069)	--	--	--	(1,110)	--	(1,110)
Unamortized gain(loss) on bond refundings	(18,147)	--	--	--	(19,061)	--	(19,061)
Add: Unamortized bond premiums	4,634	--	--	--	6,298	--	6,298
Net debt service requirements	$ 219,818	125,216	2	--	299,190	151,336	450,526

d -- Debt Service Requirements

Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Certificates of Obligation Principal	Certificates of Obligation Interest	Contractual Obligations Principal	Contractual Obligations Interest
2008	$ 1,994	938	2,373	2,165	5,312	997
2009	1,569	836	2,497	2,073	5,437	823
2010	2,269	755	2,204	1,975	5,113	637
2011	2,101	639	2,305	1,891	4,777	460
2012	1,873	532	2,250	1,782	4,272	284
2013-2017	6,772	1,341	15,901	6,968	4,130	157
2018-2022	1,894	181	15,123	3,147	--	--
2023-2027	--	--	3,864	270	--	--
	18,472	5,222	46,517	20,271	29,041	3,358
Less: Unamortized bond discounts	(66)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(2,824)	--	--	--	--	--
Add: Unamortized bond premiums	1,011	--	896	--	113	--
Net debt service requirements	16,593	5,222	47,413	20,271	29,154	3,358

Fiscal Year Ended September 30	Tax Supported Debt Principal	Tax Supported Debt Interest	Commercial Paper Notes (1) Principal	Commercial Paper Notes (1) Interest	Revenue Notes (2) Principal	Revenue Notes (2) Interest
2008	594	401	309,130	2,249	--	1,106
2009	532	374	--	--	--	1,106
2010	564	348	--	--	--	1,106
2011	596	319	--	--	--	1,106
2012	627	288	--	--	--	1,106
2013-2017	4,274	846	--	--	--	5,530
2018-2022	621	31	--	--	28,000	551
	7,808	2,607	309,130	2,249	28,000	11,611
Less: Unamortized bond discounts	(40)	--	(127)	--	--	--
Net debt service requirements	$ 7,768	2,607	309,003	2,249	28,000	11,611

(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 rate of 3.65%.

d -- Debt Service Requirements

Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	Revenue Bonds		Municipal Utility District Contract Revenue Bonds		Capital Lease Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ 164,799	159,507	750	64	1,805	179
2009	154,127	184,526	780	41	490	108
2010	136,607	195,988	915	15	508	90
2011	142,719	183,256	--	--	527	71
2012	152,188	172,960	--	--	163	56
2013-2017	915,524	568,826	--	--	207	245
2018-2022	591,549	401,040	--	--	266	187
2023-2027	599,482	173,965	--	--	341	111
2028-2032	328,796	55,988	--	--	265	22
2033-2037	96,297	10,870	--	--	--	--
	3,282,088	2,106,926	2,445	120	4,572	1,069
Less: Unamortized bond discounts	(16,825)	--	(11)	--	--	--
Unamortized gain(loss) on bond refundings	(172,424)	--	(26)	--	--	--
Add: Unamortized bond premiums	98,341	--	15	--	--	--
Net debt service requirements	3,191,180	2,106,926	2,423	120	4,572	1,069

Fiscal Year Ended September 30	Total Business-Type Activities Debt Service Requirements		
	Principal	Interest	Total
2008	486,757	167,606	654,363
2009	165,432	189,887	355,319
2010	148,180	200,914	349,094
2011	153,025	187,742	340,767
2012	161,373	177,008	338,381
2013-2017	946,808	583,913	1,530,721
2018-2022	637,453	405,137	1,042,590
2023-2027	603,687	174,346	778,033
2028-2032	329,061	56,010	385,071
2033-2037	96,297	10,870	107,167
	3,728,073	2,153,433	5,881,506
Less: Unamortized bond discounts	(17,069)	--	(17,069)
Unamortized gain(loss) on bond refundings	(175,274)	--	(175,274)
Add: Unamortized bond premiums	100,376	--	100,376
Net debt service requirements	$ 3,636,106	2,153,433	5,789,539

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. In 2007, $20.4 million of multiple-family housing revenue bonds was issued. The City has $103.2 million in bonds of various series outstanding as of September 30, 2007 that had an original issue value of $104.2 million.

Revenue bonds have been issued by various related entities to provide for facilities located at the international airport and convention center. These bonds are special limited obligations payable solely from and secured by a pledge of revenue to be received from agreements between the entities and various third parties. As of September 30, 2007, $360.7 million in revenue and revenue refunding bonds was outstanding that had an original issue value of $375.3 million.

The above bonds do not constitute a debt or pledge of the faith and credit of the City and accordingly have not been reported in the accompanying financial statements.

12 – INTERFUND BALANCES AND TRANSFERS

Interfund receivables and payables at September 30, 2007, are as follows (in thousands):

		Amount	
Receivable Fund	**Payable Fund**	**Current**	**Long-Term**
Governmental funds:			
Nonmajor governmental funds	General Fund	$ 13	--
	Nonmajor governmental funds	37,931	--
	Water and Wastewater	--	4,506
	Nonmajor enterprise funds	--	3,043
	Internal service funds	--	172
General Fund	Nonmajor governmental funds	227	--
	Proprietary	10	--
Internal Service funds:			
Information Systems	Internal service funds	230	--
Support Services	Nonmajor governmental funds	11	--
Wireless Services	Internal service funds	707	--
Business-type funds:			
Electric	Nonmajor enterprise funds	225	2,453
	Nonmajor governmental funds	--	7
Water and Wastewater (restricted)	Internal service funds	27	81
Airport (restricted)	General Fund	617	--
	Nonmajor governmental funds	--	140
Nonmajor enterprise funds	Nonmajor governmental funds	--	201
	Nonmajor enterprise funds	905	--
		$ 40,903	10,603

Interfund receivables and payables reflect loans between funds. Of the above current amount, $12.0 million is an interfund loan from the Fiscal Surety Fund, a special revenue fund, to other special revenue funds (primarily grant funds) to cover deficit pooled investments and cash. The above current amount also includes $25.0 million in interfund loans between capital project funds to cover deficit pooled investments and cash.

12 – INTERFUND BALANCES AND TRANSFERS, continued

Interfund transfers during fiscal year 2007 were as follows (in thousands):

	Transfers In			
Transfers Out	**General Fund**	**Nonmajor Governmental**	**Nonmajor Proprietary**	**Total**
General Fund	$ --	9,781	7,126	16,907
Nonmajor governmental funds	770	41,296	37,275	79,341
Electric	84,500	--	--	84,500
Water and Wastewater	21,971	3,520	--	25,491
Nonmajor enterprise funds	--	2,820	--	2,820
Internal service funds	--	7,337	1,057	8,394
Total transfers out	$ 107,241	64,754	45,458	217,453

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, 2007. 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 $67.1 million as of September 30, 2007. 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 NRG South Texas LP and City Public Service of San Antonio. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. Austin Energy's 16 percent ownership in the STP represents 400 megawatts of plant capacity. At September 30, 2007, Austin Energy's investment in the STP was approximately $508 million, net of accumulated depreciation.

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

Effective November 17, 1997, the participation agreement among the owners of STP was amended and restated, and the STP Nuclear Operating Company (STPNOC), a Texas non-profit non-member corporation created by the participants, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STPNOC. Each participant is responsible for its STP funding. The City's portion is financed through operations, revenue bonds, or commercial paper, which are repaid by the Electric Fund (see Note 10). In addition, each participant has the obligation to finance any deficits that may occur.

Each participant appoints one member to the board of directors of STPNOC, as well as one other member to the management committee. A member of the management committee may serve on the board of directors in the absence of a board member. The City's portion of STP is classified as plant in service, construction in progress, and nuclear fuel inventory. Nuclear fuel includes fuel in the reactor as well as nuclear fuel in process.

c -- South Texas Project Decommissioning

The South Texas Project (STP) is subject to regulation by the Nuclear Regulatory Commission (NRC). The NRC requires that each holder of a nuclear plant-operating license submit information to the NRC indicating the minimum funding required for plant decommissioning. In addition, reasonable assurance must be demonstrated that sufficient funds are being accumulated to provide the minimum requirement for decommissioning. This amount must be adjusted annually as required by the NRC. At September 30, 2007, Austin Energy funded its share of the estimated decommissioning liability as follows:

	2007	
Estimated cost to decommission STP	$ 237,126,400	
Decommissioning trust assets	130,478,554	(Includes other restricted assets of $31.3 million)

Austin Energy and other STP participants have provided the required information to the NRC and have collected decommissioning funds through rates since 1989. Austin Energy established an external irrevocable trust for collecting sufficient funds for its share of the estimated decommissioning costs. For fiscal year 2007, Austin Energy collected $4,957,967 for decommissioning requirements.

d -- Energy Risk Management Program

In an effort to mitigate the financial and market risk associated with the purchase of natural gas and energy price volatility, Austin Energy has established a Risk Management Program. This program was authorized by the Austin City Council and is led by the Risk Oversight Committee. Under this program, Austin Energy enters into futures contracts, options, and swaps for the purpose of reducing exposure to natural gas and energy price risk. Use of these types of instruments for the purpose of reducing exposure to price risk is performed as a hedging activity. These contracts may be settled in cash or delivery of certain commodities. Austin Energy typically settles these contracts in cash.

Austin Energy has entered into brokerage agreements with the following organizations to execute the exchange-traded instruments for Austin Energy's risk management activities:

Brokerage	Credit Rating
Citigroup Global Market Holding Inc.	AA-
Man Group	A-

The realized gains and losses related to these transactions are netted to fuel expense in the period realized. As of September 30, 2007, Austin Energy's options, and swaps, valued at mark-to-market, net to an unrealized gain of $8,626,847. This reflects the present value of the difference between the cost and the fair market value of these contracts on September 30, 2007. Initial margins are flat fees per contract and are paid in cash or equity. Fair market values are calculated by multiplying the number of outstanding contracts by the forward prices as quoted by New York Mercantile Exchange or calculated by using prices on the New York Mercantile Exchange. The unrealized gain/loss refers to the difference between the cost and fair market value of the contracts, which is not included in the financial statements at September 30, 2007.

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

Options	
Contracts effective date	September 2005 through September 2007
Contracts maturity date	Through June 2012
Fair value	$(24,442,956)
Unrealized Gain/ (Loss)	(21,812,076)

The options and future contracts traded on New York Mercantile Exchange expose Austin Energy to a minimal amount of credit risk. In the event of default or nonperformance by brokers or the exchange, the operations of Austin Energy will not be materially affected. However, Austin Energy does not expect the brokerages to fail to meet their obligations given their high credit rating and the strict and deep credit requirements upheld by the New York Mercantile Exchange of which these brokerage houses are members. Termination risk for exchange traded instruments is greatly reduced by the strict rules and guidelines set up by the exchange, which is governed by the Commodity Futures Trade Commission.

Swaps	
Contracts effective date	June 2005 through September 2007
Contracts maturity date	Through June 2012
Fair market value	$418,672,544
Unrealized Gain/ (Loss)	30,438,923

SO2	
Contracts effective date	August 2007 through September 2007
Contracts maturity date	Through October 2007
Fair market value	$(137,745)
Unrealized Gain/ (Loss)	(137,745)

The over-the-counter agreements expose Austin Energy to credit, termination, and non-performance risk. However, Austin Energy does not expect the counterparties to fail to meet their obligations given their high credit rating, minimum of A- by S&P. 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 International Swaps and Derivatives Association (ISDA) agreement applied to these contracts.

e -- Derivative Instruments

Swap for the Water & Wastewater System

Objective of the swap. In order to lower its borrowing costs, the City entered into a swap in connection with its Series 2004 Water and Wastewater System Variable Rate Revenue Refunding Bonds (the "Series 2004 Bonds") on July 2, 2004. The variable rate bonds were issued to advance-refund various outstanding Combined Utility System Revenue Refunding Bonds. The swap was used to hedge the interest rate on the variable rate refunding bonds to a fixed rate and the synthetic fixed rate refunding produces a lower expected interest rate cost to the City.

Terms, fair values, and credit risk. The City's swap agreement contains scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2004 Bonds were issued on August 27, 2004, with a principal amount of $132,475,000. The swap was structured to match the principal amortization structure and dates of the Series 2004 Bonds.

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

The counterparty to the swap is JPMorgan Chase Bank. A summary of the terms and fair value of the swap, as of September 30, 2007, is as follows:

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Fair Value
Water & Wastewater Variable Rate Revenue Refunding Bonds, Series 2004	May 15, 2024	JP Morgan	Aa2/AA/AA-	68% of 1-month LIBOR	3.657%	$ (1,378,108)

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 negative fair value as of September 30, 2007, of $1,378,108. 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, 2007, the City was not exposed to credit risk on its outstanding swap since the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the City's credit risk exposure is the amount of the positive fair value. Future interest rate increases or decreases determine the fair value and the extent of credit risk the City will incur. The current credit ratings of the JPMorgan Chase Bank are Aa2 (Moody's Investor Service Inc.), AA (Standard and Poor's) and AA- (Fitch). The City will be exposed to interest rate risk only if the counterparty defaults or if the swap is terminated.

The swap agreement contains a collateral agreement with the counterparty. Collateralization of the fair value of the swap is required should the counterparty's credit rating fall below the applicable thresholds in the agreement. The City purchased insurance to mitigate the need to post collateral as long as the insurer, Financial Security Assurance, maintains a credit rating above A2 (Moody's Investor Service, Inc.) and A (Standard and Poor's).

Basis risk. Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. Basis risk exists since the City receives a percentage of LIBOR to offset the actual variable bond rate the City pays on its bonds. Exposure to basis risk may occur should the floating rate be less than the actual variable rate the City pays on the bonds. The magnitude and duration of any basis risk shortfall will determine the extent of basis risk incurred.

Tax risk. Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the City's underlying variable-rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, which is a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. The City is receiving 68% of LIBOR (a taxable index) on the swap and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

Termination risk. The City or the counterparty may terminate the swap if the other party fails to perform under the terms of the respective contracts. If the swap were terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. The City would be liable to the counterparty for a payment equal to the swap's fair value if it were negative at the time of the termination. The additional termination events in the agreement are limited to credit related events only and the ratings triggers are substantially below the current credit rating of the City. Additionally, the City purchased insurance to mitigate the possibility of termination risk.

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

Swap payments and associated debt. As of September 30, 2007, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows (as rates vary, variable-rate bond interest payments and net swap payments will vary):

Fiscal Year Ended September 30	Water and Wastewater Variable-Rate Bonds (in thousands) Principal	Interest	Interest Rate Swaps, Net	Total
2008	$ 1,200	4,566	(318)	4,248
2009	--	4,534	(315)	4,219
2010	--	4,534	(315)	4,219
2011	830	4,523	(314)	4,209
2012	6,905	4,364	(303)	4,061
2013-2017	69,990	15,369	(1,068)	14,301
2018-2022	22,620	6,105	(424)	5,681
2023-2027	15,030	691	(48)	643
Total	$ 116,575	44,686	(3,105)	41,581

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, 2007, 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/AA-/AA-	71% of 1-month LIBOR	4.051%	$ (7,904,889)

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 negative fair value as of September 30, 2007, of $7,904,889. This fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. The method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market’s best estimate of future spot interest rates.

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

The payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swap.

Credit risk. As of September 30, 2007, 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.), AA- (Standard & Poor's), and AA- (Fitch). The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

The swap agreement contains a collateral agreement with the counterparty. The swap requires collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds in the agreement. The City purchased swap insurance to mitigate the need to post collateral as long as the insurer, Financial Security Assurance, maintains a credit rating above A2 (Moody's Investor Services, Inc.) and A (Standard & Poor's).

Basis risk. Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. Basis risk exists since the City receives a percentage of LIBOR to offset the actual variable bond rate the City pays on its bonds. The City may be exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the City pays on the bonds. The magnitude and duration of any basis risk shortfall will determine the extent of basis risk incurred.

Tax risk. Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the City's underlying variable-rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g. a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. The City is receiving 71% of LIBOR (a taxable index) on the swap and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

Termination risk. The City or the counterparty may terminate the swap if the other party fails to perform under the terms of the respective contracts. If the swap were terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. The City would be liable to the counterparty for a payment equal to the swap's fair value, if it were negative at the time of the termination. The additional termination events in the agreement are limited to non-issuance of the Series 2005 Bonds and credit related events only and the ratings triggers are substantially below the current credit rating of the City. Additionally, the City purchased insurance to mitigate the possibility of termination risk.

Swap payments and associated debt. As of September 30, 2007, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows (as rates vary, variable-rate bond interest payments and net swap payments will vary):

Fiscal Year Ended September 30	Airport Variable-Rate Bonds (in thousands) Principal	Interest	Interest Rate Swaps, Net	Total
2008	$ 10,000	12,378	(898)	11,480
2009	10,475	11,925	(865)	11,060
2010	10,975	11,450	(831)	10,619
2011	11,500	10,953	(795)	10,158
2012	12,050	10,431	(757)	9,674
2013-2017	57,225	44,408	(3,223)	41,185
2018-2022	86,050	30,317	(2,200)	28,117
2023-2027	93,025	7,157	(520)	6,637
Total	$ 291,300	139,019	(10,089)	128,930

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

Swaps for the Hotel Occupancy Tax

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

Terms, fair values, and credit risk. The City's swap agreement contains scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2005 Bonds were issued on August 17, 2005, with a principal amount of $119,290,000. The swaps were structured to match the likely principal amortization structure and dates of the Series 2005 VRRB.

The counterparty to the swap that fixes the bonds at 3.4007% was Lehman Brothers Derivative Products, a Lehman Brothers subsidiary. The counterparty to the swap portion that eliminates basis risk for the escrow period is Lehman Brothers Special Financing Inc. with a guarantee from Lehman Brothers. The table below contains a summary of the terms and fair value of the swaps as of September 30, 2007:

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Fair Value
Hotel Occupancy Tax Subordinate Lein Variable Rate Revenue Refunding Bonds, Series 2005	Nov 15, 2029	Lehman Brothers Derivative Products	Aaa/AAAt/AAA	BMA + 0.0525% to 11/15/09; 67% of 1 Mo USD-LIBOR thereafter	3.401%	$ 1,325,757
Hotel Occupancy Tax Subordinate Lein Variable Rate Revenue Refunding Bonds, Series 2005	Nov 15, 2009	Lehman Brothers Special Financing	A1/A+/AA-	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, 2007, of $1,325,757. 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, 2007, the City was exposed to credit risk on its outstanding swaps since the swaps had a positive fair value of $1,325,757. The City's exposure is the amount of positive fair value. The current credit ratings of Lehman Brothers are A1 (Moody's Investor Services, Inc.), A+ (Standard & Poor's), and A+ (Fitch). The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if it is terminated.

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

The swap agreements contain collateral agreements with the counterparties. The swap requires collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds in the agreement. The City purchased swap insurance to mitigate the need to post collateral as long as the insurer, CIFG, maintains a credit rating above A3 (Moody's Investor Services, Inc.) and A- (Standard & Poor's).

Basis risk. Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The City bears no basis risk until November 15, 2009. Afterward, the swap has basis risk since the City receives a percentage of LIBOR to offset the actual variable bond rate the City pays on its bonds. The City may be exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the City pays on the bonds. The magnitude and duration of any basis risk shortfall will determine the extent of basis risk incurred.

Tax risk. Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the City's underlying variable-rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g. a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. Tax risk exists only after November 15, 2009. The City is receiving 67% of LIBOR (a taxable index) on the swap and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

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

Swap payments and associated debt. As of September 30, 2007, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows (as rates vary, variable-rate bond interest payments and net swap payments will vary):

Fiscal Year Ended September 30	Convention Center Variable-Rate Bonds (in thousands) Principal	Interest	Interest Rate Swaps, Net	Total
2008	$ --	4,593	(536)	4,057
2009	--	4,593	(536)	4,057
2010	3,045	4,495	(525)	3,970
2011	4,145	4,342	(506)	3,836
2012	4,290	4,178	(487)	3,691
2013-2017	23,690	18,228	(2,128)	16,100
2018-2022	21,970	13,219	(3,487)	9,732
2023-2027	39,145	7,288	1,093	8,381
2028-2032	23,005	1,054	(123)	931
Total	$ 119,290	61,990	(7,235)	54,755

f -- Certificates of Participation

The City has entered into a capital lease arrangement through the issuance of Certificates of Participation as follows:

$ 14,000,000 Water and Wastewater Utility Office Project, Series 1987

The certificates represent proportionate interests in lease payments to be made by the City to a third-party lessor. The City has title to the office projects, pursuant to general warranty deeds; however, the trustee maintains a vendor's lien and superior title to the properties until all sums due are paid in full.

The City's obligations under the lease agreements are subject to and dependent upon annual appropriations by the City Council and do not obligate the City to levy or pledge any form of taxation. Thus, the certificates are treated as capital lease obligations rather than as long-term bonds and are recorded as a liability in the Water and Wastewater Fund.

The following table presents information regarding these certificates:

Description	Water and Wastewater Fund Office Project (1)
Date issued	August 1987
Amount issued	$ 14,000,000
Interest rates	5.25% - 8.00%
Interest payable on	May 15 and November 15
Maturity dates	November 15 1989 - 2007
Present value of lease payments	$ 1,377,475
Reserve Fund (2)	$ 1,250,000

(1) Subject to mandatory redemption upon the occurrence of certain events.
(2) Held by trustee, to be used to make final payments.

g -- Federal and State Financial Assistance Programs

The City participates in a number of federally assisted and state grant programs, financed primarily by the U.S. Housing and Urban Development (HUD) Department, U.S. Health and Human Services (HHS) Department, and U.S. Department of Transportation (DOT). The City's programs are subject to program compliance audits by the granting agencies. Management believes that no material liability will arise from any such audits.

h -- Arbitrage Rebate Payable

The City's financial advisor has determined that the City has earned interest revenue on unused bond proceeds in excess of amounts allowed by applicable Federal regulations. The City will be required to rebate the excess amounts to the federal government. The estimated amounts payable at September 30, 2007, are as follows (in thousands):

	Business-type Activities		
Governmental Activities	Electric	Water and Wastewater	Total
$ 46	648	266	$ 914

i -- Capital Improvement Plan

As required by charter, the City has a *Capital Improvements Program* plan (capital budget) covering a five-year period which details anticipated spending for projects in the upcoming and future years. The City's 2007 Capital Budget includes new appropriations of $717.6 million for the City's enterprise funds and $160.6 million for general government projects. The City has substantial contractual commitments relating to its capital improvement plan.

The key projects in progress include improvements to and development of the transportation infrastructure, public recreation and culture, electric system, water and wastewater systems, airport, and urban growth management activities as shown below (in thousands). Remaining commitments represent current unspent budget and future costs required to complete projects.

Project	Spent-to-Date	Remaining Commitment
Governmental activities:		
General government	$ 89,063	43,420
Public safety	6,660	11,404
Transportation	182,491	142,671
Public health	1,342	13,050
Public recreation and culture	126,099	197,405
Urban growth management	83,457	57,705
Business-type activities:		
Electric	3,516,190	435,623
Water	619,694	734,063
Wastewater	1,111,666	553,788
Airport	115,090	110,101
Convention	4,555	4,862
Environmental and health services	35,996	61,451
Urban growth management	189,443	285,768
Total	$ 6,081,746	2,651,311

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 $10.1 million reported as accrued landfill closure and postclosure costs at September 30, 2007, represents the cumulative amount reported to date based on the use of 98.9% of the estimated capacity of the landfill. The Solid Waste Services Fund will recognize the remaining estimated cost of closure and postclosure care of $112 thousand as the remaining estimated capacity is filled over the next year. The total estimated costs of $10.2 million include costs of closure in 2008 of $2.6 million and postclosure costs over the subsequent thirty years of $7.6 million. These amounts are based on current cost estimates to perform closure and postclosure care in 2007. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. State and federal laws require owners to demonstrate financial assurance for closure, postclosure, and/or corrective action. The City complies with the financial and public notice components of the local government financial test and government-guarantee of the test.

14 – COMMITMENTS AND CONTINGENCIES, continued
k -- Risk-Related Contingencies

The City uses internal service funds to account for risks related to health benefits, third-party liability, and workers' compensation. The funds are as follows:

Fund name	Description
Employee Benefits	City employees and retirees may choose a self-insured PPO or an HMO for health coverage. Approximately 30% of city employees and 50% of retirees use the HMO option; approximately 70% of city employees and 50% of retirees use the PPO. Costs are charged to city funds through a charge per employee per pay period.
Liability Reserve	This self-insured program includes losses and claims related to liability for bodily injury, property damage, professional liability and certain employment liability. Premiums are charged to other city funds each year based on historical costs.
Workers' Compensation	Premium charges for this self-insured program are assessed to other funds each year based on historical costs.

The City purchases stop-loss insurance for the City's PPO. This stop-loss insurance covers individual claims that exceed $500,000 per calendar year, up to a maximum of $1 million. In fiscal years 2007 and 2006, no claims exceeded the stop-loss limit of $500,000; during fiscal year 2005, two claims exceeded the stop-loss limit of $500,000; and during fiscal year 2004, no claim exceeded the stop-loss limit of $500,000. City coverage is limited to $1 million in lifetime benefits. The City does not purchase stop-loss insurance for workers' compensation claims.

The City is self-insured for much of its risk exposure; however, the City purchases commercial insurance coverage for loss or damage to real property, theft and other criminal acts committed by employees, and third party liability associated with the airport, owned aircraft, and electric utility operations. There have been no claims settlements in excess of the purchased insurance coverage for the last three years. The City also purchases a broad range of insurance coverage through a program that provides workers' compensation, employer's liability and third party liability coverage to contractors working on designated capital improvement project sites.

Liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The City utilizes actuarial information and historical claim settlement trends to determine the claim liabilities for the Employee Benefits Fund and Workers' Compensation Fund. Claims liabilities for the Liability Reserve Fund are calculated based on an estimate of outstanding claims, which may differ from the actual amounts paid. The amount to be paid out ultimately may vary from the amount accrued at September 30, 2007. Possible losses are estimated to range from $22.2 to $36.9 million. The City contributes amounts to an internal service fund based on an estimate of anticipated costs for claims each year.

Changes in the balances of claims liability are as follows (in thousands):

	Employee Benefits		**Liability Reserve**		**Workers' Compensation**	
	2007	2006	2007	2006	2007	2006
Liability balances, beginning of year	$ 4,382	4,940	6,862	13,919	9,965	9,959
Claims and changes in estimates	4,024	2,786	882	(3,126)	4,899	3,113
Claim payments	(4,024)	(3,344)	(2,098)	(3,931)	(2,671)	(3,107)
Liability balances, end of year	$ 4,382	4,382	5,646	6,862	12,193	9,965

The Liability Reserve Fund claims liability balance at fiscal year end includes liabilities of $2.8 million discounted at 4.63% in 2007 and $3.5 million discounted at 4.55% in 2006.

14 – COMMITMENTS AND CONTINGENCIES, continued
l -- Environmental Remediation Contingencies

Austin Energy may incur costs for environmental remediation of certain sites including the Holly and Seaholm Power Plants. The financial statements include a liability of approximately $21 million at September 30, 2007. This amount includes the cost of PCB inspection and estimated remaining costs for the remediation of the contaminated sites. Austin Energy anticipates payment of these costs in 2007 and future years.

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

Austin Water is planning to close the Green Water Treatment Plant (GWTP) no later than September 2008. The estimated decommissioning cost to close the GWTP is $13 million. The financial statements include a decommissioning liability of approximately $6.3 million at September 30, 2007. Plant decommissioning is estimated to be completed February 2010.

The Airport Fund may also incur costs for the environmental remediation of certain sites and has recorded an estimated liability of $241,000 as of September 30, 2007.

m -- Redevelopment of Robert Mueller Municipal Airport

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

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

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, 2007, was $19.3 million. The City expects these leases to be replaced with similar leases in the ordinary course of business. Future minimum lease payments for these leases will remain approximately the same.

The City has entered into certain lease agreements to finance personal computers and other equipment for both governmental and business-type activities. As mentioned in a preceding section of this note, certificates of participation have been issued by the Electric Fund and Water and Wastewater Fund for financing certain office buildings. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of the future minimum lease payments at their inception date. Refer to Note 10 for the debt service requirements on these leases.

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

The following summarizes assets recorded at September 30, 2007, under capital lease obligations (in thousands):

	Governmental	Business-type Activities				
Assets	**Activities**	**Electric**	**Water and Wastewater**	**Airport**	**Nonmajor**	**Total**
Building and improvements	$ --	1,405	13,429	--	--	14,834
Equipment	1,022	6	27	2,372	31	2,436
Accumulated depreciation	(630)	(180)	(5,080)	(412)	(29)	(5,701)
Net assets	$ 392	1,231	8,376	1,960	2	11,569

15 – OTHER POST-EMPLOYMENT BENEFITS

In addition to the contributions made to the three pension systems, the City provides certain other post-employment benefits to its retirees. Other post-employment benefits include access to medical and dental insurance for the retiree and the retiree's family and $1,000 of life insurance on the retiree only.

All retirees who are eligible to receive pension benefits under any of the City's three pension systems are eligible for other post-employment benefits. Retirees may also enroll eligible dependents under the medical and dental plan(s) in which they participate. Eligible dependents of the retiree include a legally married spouse and unmarried children dependent on the retiree for support. The children covered include children under age 25 that are: natural children; stepchildren; legally adopted children; children for whom the retiree has obtained court-ordered guardianship/conservatorship; qualified children placed pending adoption; grandchildren if claimed as a dependent on the retiree's or retiree spouse's federal income tax return; and eligible disabled children beyond 25 years of age, if covered prior to age 25. A surviving spouse of a deceased retiree may continue medical coverage until the date the surviving spouse remarries. A surviving spouse of a deceased retiree may continue dental coverage for 36 months by paying the entire premium plus a 2 percent administrative fee. Other surviving dependents of a deceased retiree may continue medical and dental coverage for 36 months by paying the entire premium plus a 2 percent administrative fee.

The City is under no obligation, statutory or otherwise, to offer other post-employment benefits or to pay any portion of the cost of other post-employment benefits to any retirees or their dependents. Allocation of city funds to pay other post-employment benefits or to make other post-employment benefits available is determined on an annual basis by the City Council as part of the budget approval process.

The City pays a portion of the retiree's medical insurance premium and a portion of the retiree's dependents' medical insurance premium. The portion paid by the City varies according to age, coverage selection, and years of service. The percentage of the medical insurance premium paid by the City ranges as follows:

Years of Service	Retiree only	Dependent only
Less than 5 years	16% - 17%	11% - 12%
5 to 9 years	24% - 25%	17%
10 to 14 years	41% - 42%	28% - 29%
15 to 20 years	57% - 58%	39% - 41%
Greater than 20 years	81% - 83%	56% - 58%

The City pays 100% of the retiree's life insurance premium. Group dental coverage is available to retirees and their eligible dependents. The retiree pays the full cost of the dental premium.

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 2,800 retirees was $16.9 million in 2007 and $15.7 million in 2006 for 2,682 retirees.

15 – OTHER POST-EMPLOYMENT BENEFITS, continued

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, 2006, the City's portion of this obligation, $11.7 million, is not reflected in the financial statements of the Electric Fund.

16 – SUBSEQUENT EVENTS

a -- General Obligation Bonds Issues

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

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

In October 2007, the City delivered $9,755,000 of Public Property Finance Contractual Obligations, Series 2007. The proceeds from the issue will be used as follows: fire trucks ($4,035,000), public works transportation equipment ($1,500,000), water utility capital equipment ($2,173,000), and wastewater utility capital equipment ($2,047,000). These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2008 to 2017. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2008. Total interest requirements for these obligations, at a rate of 3.66%, are $1,680,905.

b -- Water and Wastewater System Revenue Bond Refunding Issue

In December 2007, the City issued $135,000,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2007. Proceeds from the bond refunding were used to refund $136,900,000 of the City's outstanding commercial paper issued for the water and wastewater utility system. The debt service requirements on the refunding bonds were $263,568,086, with interest rates ranging from 4% to 5.25%. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

c -- Public Improvement Refunding Bond Issue

In March 2008, the City issued $172,505,000 of Public Improvement Refunding Bonds, Series 2008. The net proceeds of $188,363,353 (after issue costs, discounts, and premiums) from the refunding were used to refund $180,895,000 of public improvement bonds, series 1998, 2000, 2001, and 2002 and certificates of obligation, series 1997, 1998, 1999, 2000, 2001, 2002, and 2004. The refunding resulted in future interest requirements to service the debt of $56,849,570 with interest rates ranging from 3.5% to 5%. An economic gain of $9,551,705 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of $12,229,025. An accounting loss of $6,970,028 which will be deferred and amortized, was recognized on this refunding.

d -- Electric System Revenue Bond Refunding Issue

In March 2008, the City issued $50,000,000 of Electric System Revenue Refunding Bonds, Taxable Series 2008. Proceeds from the bond refunding were used to refund $48,800,000 of the City's outstanding commercial paper issued for the electric utility system. The debt service requirements on the refunding bonds were $98,308,413, with interest rates ranging from 3.08% to 6.26%. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

General Fund | **City of Austin, Texas**
Schedule of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual-Budget Basis | **RSI-1**
For the year ended September 30, 2007
(In thousands)

	2007					
	Actual	Adjustments (1) (2)	Actual-Budget Basis	Budget Original	Budget Final	Variance (3) Positive (Negative)
REVENUES						
Taxes	$ 326,576	--	326,576	321,408	321,408	5,168
Franchise fees	32,275	--	32,275	30,454	30,454	1,821
Fines, forfeitures and penalties	16,094	--	16,094	18,001	18,001	(1,907)
Licenses, permits and inspections	25,635	(59)	25,576	19,114	19,114	6,462
Charges for services/goods	26,357	(34)	26,323	26,069	26,069	254
Interest and other	13,602	(1,189)	12,413	11,466	11,466	947
Total revenues	440,539	(1,282)	439,257	426,512	426,512	12,745
EXPENDITURES						
General government						
Municipal Court	10,607	(412)	10,195	10,366	10,366	171
Public safety						
Police	198,115	873	198,988	197,746	198,597	(391)
Fire	108,024	(167)	107,857	108,449	108,449	592
Emergency Medical Services	40,589	(994)	39,595	39,715	39,715	120
Public Safety & Emergency Mgmt	5,421	(72)	5,349	5,465	5,465	116
Transportation, planning and sustainability						
Transportation, Planning and Sustainability	297	--	297	300	300	3
Public health:						
Health	32,545	(460)	32,085	32,347	32,347	262
Public recreation and culture						
Parks and Recreation	32,125	185	32,310	32,318	32,318	8
Austin Public Library	21,088	160	21,248	21,391	21,391	143
Urban growth management						
Neighborhood Planning and Zoning	4,319	(59)	4,260	4,899	4,899	639
Development Services and Watershed Protection	14,567	(29)	14,538	14,659	14,659	121
General city responsibilities (4)	68,170	(58,749)	9,421	9,788	9,828	407
Total expenditures	535,867	(59,724)	476,143	477,443	478,334	2,191
Excess (deficiency) of revenues over expenditures	(95,328)	58,442	(36,886)	(50,931)	(51,822)	14,936
OTHER FINANCING SOURCES (USES)						
Transfers in	107,241	850	108,091	108,091	108,091	--
Transfers out	(16,907)	(59,151)	(76,058)	(73,677)	(75,739)	(319)
Total other financing sources (uses)	90,334	(58,301)	32,033	34,414	32,352	(319)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(4,994)	141	(4,853)	(16,517)	(19,470)	14,617
Fund balance at beginning of year	111,804	(12,286)	99,518	95,198	95,198	4,320
Fund balance at end of year	$ 106,810	(12,145)	94,665	78,681	75,728	18,937

(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 ($255,000), expenditures for workers' compensation ($3,027,009), 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):

	General Fund
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis	$ (4,994)
Adjustments - increases (decreases) due to:	
Accrued payroll expenditures	1,081
Net compensated absences accrual	(3)
Outstanding encumbrances established in current year	(5,683)
Payments against prior year encumbrances	3,962
Transfer to Airport Fund	(700)
Other	1,484
Excess (deficiency) of revenues and other sources over expenditures and other uses - budget basis	$ (4,853)

c -- Budget Amendments

The original budget of the General Fund was amended several times during fiscal year 2007 primarily for increased public safety and urban growth management costs. 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						
1999	1,105,100	1,044,500	(60,600)	105.8%	244,500	(24.8%)
2001	1,311,288	1,360,270	48,982	96.4%	316,793	15.5%
2002	1,250,851	1,440,199	189,348	86.9%	322,008	58.8%
2003	1,348,800	1,551,800	203,000	86.9%	312,800	64.9%
2004	1,356,800	1,678,200	321,400	80.8%	326,600	98.4%
2005	1,398,800	1,794,200	395,400	78.0%	348,600	113.4%
2006	1,497,800	1,974,000	476,200	75.9%	391,000	121.8%
Police Officers						
1999	226,913	257,850	30,937	88.0%	54,695	56.6%
2001	284,761	347,548	62,787	81.9%	69,707	90.1%
2002	298,782	384,992	86,210	77.6%	79,236	108.8%
2003	320,354	413,965	93,611	77.4%	80,959	115.6%
2004	343,447	451,580	108,133	76.1%	86,674	124.8%
2005	371,505	494,641	123,136	75.1%	93,429	131.8%
2006	417,284	576,125	158,841	72.4%	100,090	158.7%
Fire Fighters (2)						
1997	268,241	279,472	11,231	96.0%	35,130	32.0%
1999	341,593	317,223	(24,370)	107.7%	38,690	(63.0%)
2001	395,371	406,266	10,895	97.3%	49,726	21.9%
2003	421,136	452,669	31,533	93.0%	55,939	56.4%
2005	493,567	580,054	86,487	85.1%	65,885	131.3%

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

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

APPENDIX C

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 2008,
DATED AUGUST 15, 2008,
IN THE PRINCIPAL AMOUNT OF $76,045,000

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 $76,045,000. 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 2008,
DATED AUGUST 15, 2008,
IN THE PRINCIPAL AMOUNT OF $10,700,000

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 $10,700,000. 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 2008,
DATED AUGUST 15, 2008,
IN THE PRINCIPAL AMOUNT OF $26,715,000

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 $26,715,000. 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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