OFFICIAL STATEMENT
Dated March 1, 2012

Ratings: Moody's: "Aa3" (Negative Outlook)
Standard & Poor's: "AA-" (Stable Outlook)
(See "BOND INSURANCE" and
"OTHER RELEVANT INFORMATION – Ratings")

NEW ISSUE – Book-Entry-Only

Delivery of the Bonds (as defined below) is subject to the receipt of the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, to the effect that, assuming continuing compliance by the City (as defined below) with certain covenants contained in the Ordinance described herein, interest on the Bonds will be excludable from gross income for purposes of federal income taxation under existing law, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations.

$20,185,000
CITY OF AUSTIN, TEXAS
(Travis, Williamson and Hays Counties)
Hotel Occupancy Tax
Subordinate Lien Revenue Refunding Bonds, Series 2012
(Convention Center/Waller Creek Venue Project)

Dated Date: March 1, 2012, interest to accrue from Delivery Date — Due: As shown on the inside cover page

Interest on the $20,185,000 City of Austin, Texas Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2012 (Convention Center/Waller Creek Venue Project) (the "Bonds") will accrue from the date of initial delivery of the Bonds and will be payable November 15, 2012, and each May 15 and November 15 thereafter until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The City of Austin, Texas (the "City") intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on 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 "BOOK-ENTRY-ONLY SYSTEM").

The Bonds are issued pursuant to Chapter 1207 of the Texas Government Code, as amended (the "Act"), and other applicable laws of the State of Texas, and an ordinance (the "Ordinance") adopted by the City on March 1, 2012. The Bonds are special limited obligations of the City, equally and ratably secured by a lien on certain "Pledged Revenues," which lien is junior and subordinate to the lien securing the payment of the Prior Lien Bonds now Outstanding. The Pledged Revenues consist primarily of a subordinate pledge of (i) that portion of the revenues derived by the City from the hotel occupancy tax levied by the City pursuant to Chapter 351, Texas Tax Code, as amended (the "Tax Act"), which is equal to at least 4.5% of the consideration paid by occupants of sleeping rooms (the "Qualified Hotel Rooms") furnished by hotels located within the corporate limits of the City in which the cost of occupancy is $2.00 or more each day (the "4.5% HOT") and (ii) the available revenues from a Special Hotel Occupancy Tax deposited to the credit of the Venue Project Fund (the "2% HOT"), together with certain investment earnings, all as described herein. The City, pursuant to the Ordinance, does not grant any lien on or security interest in, or any mortgage on any of the physical properties of the City. See "SECURITY FOR THE BONDS – Pledge" herein.

THE BONDS DO NOT CONSTITUTE OR CREATE AN INDEBTEDNESS OR GENERAL OBLIGATION OF THE CITY, AND NEITHER THE TAXING POWER OF THE CITY (EXCEPT WITH RESPECT TO PLEDGED REVENUES, AS DESCRIBED HEREIN) NOR THE TAXING POWER OF THE STATE OF TEXAS IS PLEDGED AS SECURITY FOR THE BONDS. SEE "SECURITY FOR THE BONDS – PLEDGE" HEREIN.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by ASSURED GUARANTY MUNICIPAL CORP. See "BOND INSURANCE."

Maturity Schedule on Inside Cover Page

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

The Bonds are expected to be available for delivery on or about March 22, 2012.

Estrada Hinojosa & Company, Inc. **RBC Capital Markets**

$20,185,000

CITY OF AUSTIN, TEXAS

Hotel Occupancy Tax
Subordinate Lien Revenue Refunding Bonds, Series 2012
(Convention Center/Waller Creek Venue Project)

MATURITY SCHEDULE

Base CUSIP No. 052422 (1)

Maturity (November 15)	Principal Amount	Interest Rate	Initial Yield	CUSIP Suffix	Maturity (November 15)	Principal Amount	Interest Rate	Initial Yield	CUSIP Suffix
2012	$ 340,000	2.000%	0.400%	DV1	2021	$1,170,000	5.000%	2.860%	EE8
2013	480,000	2.000%	0.750%	DW9	2022	1,230,000	5.000%	3.010%	EF5
2014	490,000	2.000%	1.000%	DX7	2023	1,285,000	5.000%	3.110%	EG3
2015	930,000	2.000%	1.250%	DY5	2024	1,350,000	5.000%	3.210%	EH1
2016	950,000	2.500%	1.370%	DZ2	2025	1,420,000	5.000%	3.280%	EJ7
2017	975,000	2.500%	1.660%	EA6	2026	1,485,000	5.000%	3.370%	EK4
2018	1,010,000	5.000%	2.070%	EB4	2027	1,560,000	5.000%	3.460%	EL2
2019	1,065,000	5.000%	2.420%	EC2	2028	1,630,000	5.000%	3.550%	EM0
2020	1,115,000	5.000%	2.690%	ED0	2029	1,700,000	3.625%	3.730%	EN8

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

Optional Redemption of the Bonds

The City reserves the right, at its option, to redeem Bonds maturing on or after November 15, 2022, in whole or in part, in the principal amounts of $5,000 or any integral multiple thereof, on November 15, 2021, or any date thereafter, at the redemption price of par, plus accrued interest to the date of redemption. See "DESCRIPTION OF THE BONDS - Optional Redemption" herein.

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

Certain information set forth in this Official Statement has been furnished by the City and other sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. The delivery of this Official Statement at any time does not imply that the information herein is correct as to any time subsequent to its date. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

The price and other terms representing the offering and sale of the Bonds may be changed from time to time by the Underwriters after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering price, including sales to dealers who may sell the Bonds into investment accounts. In connection with the offering and sale of the Bonds, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in open markets. Such stabilizing, if commenced, may be discontinued at any time.

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

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

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

Deloitte & Touche LLP, independent auditors, have not been engaged to perform and have not performed, since the date of their report included herein, any procedures on the financial statements addressed in their report.

None of the City, the Financial Advisor to the City or the Underwriters make any representation regarding the information contained in this Official Statement regarding The Depository Trust Company, or its book-entry-only system, as such information has been furnished by The Depository Trust Company, or the information regarding Assured Guaranty Municipal Corp. ("AGM") or the municipal bond insurance policy issued in connection with the Bonds, as such information was furnished by AGM. This Official Statement contains "forward–looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements to be different from the future results, performance and achievements expressed or implied by such forward-looking statements. **Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements.** See "OTHER RELEVANT INFORMATION - Forward-Looking Statements."

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented or incorporated by reference under the heading "BOND INSURANCE" and "APPENDIX F – SPECIMEN MUNICIPAL BOND INSURANCY POLICY".

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CITY OF AUSTIN

Elected Officials

		Term Expires June 15
Lee Leffingwell	Mayor	2012
Chris Riley	Councilmember Place 1	2014
Mike Martinez	Councilmember Place 2	2012
Kathryne B. Tovo	Councilmember Place 3	2014
Laura Morrison	Councilmember Place 4	2014
William Spelman	Councilmember Place 5	2012
Sheryl Cole, Mayor Pro Tem	Councilmember Place 6	2012

Appointed Officials

Marc A. Ott	City Manager
Robert Goode	Assistant City Manager
Sue Edwards	Assistant City Manager
Rudy Garza	Assistant City Manager
Mike McDonald	Deputy City Manager
Bert Lumbreras	Assistant City Manager
Elaine Hart, CPA	Interim Chief Financial Officer
Jeff Knodel, CPA	Deputy Chief Financial Officer
Greg Canally	Deputy Chief Financial Officer
Karen Kennard	City Attorney
Shirley A. Gentry	City Clerk

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

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

FINANCIAL ADVISOR
Public Financial Management, Inc.
Austin, Texas

INDEPENDENT AUDITORS
Deloitte & Touche LLP
Austin, Texas

For additional information regarding the City, please contact:

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OFFICIAL STATEMENT

$20,185,000
CITY OF AUSTIN, TEXAS
(Travis, Williamson and Hays Counties)
Hotel Occupancy Tax
Subordinate Lien Revenue Refunding Bonds, Series 2012
(Convention Center/Waller Creek Venue Project)

INTRODUCTION

This Official Statement, which includes the cover page and the appendices hereto, is being furnished in connection with the issuance by the City of Austin, Texas (the "City"), of its $20,185,000 City of Austin, Texas Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2012 (Convention Center/Waller Creek Venue Project) (the "Bonds"). The Bonds are being issued pursuant to Chapter 1207 of the Texas Government Code, as amended (the "Act") and other applicable laws of the State of Texas, and an ordinance of the City Council (the "Ordinance") to be adopted on March 1, 2012. Unless otherwise indicated, capitalized terms used in this Official Statement shall have the meanings established in the Ordinance. See APPENDIX C hereto for selected definitions of terms used in this Official Statement.

The Bonds are special obligations of the City that are equally and ratably payable from and secured by a lien on the Pledged Revenues (as hereinafter described) and special funds described herein, which lien is junior and subordinate to the lien securing the payment of the Prior Lien Bonds now Outstanding. After the issuance of the Bonds and the refunding of the Refunded Obligations, the Prior Lien Bonds that will remain outstanding will be the Series 2004 Bonds maturing on November 15 in each of the years 2012 through 2019. See "DEBT SERVICE REQUIREMENTS". The Pledged Revenues consist primarily of (i) that portion of the revenues derived by the City from the hotel occupancy tax levied by the City pursuant to Chapter 351, Texas Tax Code, as amended (the "Tax Act"), which is equal to at least 4.5% of the consideration paid by occupants of sleeping rooms (the "Qualified Hotel Rooms") furnished by hotels located within the corporate limits of the City in which the cost of occupancy is $2.00 or more each day (the "4.5% HOT") and (ii) the available revenues from a Special Hotel Occupancy Tax deposited to the credit of the Venue Project Fund (the "2% HOT"), together with certain investment earnings, all as described herein. The City, pursuant to the Ordinance, does not grant any lien on or security interest in, or any mortgage on any of the physical properties of the City. See "SECURITY FOR THE BONDS – Pledge" herein.

THE BONDS DO NOT CONSTITUTE OR CREATE AN INDEBTEDNESS OR GENERAL OBLIGATION OF THE CITY, AND NEITHER THE TAXING POWER OF THE CITY (EXCEPT WITH RESPECT TO THE PLEDGED REVENUES, AS DESCRIBED HEREIN) NOR THE TAXING POWER OF THE STATE OF TEXAS IS PLEDGED AS SECURITY FOR THE BONDS. SEE "SECURITY FOR THE BONDS – PLEDGE."

Payment of the principal of and interest on the Bonds when due will be insured by a municipal bond guaranty insurance policy to be issued by Assured Guaranty Municipal Corp. simultaneously with the delivery of the Bonds. See "BOND INSURANCE."

PLAN OF FINANCING

The Bonds are being issued to refund $20,175,000 of the City's currently outstanding bond indebtedness described in APPENDIX E attached hereto (the "Refunded Obligations"). The refunding of the Refunded Obligations will result in a net present value savings to the City. Proceeds from the Bonds will also be used to fund the Reserve Fund Requirement established for the benefit of the Bonds and to pay costs of issuance of the Bonds. See "SOURCES AND USES OF FUNDS."

The Refunded Obligations, and interest due thereon, are to be paid on the scheduled interest payment dates and the maturity or redemption dates of such Refunded Obligations from funds to be deposited pursuant to that certain Escrow Agreement (the "Escrow Agreement") between the City and Deutsche Bank National Trust Company, Jersey City, New Jersey (the "Escrow Agent"). The Ordinance provides that the proceeds of the sale of the Bonds will be deposited with the Escrow Agent in an amount necessary to accomplish the discharge and final payment of the Refunded Obligations.

Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") without investment. Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations.

The Arbitrage Group, Inc., a nationally recognized accounting firm, will verify at the time of delivery of the Bonds to the Underwriters the mathematical accuracy of the schedules that demonstrate that such amounts on deposit in the Escrow Fund, without investment, will be sufficient to pay, when due, the principal of and interest on the Refunded Obligations.

By the deposit of cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of the Refunded Obligations pursuant to the terms of Chapter 1207, Texas Government Code, as amended, and the ordinance authorizing the issuance of the Refunded Obligations. It is the opinion of Bond Counsel that, as a result of such defeasance, the Refunded Obligations will no longer be payable from or secured by the Pledged Revenues but will be payable solely from the cash held for such purpose by the Escrow Agent, and that the Refunded Obligations will be defeased and thus will not be included in or considered to be an obligation of the City for the purpose of a limitation on the issuance of revenue bonds.

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

SOURCES AND USES OF FUNDS

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

Sources:	
Par Amount	$20,185,000.00
Net Premium	2,289,959.30
Transfer from Debt Service Fund	445,654.37
Total Available Funds	$22,920,613.67
Uses:	
Deposit to Escrow Fund	$20,657,381.71
Debt Service Reserve Fund	1,765,500.00
Costs of Issuance*	400,598.38
Underwriters' Discount	97,133.58
Total Available Funds	$22,920,613.67

*Includes premium for bond insurance policy.

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DEBT SERVICE REQUIREMENTS

	Prior Lien	Subordinate Lien			
Fiscal Year	Series	Series 2008	The Bonds		Total
Ending	2004	Sub-Series A-B (a)	Principal	Interest	Debt Service (b)
9/30/2012	$ 5,573,375	$ 8,266,523	$ -	$ -	$ 13,839,898
9/30/2013	5,571,500	8,263,912	340,000	995,314	15,170,726
9/30/2014	5,570,125	8,261,290	480,000	858,950	15,170,365
9/30/2015	5,568,750	8,243,900	490,000	849,250	15,151,900
9/30/2016	5,576,625	8,246,120	930,000	835,050	15,587,795
9/30/2017	5,573,250	8,218,491	950,000	813,875	15,555,616
9/30/2018	5,573,250	8,200,743	975,000	789,813	15,538,806
9/30/2019	5,571,000	8,206,982	1,010,000	752,375	15,540,357
9/30/2020	5,570,875	8,207,044	1,065,000	700,500	15,543,419
9/30/2021	-	8,210,660	1,115,000	646,000	9,971,660
9/30/2022	-	8,212,639	1,170,000	588,875	9,971,514
9/30/2023	-	8,169,038	1,230,000	528,875	9,927,913
9/30/2024	-	8,183,313	1,285,000	466,000	9,934,313
9/30/2025	-	8,194,977	1,350,000	400,125	9,945,102
9/30/2026	-	8,213,595	1,420,000	330,875	9,964,470
9/30/2027	-	8,209,494	1,485,000	258,250	9,952,744
9/30/2028	-	8,226,941	1,560,000	182,125	9,969,066
9/30/2029	-	8,245,504	1,630,000	102,375	9,977,879
9/30/2030	-	8,274,586	1,700,000	30,813	10,005,399

(a) Calculated using an assumptive interest rate of 3.2505%.
(b) Includes the Bonds, excludes the Refunded Obligations.

DESCRIPTION OF THE BONDS

General

Interest on the Bonds will accrue from the date of delivery and will be payable on November 15, 2012, and on each May 15 and November 15 thereafter until maturity or prior redemption. The Bonds will mature on the dates and in the principal amounts and bear interest at per annum rates set forth on the inside cover page hereof. Interest to be paid on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Principal of the Bonds is payable at maturity, subject only to prior redemption as is hereinafter described.

Purpose of the Bonds

The Bonds are being issued to refund the Refunded Obligations and to pay costs of issuance incurred in connection with the sale of the Bonds. See "PLAN OF FINANCING." The Refunded Obligations were issued to finance the Convention Center/Waller Creek Venue Project.

Optional Redemption

The City reserves the right, at its option, to redeem Bonds maturing on or after November 15, 2022, in whole or in part, in the principal amounts of $5,000 or any integral multiple thereof, on November 15, 2021, or any date thereafter, at the redemption price of par, plus accrued interest to the date of redemption.

Notice of Redemption

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

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

Defeasance

The City may defease and discharge its obligation to the holders of any or all of the Bonds to pay the principal of and interest thereon by depositing with the Paying Agent/Registrar or other authorized escrow agent in trust: (a) money sufficient to pay in full such Bonds or the principal amount(s) thereof at maturity or to the redemption date therefor, together with all interest due thereon, shall have been irrevocably deposited with and held in trust by the Paying Agent/Registrar, or an authorized escrow agent, or (b) Government Obligations, consisting of (i) direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America; (ii) 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 are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date of acquisition by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; or (iv) any other then authorized securities or obligations under applicable state law that may be used to defease obligations such as the Bonds. Government Obligations deposited in trust to defease the Bonds are required to have been certified by an independent public accounting firm to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to pay when due if the City first obtains a rating confirmation notice the principal of, premium, if any, and interest on such Bonds.

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Bonds is Deutsche Bank National Trust Company, Jersey City, New Jersey. The City retains the right to replace the Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Bonds, the City will promptly cause written notice thereof to be given to each registered owner of the Bonds then outstanding, which notice will also give the address of the new Paying Agent/Registrar. Any Paying Agent/Registrar selected by the City shall be a bank, trust company, financial institution or other entity duly qualified and legally authorized to serve in the capacity and perform the duties of Paying Agent/Registrar for the Bonds.

Interest on the Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest shall be paid (i) by check sent by United States mail, first-class postage prepaid, to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. Principal of the Bonds will be paid to the registered owner at their stated maturity or redemption prior to maturity upon their presentation to the designated payment/transfer office of the Paying Agent/Registrar. If a date for making a payment on the Bonds, the taking of any action or the mailing of any notice by the Paying Agent Registrar shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment, taking action or mailing of a notice will be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and a payment, action or mailing on such date shall have the same force and effect as if made on the original date the payment was due, or the action was required to be taken or the mailing was required to be made.

Record Date for Interest Payment

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

Transfer, Exchange and Registration

In the event the Book-Entry-Only System should be discontinued, the Bonds 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 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. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated payment/transfer office of the Paying Agent/Registrar, or sent by United States mail, first-class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds 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.

Amendments

Alteration of Rights and Duties. The rights, duties and obligations of the City and the registered owners of the Bonds are subject in all respects to all applicable federal and state laws including, and without limitation, the provisions of federal law regarding the composition of indebtedness of political subdivisions, as the same now exist or may hereafter be amended.

Amendment of Ordinance Without Consent. The City may, without the consent of or notice to any of the registered owners of the Bonds, amend the Ordinance for certain purposes including, but not limited to, (i) to cure any ambiguity, defect, omission or inconsistent provision in the Ordinance or in the Bonds; or to comply with any applicable provision of law or regulation of federal agencies; provided, however, that such action shall not adversely affect the interests of the registered owners of the Bonds; (ii) to change the terms or provisions of the Ordinance to the extent necessary to prevent the interest on the Bonds from being includable within the gross income of the registered owners thereof for federal income tax purposes; (iii) to grant to or confer upon the registered owners of the Bonds any additional rights, remedies, powers or authority; (iv) to add to the covenants and agreements of the City contained in the Ordinance other covenants and agreements of, or conditions or restrictions upon, the City or to surrender or eliminate any right or power reserved to or conferred upon the City; (v) to amend any provisions thereof relating to the issuance of Additional Bonds if the City first obtains a Rating Confirmation Notice with respect to such amendment; and (vi) to subject to the lien and pledge of the Ordinance additional Pledged Revenues, provided such amendment does not cause any reduction in any rating assigned to the Bonds by any major municipal securities evaluation service then rating the Bonds; provided, however, that if and to the extent required by a Credit Facility, Liquidity Facility, an Interest Rate Management Agreement, another Credit Agreement or other provision of the Ordinance, the City shall first obtain the consent of the Credit Facility Provider, any Liquidity Facility Provider and the Interest Rate Management Agreement Counterparty to any such amendment pursuant to the Ordinance.

Amendments of Ordinance Requiring Consent. The City may at any time adopt one or more ordinances amending, modifying, adding to or eliminating any of the provisions of the Ordinance, but if such amendment is not of the character described in the Ordinance as permitted without the consent of or notice to any of the registered owners of the Bonds, only with the consent of the registered owner or owners of not less than fifty percent of the aggregate unpaid principal amount of the Parity Bonds then outstanding and affected by such amendment, modification, addition, or elimination; provided, however, that the foregoing shall not permit (a) an extension of the maturity of the principal of or interest on any Bond issued under the Ordinance, or (b) a reduction in the principal amount of any Bond or the rate of interest on any Bond or redemption price therefor, or (c) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or (d) a reduction in the aggregate principal amount of the Bonds required for consent to such amendment.

Bondholders' Remedies

If the City defaults in the payment of principal, interest or redemption price on the Bonds when due, or the City defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance, the registered owners may seek a writ of mandamus to compel the City or City officials to carry out the legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds or the Ordinance 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 courts, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of the Bonds upon any failure of the City to perform in accordance with the terms of the Ordinance, 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 State legislature has effectively waived the City's sovereign immunity from a suit for money damages, holders of the Bonds may not be able to bring such a suit against the City for breach of the Bonds or covenants contained in the Ordinance. 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 revenue, such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or holders of the Bonds of an entity that has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce any other remedies available to the registered owners would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

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

Redemption proceeds and principal and interest payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on the 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 Participants.

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

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, Security certificates will be printed and delivered.

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

SECURITY FOR THE BONDS

Pledge

The Bonds are special obligations of the City, equally and ratably secured by a lien on certain "Pledged Revenues," which lien is junior and subordinate to the lien securing the payment of the Prior Lien Bonds now Outstanding. The Pledged Revenues consist primarily of (i) that portion of the revenues derived by the City from the hotel occupancy tax levied by the City pursuant to Chapter 351, Texas Tax Code, as amended (the "Tax Act"), which is equal to at least 4.5% of the consideration paid by occupants of sleeping rooms (the "Qualified Hotel Rooms") furnished by hotels located within the corporate limits of the City in which the cost of occupancy is $2.00 or more each day (the "4.5% HOT") and (ii) the available revenues from a Special Hotel Occupancy Tax deposited to the credit of the Venue Project Fund (the "2% HOT"), together with certain investment earnings, all as described herein. The City, pursuant to the Ordinance, does not grant any lien on or security interest in, or any mortgage on any of the physical properties of the City.

The City, pursuant to the Ordinance, further grants a lien on the Pledged Revenues and the Bond Fund to secure the payment of principal of, premium, if any, and interest on the Bonds. See "Accounts" and "Flow of Funds" herein.

THE BONDS DO NOT CONSTITUTE OR CREATE AN INDEBTEDNESS OR GENERAL OBLIGATION OF THE CITY, AND NEITHER THE TAXING POWER OF THE CITY (EXCEPT WITH RESPECT TO THE PLEDGED REVENUES AS SPECIFICALLY DESCRIBED HEREIN) NOR THE TAXING POWER OF THE STATE OF TEXAS IS PLEDGED AS SECURITY FOR THE BONDS.

Levy of Hotel Occupancy Tax

(a) The City has levied, and while any Bonds and Parity Obligations or Junior Obligations related to the Bonds remain Outstanding the City levies and covenants that it shall continue to levy, a Hotel Occupancy Tax on the cost of occupancy of any sleeping room furnished by any hotel within the corporate limits of the City, in which the cost of occupancy is $2.00 or more each day, at a rate of at least 7% of the consideration paid by the occupant of the sleeping room to the hotel, all as authorized by the Tax Act. The City further covenants that it shall enforce the provisions of this Ordinance, or any other ordinance levying a hotel occupancy tax, concerning the collection, remittance and payment of the Hotel Occupancy Tax.

(b) In addition to the Hotel Occupancy Tax levied and to be collected pursuant to (a) above, the City has levied, and while any Parity Obligations or Junior Obligations remain Outstanding the City levies and covenants that it shall continue to levy, a Special Hotel Occupancy Tax on the cost of occupancy of any sleeping room furnished by any hotel within the corporate limits of the City, in which the cost of occupancy is $2.00 or more each day, at a rate of at least 2% of the consideration paid by the occupant of the sleeping room to the hotel, to finance or refinance the costs of the Convention Center/Waller Creek Venue Project, all to the extent authorized by V.T.C.A. Local Government Code, Chapter 334, particularly Subchapter H and an election held in the City on May 2, 1998. The City further covenants that it shall enforce the provisions of the Ordinance and Ordinance No. 980709-G, or any other ordinance levying a hotel occupancy tax, concerning the collection, remittance and payment of the Special Hotel Occupancy Tax.

Historical Hotel Occupancy Tax Receipts

Effective January 1, 1971, pursuant to state law and an implementing ordinance, the City began levying a tax upon the cost of occupancy of any Qualified Hotel Room. The City ordinance authorizing this tax also provides rules and regulations for collection, describes violations, requires reports and provides penalties for violations. The current tax is levied at a rate of at least 7% on the cost of occupancy of any Qualified Hotel Room to the hotel. An additional 2% tax is levied on the cost of occupancy of any Qualified Hotel Room to the hotel, and has been collected since August 1, 1998 as the Special Hotel Occupancy Tax.

	(In thousands)						
Fiscal Year Ended September 30	1st Quarter October -December	2nd Quarter January - March	3rd Quarter April - June	4th Quarter July - September	Total	Pledged Hotel Tax Revenue	Annual Increase/ (Decrease)
1995	$ 3,115	$ 2,870	$ 3,501	$ 3,622	$13,108	$ 8,447	14.90%
1996	3,494	3,203	3,763	3,756	14,216	9,167	8.45%
1997	3,537	3,353	3,860	4,447	15,197	9,783	6.90%
1998 (1)	4,539	4,284	4,936	5,030	18,789	12,107	23.64%
1999	5,612	5,552	6,375	7,048	24,587	17,613	30.86%
2000	6,637	6,264	7,573	8,258	28,732	20,758	16.86%
2001 (2)	7,595	7,670	8,043	7,809	31,117	22,488	8.30%
2002	5,832	5,355	6,350	7,212	24,749	17,881	-20.46%
2003	5,766	5,874	7,045	6,793	25,478	18,422	2.95%
2004	6,136	5,413	6,537	7,268	25,354	18,328	-0.49%
2005	6,847	6,393	7,901	8,936	30,077	21,763	18.63%
2006	7,730	8,673	9,610	10,545	36,558	26,455	21.55%
2007	9,739	9,481	11,485	11,428	42,133	30,495	15.25%
2008	10,923	10,087	11,641	12,431	45,082	32,609	7.00%
2009	10,690	9,797	10,779	9,886	41,152	29,734	-8.72%
2010	9,177	9,013	10,832	10,639	39,661	28,669	-3.62%
2011	10,157	10,842	13,152	12,576	46,727	33,806	17.82%

(1) Includes Special Hotel Occupancy Tax. Tax levy increased from 7% to 9% effective August 1, 1998, pursuant to Ordinance No. 980709-G, which amended Section 5-3-2(a) of Chapter 5-3 of Title V of the 1981 Code of the City of Austin. Additional 2% tax represents the Special Hotel Occupancy Tax and is currently pledged to the Refunded Obligations and will be pledged to the Bonds.

(2) Beginning in fiscal year 2001, the City implemented GASB Statement No. 33, which changes the method of reporting tax collections in the City's financial statements. This table will continue to be reported on a cash basis to provide a more meaningful comparison.

Source: City of Austin, Texas Convention Center.

Accounts

The Tax Account, the Debt Service Account and the Debt Service Reserve Account have been established within the Venue Project Fund maintained for the Convention Center/Waller Creek Venue Project. The City is permitted to create additional accounts or subaccounts provided such accounts or subaccounts are not inconsistent with the ordinance authorizing the issuance of the Previously Issued Bonds or the Ordinance.

Flow of Funds

(a) *Flow of Funds Regarding Pledged Hotel Occupancy Tax Revenues.* The City covenants and agrees that all Pledged Hotel Occupancy Tax Revenues shall be deposited as received into the Tax Fund. Money from time to time credited to the Tax Fund shall be applied as follows in the following order of priority:

First, to transfer all amounts to the Debt Service Fund required by the ordinance authorizing the issuance of the Prior Lien Bonds (in such relative order of priority as is required by the related ordinances).

Second, to transfer all amounts to the Debt Service Reserve Fund required by the ordinance authorizing the issuance of the Prior Lien Bonds (in such relative order of priority as is required by the related ordinances).

Third, to transfer to the Bond Fund all amounts necessary to provide for the payment of Parity Obligations.

Fourth, to transfer to the Reserve Fund the amounts required pursuant to Section 16 of the Ordinance.

Fifth, to the payment of all Junior Obligations secured under this Ordinance on a *pari passu* basis.

Sixth, for any lawful purpose under the Tax Act.

(b) *Flow of Funds Regarding Special Hotel Occupancy Tax.* The City covenants and agrees that all receipts and revenues collected and received by the City from the Special Hotel Occupancy Tax shall be deposited to the credit of the Venue Project Fund and more particularly to the credit of the Tax Account. Following the issuance of the Bonds and while Parity Obligations and Junior Obligations remain Outstanding, money from time to time credited to the Tax Account shall be applied as follows in the following order of priority:

First, to transfer all amounts to the Debt Service Account required by the ordinance authorizing the issuance of the Prior Lien Bonds (in such relative order of priority as is required by the related ordinances).

Second, to transfer all amounts to the Debt Service Reserve Account required by the ordinance authorizing the issuance of the Prior Lien Bonds (in such relative order of priority as is required by the related ordinances).

Third, to transfer to the Bond Fund all amounts necessary to provide for the payment of the Parity Bonds and Parity Obligations related to the Bonds.

Fourth, to transfer to the Reserve Fund the amounts required pursuant to Section 16 of the Ordinance.

Fifth, to the payment of all Junior Obligations related to the Parity Bonds related to the Bonds secured hereunder on a *pari passu* basis.

Sixth, to pay the costs of operating or maintaining the Convention Center/Waller Creek Venue Project.

Bond Fund

Subject to satisfying the required payments for the benefit of the Prior Lien Bonds in accordance with the ordinance authorizing their issuance, before each Interest Payment Date, stated maturity date and mandatory redemption date for the Parity Bonds (and before the dates payments are due on other Parity Obligations) the City shall cause to be deposited into the Bond Fund, which is to be an Eligible Account held for the benefit of the Parity Obligations, from the Pledged Revenues, an amount equal to one hundred percent (100%) of the amount required to fully pay the amount then due and payable on the Parity Obligations, and such deposits shall be made in substantially equal quarterly installments (based on the total annual Debt Service Requirements to be paid on the Parity Obligations divided by the number of Transfer Dates to occur during the period covered by such calculation) on or before each Transfer Date, beginning on the first Transfer Date to occur after the delivery of the Bonds.

In addition, on each Transfer Date, the City shall cause to be deposited into the Bond Fund from the Pledged Revenues an amount calculated to pay all expenses of providing for the full and timely payment of the principal of, premium, if any, and interest on the Parity Bonds in accordance with their terms, including without limitation, all fees charged or incurred for paying agent/registrar services rendered in connection with the Parity Bonds.

Money credited to the Bond Fund shall be used solely for the purpose of paying on a *pari passu* basis (except as otherwise provided) principal (at maturity or prior redemption or to purchase Parity Bonds issued as term bonds in the open market to be credited against mandatory redemption requirements), interest and redemption premiums on Parity Bonds and all other amounts due on other Parity Obligations, plus all other charges, costs and expenses relating to such payment, including those described in the preceding paragraph. On the Business Day immediately preceding each payment due date for the Parity Obligations, the City shall transfer from the Bond Fund and Reserve Fund, if necessary, to the appropriate paying agent/registrar amounts equal to the amounts due on the Parity Obligations on such date.

The City may establish and utilize such accounts within the Bond Fund as it may, from time to time, deem appropriate.

Reserve Fund

(a) The Reserve Fund has been established for the benefit of the Parity Bonds. The City shall establish and maintain a balance in the Reserve Fund equal to the Reserve Fund Requirement. The Reserve Fund Requirement may be funded by a Reserve Fund Surety Bond issued by an insurance company or other entity that maintains ratings (either for the long term unsecured debt of the issuer of such Reserve Fund Surety Bond or for obligations insured, secured or guaranteed by such issuer) in the highest letter category by two major municipal securities credit rating services.

(b) In accordance with the provisions of the ordinance authorizing the issuance of the Previously Issued Bonds, there is currently on deposit in the Reserve Fund the sum of $8,497,516 (the "Current Reserve Amount"). By reason of the issuance of the Bonds, the total amount to be accumulated and maintained as the Reserve Fund Requirement has been determined to be $10,263,016. The difference between the Reserve Fund Requirement and the Current Reserve Amount will be funded in full on the date of the delivery of the Bonds with proceeds of sale of the Bonds. See "SOURCES AND USES OF FUNDS".

(c) At such time as the Previously Issued Bonds are no longer outstanding, paragraph (a) above shall be amended to read as follows:

> (a) The Reserve Fund has been established for the benefit of the Parity Bonds. The City shall establish and maintain a balance in the Reserve Fund equal to the Reserve Fund Requirement. The Reserve Fund Requirement may be funded by a Reserve Fund Surety Bond issued by an insurance company or other entity that on the date of purchase is rated (either for the long term unsecured debt of the issuer of such Reserve Fund Surety Bond or for obligations insured, secured or guaranteed by such issuer) in either of the two highest letter categories by two major municipal securities credit rating services.

(d) In any Transfer Period in which the Reserve Fund contains less than the Reserve Fund Requirement or in which the City is obligated to repay or reimburse any issuer of a Reserve Fund Surety Bond (in the event such Reserve Fund Surety Bond is drawn upon), then after making all required transfers to the Bond Fund, there shall be transferred into the Reserve Fund from the available Pledged Revenues on each Transfer Date such amounts as shall be necessary to reestablish the Reserve Fund Requirement and satisfy any repayment obligations to the issuer of any Reserve Fund Surety Bond. After such amount has been accumulated in the Reserve Fund and after satisfying any repayment obligation to any Reserve Fund Surety Bond issuer and so long thereafter as such fund contains such amount and all such repayment obligations have been satisfied, no further transfers shall be required to be made, and any excess amounts in such fund may be transferred to the Bond Fund. But if and whenever the balance in the Reserve Fund is reduced below the Reserve Fund Requirement or any Reserve Fund Surety Bond repayment obligations arise, transfers to the Reserve Fund shall be resumed and continued in the manner stated above to restore the Reserve Fund Requirement and to pay such reimbursement obligations.

(e) The Reserve Fund shall be used to pay the principal of and interest on the Parity Bonds at any time when there is not sufficient money available in the Bond Fund for such purpose and to make any payments required to satisfy repayment obligations to issuers of Reserve Fund Surety Bonds, and may also be used to make the final payments for the retirement or defeasance of the Parity Bonds.

(f) If an Authorized Official determines that doing so would be in the best interest of the City, the Reserve Fund Requirement may be funded wholly or partly by a Reserve Fund Surety Bond selected by an Authorized Official (the "Surety Bond Issuer"). An Authorized Official may approve the terms and form of the Reserve Fund Surety Bond and of a guaranty or other agreement pursuant to which the City is obligated to pay premiums, fees, and reimbursement obligations owing to the Surety Bond Issuer (a "Guaranty Agreement"). In connection with a Reserve Fund Surety Bond and any Additional Bonds that are Parity Bonds, the City, the Paying Agent/Registrar and the Surety Bond Issuer may approve procedures providing for a reasonable allocation among Reserve Fund Surety Bonds and funds held in the Reserve Fund to make payments on Parity Bonds and to provide for repayments to Surety Bond Issuers.

Investment of Funds; Transfer of Investment Income

Money in all funds shall, at the option of the City, be invested in the manner provided by Texas law; except all such deposits and investments shall be made in such manner that the money required to be expended from any fund will be available at the proper time or times. All such investments shall be valued no less frequently than the last business day of the City's Fiscal Year at market value, except that any direct obligations of the United States of America - State and Local Government Series shall be continuously valued at par value or principal face amount. For purposes of maximizing investment returns, money in such funds may be invested, together with money in other funds or with other money of the City, in common investments or in a common pool of such investments maintained by the City at an official depository of the City or in any fund or investment vehicle permitted by Texas law, which shall not be considered to be a loss of the segregation of such money or funds if safekeeping receipts, certificates of participation or other documents clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such funds are held by or on behalf of each such fund. If and to the extent necessary, such investments or participations therein shall be promptly sold to prevent any default.

All interest and income derived from deposits and investments credited to the Bond Fund and the Reserve Fund shall remain a part of the fund from which such investment was made and such interest and income shall reduce by like amount any required transfer to such funds from the Pledged Revenues provided that at any time when the Debt Service Reserve Account has on deposit an amount less than the Reserve Fund Requirement, all interest and income on such fund shall be deposited to the credit of the Bond Fund.

Any interest and income derived from deposits and investments of any amounts credited to any fund or account may be (1) transferred into any rebate account or subaccount and (2) paid to the federal government if in the opinion of nationally recognized bond counsel such payment is required to comply with any covenant contained in any order, resolution or ordinance to prevent interest on any Parity Bonds from being includable within the gross income of the owners thereof for federal income tax purposes.

Additional Bonds

(a) *No Prior Lien Bonds*. The City covenants that it will not issue any additional bonds or other obligations payable from and secured by a lien on and pledge of the Pledged Revenues that is senior to the lien securing the Parity Obligations.

(b) *Refunding Bonds*. The City expressly reserves the right to issue refunding bonds to refund all or a portion of the

Parity Bonds or refunding bonds previously issued to refund Parity Bonds. Such refunding bonds may be secured by a lien on Pledged Revenues on a parity with or subordinate to the lien securing the Parity Bonds.

(c) *Other Additional Bonds.*

(1) In regard to the Pledged Revenues, the City reserves and retains the right to issue or incur additional obligations secured wholly or partly by a parity lien on such Pledged Revenues or by a lien junior and subordinate to the lien on such Pledged Revenues securing payment of the Parity Bonds; provided, however, that no such Parity Bonds or Junior Subordinate Lien Bonds shall be issued unless the following conditions are satisfied:

(i) the City's Chief Financial Officer (or other officer of the City having primary responsibility for the financial affairs of the City) shall provide a certificate showing that, for the City's most recently completed Fiscal Year or for any consecutive 12-month period out of the most recent 18 months preceding the month the ordinance authorizing the issuance of the Parity Bonds or Junior Subordinate Lien Bonds is adopted (the "Coverage Period"), (A) the Pledged Hotel Occupancy Tax Revenues for the Coverage Period are equal to at least 130% of the maximum annual Debt Service Requirement of all Prior Lien Bonds and Parity Bonds then Outstanding scheduled to occur in the then current or any future Fiscal Year after taking into consideration the issuance of the Parity Bonds, if any, proposed to be issued, and deducting from the maximum annual Debt Service Requirement for such Prior Lien Bonds and Parity Bonds an amount equal to the revenues received from the Special Hotel Occupancy Tax for the Coverage Period and (B) the "Net Pledged Hotel Occupancy Tax Revenues" for the Coverage Period (i.e., the Pledged Hotel Occupancy Tax Revenues after deducting an amount equal to the maximum annual Debt Service Requirement applied in satisfying the coverage requirement in clause (A) above), together with any other revenues pledged wholly or partly to the payment of any Junior Subordinate Lien Bonds, are equal to at least 130% of the maximum annual Debt Service Requirement on all Junior Subordinate Lien Bonds then Outstanding and scheduled to occur in the then current or any future Fiscal Year after giving effect to the issuance of the Junior Subordinate Lien Bonds then being issued, if any; provided, however, at such time as the Prior Lien Bonds are no longer Outstanding, the coverage requirement in clause (A) above shall be reduced to 125% and the coverage requirement of clause (B) shall be reduced to 100%; and

(ii) provision is made in the ordinance authorizing issuance of the Parity Bonds or Junior Subordinate Lien Bonds, as the case may be, for the complete funding of any required reserves for payment of principal of and interest on such Parity Bonds or Junior Subordinate Lien Bonds as of the initial delivery thereof.

(2) Among the future obligations authorized to be issued or incurred pursuant to the Ordinance are Credit Agreements. The City may enter into such a Credit Agreement payable from and secured wholly or partly by a lien on Pledged Revenues if it obtains either (i) the consent from any Credit Facility Provider issuing a Credit Facility (as such terms are defined in the ordinance authorizing the Previously Issued Bonds) in support of the Bonds or (ii) written confirmation from each Rating Agency then rating the Parity Bonds at the request of the City that issuance of the Credit Agreement will not cause a withdrawal or reduction in the rating assigned to the Bonds; provided, however, that such consent in clause (i) and confirmation in clause (ii) above is not required for Interest Rate Management Agreements. The City may secure its obligations under a future Credit Agreement by a lien on Pledged Revenues if such lien is on a parity with or subordinate to the lien securing the Parity Bonds.

(3) If the City issues Variable Rate Obligations, it shall use the following procedures for purposes of determining the maximum and the average annual Debt Service Requirements of Variable Rate Obligations:

(i) At the sole discretion of the City, such Variable Rate Obligations shall be deemed to bear interest at one of the following rates: (A) an interest rate equal to the average rate borne by such obligations (or by comparable debt if such obligations have not been outstanding during the preceding 24 months) for any 24 month period ending within 30 days before the date of calculation; (B) if the City has entered into a related Credit Agreement in the nature of an Interest Rate Management Agreement, the rate payable by the City under such Credit Agreement; or (C) an interest rate equal to the 30 Year Tax-Exempt Revenue Bond Index rate as published in *The Bond Buyer* on any date selected by the City within 30 days before the date of calculation. If such index is no longer published in *The Bond Buyer*, an index of tax-exempt revenue bonds with maturities of 20 years, or more, published in a financial newspaper or journal with national circulation may be selected by the City and used for this purpose.

(ii) If the City has entered into a Credit Agreement in connection with an issue of obligations payable from and secured by Pledged Revenues and if Clause B of paragraph (c)(1)(i) above does not apply, (X) payments due under the Credit Agreement, from either the City or the other party to the Credit Agreement, shall be included in such calculation except to the extent that the payments are already taken into account in the debt service calculation, (Y) any payments that would otherwise be included under the debt service calculation which are to be replaced by payments under a Credit Agreement from either the City or the other party to the Credit Agreement shall be excluded from such calculation, and (Z) payments due under a Credit Agreement that are paid at a variable rate shall be deemed to be made at a fixed rate determined in a manner consistent with clause A of paragraph (c)(1)(i) above. For any calculation of historic data, only those payments actually made in the subject period shall be taken into account in making such calculation and for prospective calculations, only those payments reasonably expected to be made in the subject period shall be taken into account in making the calculation.

(4) If the City has entered into a Credit Agreement to discharge or purchase any of its obligations payable from or secured by Pledged Revenues under arrangements whereby the City's obligation to repay the amounts advanced under the Credit Agreement for the discharge or purchase is payable over more than one year from the advance under the Credit Agreement, then the portion of the obligations committed to be discharged or purchased pursuant to the Credit Agreement shall be excluded from any calculation of debt service requirements, and the principal of and interest requirements that constitute the City's reimbursement obligation shall be added.

(5) In determining the Pledged Hotel Occupancy Tax Revenues available to satisfy the coverage requirements of condition (c)(1) above, the City may take into consideration an increase in the portion of the Pledged Hotel Occupancy Tax Revenues that became effective during the Coverage Period and, for purposes of satisfying the above coverage tests, make a pro forma determination of the Pledged Hotel Occupancy Tax Revenues for the Coverage Period based on such increased portion of the Pledged Hotel Occupancy Tax Revenues being in effect for the entire Coverage Period.

(6) Any Additional Bonds may bear any name or designation provided by the ordinance authorizing their issuance and be issued in such form and manner as may be authorized by law. Furthermore, any such bonds may be secured by any other source of payment lawfully available for such purposes, including a Credit Agreement, financial guaranty insurance policy or similar credit or liquidity support. Any Reimbursement Obligation or obligation under a Credit Agreement may be secured by Pledged Revenues on a basis pari passu with the Parity Bonds or Junior Subordinate Lien Bonds.

MARKET FACTORS AND HOTEL OCCUPANCY TAXES

The generation of revenues from Hotel Occupancy Taxes is subject to a variety of factors, none of which are within the City's control. Collections can be adversely affected by (a) changes in State law and administrative practices governing the remittance and allocation of Hotel Occupancy Tax receipts and (b) changes in economic activity and conditions within the City and general geographic area. The amount of Hotel Occupancy Tax Revenue received by the City is dependent upon people visiting the City and staying in hotels and motels. Many factors may affect the City's collection of these revenues, including (but not limited to) fuel prices, general costs of living, employment levels of employers within and outside the City, discretionary spending on items that would produce Hotel Occupancy Tax Revenue, and the overall impact of the economy to individuals that would otherwise be contributing to the Hotel Occupancy Tax base. The City is unable to predict what impact economic conditions such as these may have on its continued collection of Hotel Occupancy Tax Revenue.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as APPENDIX F to this Official Statement.

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

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. ("Holdings"). Holdings is an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

AGM's financial strength is rated "AA-" (stable outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "Aa3" (negative outlook) by Moody's Investors Service, Inc. ("Moody's"). An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On November 30, 2011, S&P published a Research Update in which it downgraded AGM's financial strength rating from "AA+" to "AA-". At the same time, S&P removed the financial strength rating from CreditWatch negative and changed the outlook to stable. AGM can give no assurance as to any further ratings action that S&P may take. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P's comments.

The most recent rating action by Moody's on AGM took place on December 18, 2009, when Moody's issued a press release stating that it had affirmed the "Aa3" insurance financial strength rating of AGM, with a negative outlook. Reference is made to the press release, a copy of which is available at www.moodys.com, for the complete text of Moody's comments. Moody's is in the process of reviewing AGL and its subsidiaries and there can be no assurance as to any ratings action that Moody's may take with respect to AGM.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Capitalization of AGM

At December 31, 2011, AGM's consolidated policyholders' surplus and contingency reserves were approximately $3,107,919,136 and its total net unearned premium reserve was approximately $2,171,861,791, in each case, in accordance with statutory accounting principles.

AGM's statutory financial statements for the fiscal year ended December 31, 2011, which have been filed with the New York State Department of Financial Services and posted on AGL's website at http://www.assuredguaranty.com, are incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Incorporation of Certain Documents by Reference

Portions of the following document filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof: the Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (filed by AGL with the SEC on February 29, 2012).

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at http://www.sec.gov, at AGL's website at http://www.assuredguaranty.com, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AGM or one of its affiliates may purchase a portion of the Bonds offered under this Official Statement and may hold such Bonds for investment or may sell or otherwise dispose of such Bonds at any time or from time to time.

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

BOND INSURANCE RISK FACTORS

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the Policy for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the issuer which is recovered by the issuer from the bond owner as a voidable preference under applicable bankruptcy law is covered by the Policy, however, such payments will be made by AGM at such time and in such amounts as would have been due absence such prepayment by the City unless AGM chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of AGM without appropriate consent. AGM may direct and must consent to any remedies and AGM's consent may be required in connection with amendments to any applicable bond documents.

In the event AGM is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the moneys received pursuant to the applicable bond documents. In the event AGM becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

The long-term ratings on the Bonds are dependent in part on the financial strength of AGM and its claims paying ability. AGM's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of AGM and of the ratings on the Bonds insured by AGM will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See "OTHER RELEVANT INFORMATION – RATINGS" herein.

The obligations of AGM are contractual obligations and in an event of default by AGM, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies.

Neither the City nor the Underwriters have made independent investigation into the claims-paying ability of AGM and no assurance or representation regarding the financial strength or projected financial strength of AGM is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the City to pay principal and interest on the Bonds and the claims-paying ability of AGM, particularly over the life of the investment. See "BOND INSURANCE" herein for further information provided by AGM and the Policy, which includes further instructions for obtaining current financial information concerning AGM.

THE CONVENTION CENTER AND VENUE PROJECT

The Convention Center is located at 500 East Caesar Chavez Street on six city blocks on the east side of the City's central business district. The construction of the Austin Convention Center commenced in late 1989 and the Convention Center opened for business in July 1992. In June 1992 the City acquired a 10-story, 1,100 space parking garage as a part of the Austin Convention Center located at 201 East 2nd Street, approximately two blocks from the Austin Convention Center. An expansion of the Convention Center was completed in June of 2002 that approximately doubled the size of the facility. Five exhibit halls, two ballrooms, fifty-four meeting rooms and show offices are contained in the Austin Convention Center's 881,400 square feet of enclosed space. In 2005, the Convention Center Department constructed a 685 space parking garage located at 601 East 5th Street. The City has entered into a management contract with Aramark Sports and Entertainment Services of Texas, Inc. to provide catering and beverage services at the Austin Convention Center that expires September 30, 2012. In addition, the City owns and operates the new Palmer Events Center and parking garage as a part of the City's Convention Center Department. The Palmer Events Center and parking garage are located at 900 Barton Springs Road next to Lady Bird Lake (formerly Town Lake) and are utilized for arts and craft shows, concerts, trade shows and small conventions. The Palmer Events Center has approximately 70,000 square feet of exhibit space and five meeting rooms. The parking garage has 1,200 parking spaces. On January 5, 2004, a new Hilton Hotel adjacent to the Convention Center opened for business. This hotel is owned by Austin Convention Enterprises, Inc., a non-profit public facilities corporation created by the City to act on its behalf in connection with the development of such hotel.

The Convention Center is operated by the City as a City Department and a separate enterprise fund of the City. The Convention Center Department was created by the City Council in 1989 and initially included the Austin Convention and Visitor's Bureau, which is now a separate non-profit corporation. In January 2008, the City of Austin named Mark Tester as the new director for the Austin Convention Center Department. Mr. Tester's previous position was senior director of convention sales at Chicago's McCormick Place, the largest convention center in the Western hemisphere. Mr. Tester has 20 years' experience in the meeting business industry. He was with the Chicago Convention and Tourism Bureau for ten years, holding several high-level positions, including vice president of convention sales and senior director of new business development.

The Waller Creek Flood Control Project

Project Description. The Waller Creek watershed is the most developed of the tributary watersheds of the Colorado River within the City. The lower Waller Creek traverses the downtown area. The 100-year floodplain of the lower Waller Creek is up to 800 feet wide and has restricted development. The City has long been interested in improving flood control and providing water quality enhancements to the lower Waller Creek watershed.

The City has conducted several flood management and water quality enhancement studies of the Waller Creek watershed. The reports indicated a stormwater bypass tunnel with surface-level structures and a recirculation system would meet the City's flood protection, environmental and cost objectives. More specifically, project objectives include flood-control, water quality enhancement, ease of operation and maintenance, and cost-effective and aesthetically pleasing above ground structures. A goal of the project was to provide for no out-of-bank flooding after tunnel construction. On May 2, 1998

Austin voters approved the project and its financing in conjunction with the expansion of the City's Convention Center through the imposition of an increase in the hotel occupancy tax rates to support bond issuance debt. A total of $25 million was authorized for the Waller Creek Flood Control project.

In May 1999, the City contracted with the joint venture of Brown & Root/Espey Padden to perform the preliminary engineering for the tunnel project. In January 2000, the joint venture provided estimated costs for the three tunnel versions of the proposed tunnel. All of the cost estimates substantially exceeded the $25 million in bonds that voters had authorized for the project. Two of the versions simply differed in size – one was a 15.5 foot diameter tunnel that would capture most of the flood water in Waller Creek and removed the 100-year floodplain from 98% of the property along the creek corridor. The other was a 22 foot diameter tunnel that would capture sufficient flood water to remove the 100-year floodplain from all the property along the creek corridor. Neither of these two options included capture of flood water draining into the creek from 12th Street to Lady Bird Lake, i.e., the water that would come in from the storm drain systems along the side streets perpendicular to the creek. The third version was a 22 foot diameter tunnel with intervening storm drain features to capture not only the water that would flow downstream to Waterloo Park, but also the water flowing into the creek from the roads between 12th Street and Lady Bird Lake. Only this version of the tunnel would allow the creek to maintain a maximum rise in the creek of approximately 4 feet, even in a 100-year flood event. This version would also support more development along the creek corridor.

In 2007, the City approved an ordinance creating Tax Increment Reinvestment Zone No. 17 to provide additional funding to construct this third version of the tunnel project. Over the 20-year life of the TIRZ, the City will dedicate 100% of its tax increment and Travis County, a partner in the TIRZ, would dedicate 50% of its tax increment. In 2008, the City approved the final project and financing plan for the TIRZ, which projected the cost of the tunnel project to be $136.8 million in year 2010 dollars based on a year 2006 project estimate of $127.55. In 2011, with most of the project design complete, the City updated the project and financing plan to reflect a year 2010 project cost of $140.3 million. Because the tunnel project will be bid and constructed over a four-year period, the 2010 estimate has been further inflated to account for staggered construction starts and anticipated cost of materials during the construction period. The financing plan includes a construction cost (at bid) of $146.5 million.

The project will consist of 5,600 feet of bypass tunnel ranging from 20.5 to 26.5 feet in diameter, a diversion structure, inlet and outlet structures and a recirculating pump system. Stormwater will be intercepted at Waterloo Park above 12th Street with discharge into Lady Bird Lake. The tunnel alignment will generally follow the path of Waller Creek and Sabine Street. At the completion of the project, the 100-year stormwater flow is to be contained within the existing creek channel downstream of the inlet structure with no more than a 4 to 5 foot rise in the creek during a 100-year flood event. Approximately 42 commercial and residential structures and 12 roadways currently subject to flooding will be afforded flood protection at the completion of the project. Downtown Austin land development opportunities will be available with the completion of the project by the elimination of overbank flooding, which currently is 300 to 800-feet wide. The project is phased with the main tunnel segment and inlet structure contracts currently in construction and the tunnel's outlet structure advertising for bids. With 75% of the capital construction value already bid, it is anticipated that the project costs will be within the financing plan budget.

The completed project will be operated and maintained by the Watershed Protection Department (the "Department") of the City. The Department is responsible for flood and erosion control and water quality enhancement in the City's 45 watersheds. The Department's operating units include Watershed Engineering and Field Operations, Environmental Resource Management, and Environmental Review and Inspection. The Watershed Engineering and Field Operations Division is responsible for the Department's flood and erosion control missions and provides for engineering and construction management of new drainage facilities and the maintenance and operation of the drainage infrastructure. The Watershed Engineering and Field Operations Division will operate and maintain the Waller Creek Flood Control improvements using its own staff, the staff of other City Departments and contract assistance, as necessary.

The project operation and maintenance will include periodic inspection, cleaning of the inlet and outlet grates, recirculation pump system maintenance, and periodic removal of sediment from the tunnel. After a major flood event, repair of the tunnel inlet grate or other features may be necessary.

Proceeds received by the City from its issuance of certificates of obligation in October 2011 will be used in part to finance costs of the project.

Project Engineer. The Kellogg Brown & Root Services, Inc. (KBR) / Espey Consultants, Inc. Joint Venture will provide planning, design, and construction management for the project. The Joint Venture combines both international expertise and local knowledge to provide the necessary engineering services.

KBR is one of the largest engineering and construction firms in the country. KBR brings significant facilities, tunneling and construction management experience internationally.

Espey Consultants, Inc. (RPS-Espey in October 2011) is a local civil engineering firm specializing in water resources engineering and urban stormwater management including drainage, flood control, and water quality.

The Joint Venture manages a team of more than thirty first and second tier subconsultants with key members including Jenny Engineering Corporation, Brown & Gay Engineers, Inc., CAS Consulting & Services, Inc., Graeber, Simmons & Cowan, Inc., Fugro Consultants, Inc., Encotech Engineering Consultants, Inc., Harutunian Engineering, Inc., MWM Design Group, and Alden Research Laboratory of Holden, Massachusetts.

THE CITY

Administration

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

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

City Manager – Marc A. Ott

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

Interim Chief Financial Officer – Elaine Hart, CPA

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

Services Provided by the City

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

Employees

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

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

Annexation Program

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

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

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

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

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

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

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

Calendar Year	Full Purpose Acres (1)	Limited Purpose Acres
2000	4,057	4,184
2001	3,908	15
2002	2,019	1,957
2003	3,253	0
2004	1,114	7,030
2005	1,914	1,234
2006	351	621
2007	2,466	1,266
2008	2,262	14
2009	295	984
2010	1,129	2,495
2011	728	0

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

Recent Annexation

The City annexed approximately 728 acres for full purposes in 2011. This included the remaining portions of the Ribelin Ranch Preserve, annexed for limited purposes in 2004, as well as residential, commercial, industrial, and warehouse areas, and undeveloped land. The populated area included approximately 74 residents.

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

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

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

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 extraterritorial jurisdiction were annexed. In total, 2,466 full purpose acres and $22 million in TAV were annexed in 2007.

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

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

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

Future Annexation

Due to reduced land development activity, fewer areas are scheduled to be annexed under this year's annual program. However, in the next several years, special districts are scheduled for annexation under proposed or approved agreements, as described below:

- Lost Creek MUD – commercial area was annexed in 2008 while annexation of the remaining residential property is scheduled to take place in 2015 under the terms of the SPA.
- River Place MUD – full purpose annexation is scheduled to take place in December 2017 in accordance with the terms of the SPA.

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 20.63% of payroll as of October 1, 2011. The Municipal employees contribute 8.0% and the City contributes 16.0% of payroll as of October 1, 2011. The Fire Fighters (who are not members of the Social Security System) contribute 15.7 % of payroll, and the City contributes 20.05% as of October 1, 2011.

The contributions to the pension funds are designed to fund current service costs and to amortize the unfunded actuarial accrued liability. As of December 31, 2010, the amortization period of the unfunded actuarial accrued liability for the Police Officer's Fund was 23.2 years and for the Municipal Employees Fund was 30 years. The Austin Fire Fighters' Relief and Retirement Funds was completed as of December 31, 2009 and the amortization period of the unfunded actuarial accrued liability was 30 years

The actuarial accrued liability for the City of Austin Employees' Retirement System (ERS) as of December 31, 2010 was $2,460,664,794 and the funded ratio was 69.6%. The actuarial accrued liability for the Police Officers' Fund as of December 31, 2010 was $776,231,027 and the funded ratio was 70.5%. The actuarial accrued liability for the Firefighters Pension Fund as of December 31, 2009, was $664,185,240 and the funded ratio was 88.7%.

As reported in the actuarial valuation of the Municipal Employees Fund prepared for the period ended

December 31 2010, current contributions to the Municipal Employees Fund are not sufficient to adequately fund the current benefit structure.

The funding objective of the plan is for the contribution rates to be sufficient to cover the normal cost of the plan and to amortize any unfunded actuarial accrued liabilities over a period not to exceed 30 years. The actuarial value of assets has been revised this year to "mark to market" where all prior deferred gains and losses have been recognized. As a result, the significant asset loss in 2008 has been fully recognized and the plan's contribution rate is still not sufficient to amortize the System's unfunded liabilities. Therefore, the funding objective is not currently being met.

In 2005, a Supplemental Funding Plan, SFP, was approved by the City Council to increase the City's annual contribution rate to a maximum of 12%. In 2010 the City of Austin adopted the Amended Supplemental Funding Plan ("ASFP"). The ASFP provides for a City contribution rate of up to a maximum of 10.0% above the base 8.0% rate. As of October 1, 2010, the City is contributing an additional 6.0% for a total contribution rate of 14.0%. Beginning October 1, 2011, the City increased its supplemental contribution rate by 2% to 8% for a total City contribution of 16%. The ASFP contribution rate will increase an additional 2% on October 1, 2012 to 10% for a total City contribution of 18%.

In addition to the ASFP, a new benefit tier for new employees hired on or after January 1, 2012, has been approved by the Municipal Employees Fund board of Trustees, the City Council, and the Texas Legislature. The new benefit tier increases the age and service criteria necessary to reach retirement eligibility. It also decreases the pension multiplier, which is used to determine the final pension amount paid to future retirees. These two actions are expected to substantially improve the long-term financial health of the Municipal Employees Fund over time.

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

Other Post-Employment Benefits

In addition to the contributions made to the three pension systems, the City provides certain other post-employment benefits ("OPEB") to its retirees. Other post-employment benefits include access to medical, dental, and vision insurance for the retiree and the retiree's family and $1,000 of life insurance on the retiree only. All retirees who are eligible to receive pension benefits under any of the City's three pension systems are eligible for other post-employments benefits. Retirees may also enroll eligible dependents under the medical, dental and vision plan(s) in which they participate. The City's other post-employment benefits plan is a single employer plan.

The City is under no obligation to pay any portion of the cost of other post-employment benefits for retirees or their dependents. Allocation of City funds to pay other post-employment benefits is determined on an annual basis by the City Council as part of the budget approval process on a pay-as-you-go basis.

The City recognizes the cost of providing these benefits as an expense and corresponding revenue in the Employee Benefits Fund; no separate plan report is available. The City pays actual claims for medical and 100% of the retiree's life insurance premium. Group dental and vision coverage is available to retirees and their eligible dependents. The retiree pays the full cost of the dental and vision premium.

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

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

Insurance

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

INVESTMENTS

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

Legal Investments

Under State 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 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 or the United States or their respective agencies and instrumentalities including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit meeting the requirements of the PFIA that are issued by an institution that has its main office or a branch office in the State 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 a combination of cash and obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State; (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 United States or state bank; (11) no-load money market mutual funds registered with and regulated by the SEC 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 SEC 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. The City also is authorized by the PFIA to invest its funds in certificates of deposit issued by one or more federally insured depository institutions, wherever located, in accordance with procedures set forth in the PFIA.

A political subdivision such as the City may enter into securities lending programs if (i) the value of securities loaned under the program are 100% collateralized, including accrued income, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; 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; that address the quality and capability of investment personnel; and that include procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the provisions of the PFIA. The policy includes a list of the type of authorized investments for City funds, maximum allowable stated maturity of any individual investment owned by the City 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 fund's investment. Each Investment Strategy Statement must describe the investment objectives for the particular fund using the following priorities: (1) understanding of the suitability of the investment to the financial requirements of the City, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

Additional Provisions

Under State 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

The City's investment policy does not address the City investing in brokered certificate of deposit programs as authorized by the PFIA. The City's investment policy permits investment in the eligible investments described under "Legal Investments" above, except brokered certificate of deposit programs, but the City may choose not to invest its funds in any eligible investment.

As of December 31, 2011, the City's investable funds were invested in the following categories.

Type of Investment	Percentage
U. S. Treasuries	3%
U. S. Agencies	53%
Municipal Bonds	1%
Local Government Investment Pools	39%
Money Market Funds	4%

The dollar weighted average maturity for the combined City investment portfolios is 397 days. The City prices the portfolios weekly utilizing a market pricing service.

TAX MATTERS

Tax Exemption

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

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

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

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

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

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

Tax Accounting Treatment of Discount and Premium on Certain Bonds

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

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

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

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

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

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the respective holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board ("MSRB") who will make such information available to the general public, without charge, through its Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

Annual Reports - The City will provide certain updated financial information and operating data to certain information vendors annually. The financial information and operating data to be updated will be the table regarding hotel occupancy tax collections (see "SECURITY FOR THE BONDS – Historical Hotel Occupancy Tax Receipts"). The City will update and provide this information as of the end of each fiscal year within six months after the end of each fiscal year. The City will provide the updated information to the MSRB.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the SEC as permitted by Rule 15c2-12 (the "Rule"), promulgated by the SEC. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by that time, the City will provide unaudited financial statements by the required time and audited financial statements will be provided when and if they become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

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

Notice of Certain Events - The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or paying agent/registrar or the change of name of a trustee or paying agent/registrar, if material. In addition, the City will notify the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data in accordance with their agreement described above under "Annual Reports."

For these purposes, any event described in (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the

United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

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

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

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

Compliance with Prior Undertakings - During the last five 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, in accordance with the Rule. Prior to this date the City had filed unaudited financial statements, in accordance with the Rule, pursuant to its continuing disclosure agreements.

OTHER RELEVANT INFORMATION

Ratings

The Bonds have received unenhanced ratings of "A1" by Moody's and "A" by S&P. The Bonds are expected to be rated "Aa3" (negative outlook) by Moody's and "AA-" (stable outlook) by S&P as a result of the Policy issued by AGM at the time of the delivery of the Bonds to the Underwriters (see "BOND INSURANCE"). An explanation of the significance of such ratings may be obtained from the organization furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by one or all of such rating companies, if in the judgment of one or more companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. Public Financial Management, Inc. ("PFM"), the City's financial advisor, will not undertake any responsibility to notify bondholders of any such revisions or withdrawals of rating.

Registration and Qualification of Bonds

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

Legal Investments and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the PFIA requires that the Bonds be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency. See "OTHER RELEVANT INFORMATION - Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

Legal Opinions

The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding special obligations of the City in accordance with their terms payable solely from Pledged Revenues in the manner provided in the Ordinance and the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds 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 on corporations. The form of Bond Counsel's opinion is attached hereto as APPENDIX D. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in their capacity as Bond Counsel, such firm has reviewed the information in the Official Statement under the captions "PLAN OF FINANCING," "DESCRIPTION OF THE BONDS" (except for the information under the subheading "Bondholders' Remedies"), "SECURITY FOR THE BONDS" (except for the information under the subheading "Historical Hotel Occupancy Receipts"), "TAX MATTERS," "CONTINUING DISCLOSURE OF INFORMATION" (except for the information under the subheading "Compliance with Prior Undertakings"), "OTHER RELEVANT INFORMATION – Registration and Qualification of Bonds," "OTHER RELEVANT INFORMATION - Legal Investments and Eligibility to Secure Public Funds in Texas" and "OTHER RELEVANT INFORMATION - Legal Opinions," and in "APPENDIX C," "APPENDIX D" and "APPENDIX E" to verify that the information relating to the Bonds and Ordinance contained under such captions and in APPENDIX C in all respects accurately and fairly reflect the provisions thereof and, insofar as such information relates to matters of law, is true and accurate. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the delivery of the Bonds. The opinion of Bond Counsel will accompany the global certificates deposited with DTC in connection with the use of the Book-Entry-Only System. Certain legal matters will be passed on for the Underwriters by their counsel, Haynes and Boone LLP. The fee to be paid to the counsel for the Underwriters is contingent on the delivery of the Bonds.

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

Financial Advisor

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

Independent Auditors

The financial data as of and for the 12 months ended September 30, 2011 herein has been derived from the unaudited internal records of the City. The City's independent auditors have not reviewed, examined, or performed any procedures with respect to the unaudited financial information, nor have they expressed any opinion or any other form of assurance on such information, and assume no responsibility for, and disclaim any association with the unaudited financial information. The unaudited information is preliminary and is subject to change as a result of the audit and may differ from the audited financial statements when they are released.

The financial statements of the City as of and for the year ended September 30, 2010, included in APPENDIX B to this Official Statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report dated March 30, 2011, appearing herein. That report includes an explanatory paragraph for the implementation of a new accounting principle.

Underwriting

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the City at a price equal to the initial offering prices to the public, as shown on the inside cover page of this Official Statement, less an underwriting discount of $97,133.58. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

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

Forward-Looking Statements

The statements contained in this Official Statement and in any other information provided by the City that are not purely historical are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. It is important to note that the City's actual results could differ materially from those in such forward-looking statements.

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

Verification of Arithmetical and Mathematical Calculations

The Arbitrage Group, Inc. (the "Verification Agent"), a firm of independent certified public accountants, upon delivery of the Bonds, will deliver to the City its report indicating that they have examined the mathematical accuracy of computations prepared by PFM relating to the sufficiency of the proceeds of the Bonds and the City contribution deposited to the credit of the Escrow Fund to effect the defeasance of the Refunded Obligations.

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

Miscellaneous Information

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

The City approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the offering of the Bonds by the Underwriters.

/s/Lee Leffingwell
Mayor
City of Austin, Texas

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

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

The following information has been presented for informational purposes only.

General Information

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

Austin, the capital of Texas, is the fourth largest city in the State (behind Houston, Dallas, and San Antonio), with an estimated population of more than 778,000 in 2010. Over the past ten years, Austin's population has increased by approximately 117,000 residents, or 17.7 percent. Geographically, Austin consists of approximately 306 square miles. The current estimated median household income and per capita income for the City is $48,460 and $35,798, respectively.

Austin is nationally recognized as a great place to live due in part to its diverse and eclectic population, as well as its promotion of a year-round outdoor active lifestyle. Austin 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.

During 2010, Austin was ranked as the number one place in the United States in which to open a small business by Portfolio.com. Approximately 94 percent of small businesses located in Austin employ 50 or fewer employees, which is much larger than the national average of 86 percent. According to Portfolio.com, Austin's 19.5 percent population growth between 2003 and 2008 attributed to the region's ability to weather the recent national economic downturn. The number of small business started between 2006 and 2007 outpaced other metropolitan areas with a 5.6 percent increase.

Forbes.com ranked Austin first on its list of America's Best Cities for Young Adults, citing Austin's bustling tech community and trendsetting music scene as contributing factors. The criteria for a great city included assessment of job markets, average salaries for college-educated adults ages 20 – 29, cost of maintaining a household, median age, and evaluation of nightlife opportunities. Forbes.com also recognized Austin as being one of "America's Most Innovative Cities," stating that Austin's culture of innovation may be boosted by well-known tech credentials like the South by Southwest Web startup and music festival held annually in March, as well as the nearby headquarters of hardware industry giants Dell and Freescale Semiconductor. The article also cited the University of Texas's Cockrell School of Engineering and IBM's Austin research lab as being contributors to Austin's innovation arsenal. Austin also ranked in the top 10 "Best Places for Military Retirement" in a first-of-its-kind ranking by USAA, a leading financial services provider focused on serving the military, and Military.com, the country's largest military and veteran membership organization.

In April 2009, the Austin Water Utility received the Directors Award from the Partnership for Safe Water for its ongoing safe water practices of both water treatment plant facilities. The Partnership for Safe Water is a national volunteer initiative developed by the United States Environmental Protection Agency and other water organizations representing water suppliers striving to provide their communities with drinking water quality that surpasses the required federal standards. Participation in the program includes a rigorous review of water treatment practices developed by national experts, and also includes a four-step self-assessment and peer-review process. The Albert H. Ullrich Water Treatment Plant has maintained the Directors Award for ten years, an honor achieved by only 16 other water utilities across the country. The Albert R. Davis Water Treatment Plant has maintained the Directors Award for five years, an honor achieved by only 148 other water utilities across the country. Maintaining Directors Award status for both Austin water treatment plants demonstrates its philosophy of constant vigilance to improve water quality for the citizens of Austin.

The City of Austin is fortunate to offer a broad range of educational opportunities for those individuals with a desire to learn. Austin is a highly educated city, with approximately 43.5 percent of adults twenty-five years or older holding a bachelor's or advanced degree, compared to 27.5 percent for the U.S. as a whole. With its seven institutions of higher learning and more than 136,000 students, education is a significant aspect of life in the Austin area. The University of

Texas at Austin ("UT"), the fifth largest public university in the nation, is known as a world-class center of education and research and was nationally ranked 13th among public universities in 2010 by US News and World Report. As of 2010, US News and World Report ranked 43 UT graduate programs and specialties in the top 10 nationally, and 53 others ranked in the top 25.

Recent Economic Performance

During 2010, Austin's economy was able to sustain and build upon the improvement that began in 2009. Newsweek compiled a list of the 10 American cities best situated for economic recovery and according to the article, "For sheer economic promise, no place beats Texas." Austin boasted the strongest job growth in Newsweek's Top 10, both last year and over the decade. Newsweek noted Austin's private sector growth, both from an expanding roster of homegrown firms and outside companies, including an increasing array of multinational firms such as Samsung, Nokia, Siemens, and Fujitsu. In May 2010, Kiplinger's Personal Finance magazine named Austin the "Best City for the Next Decade" because of the City's innovative and dynamic thinking that leads to job creation. In picking the top cities, Kiplinger's looked for livability and a good business environment for entrepreneurs and job seekers.

The 2010 Milken Institute Best-Performing Cities Index ranks U.S. metropolitan areas by how well they are creating and sustaining jobs and economic growth. The components include job, wage and salary, and technology growth. Five of the top ten metropolitan areas on the list were located in the State of Texas. Austin ranked second in 2010, behind the first place Metropolitan Statistical Area (MSA) of Killeen-Temple-Fort Hood, Texas. Austin previously ranked first in both 2000 and 2009, the first metropolitan area to ever be ranked number one twice on the index.

The Texas economy outperformed the U.S. economy during 2011. According to the *Monthly Review of the Texas Economy* report for January 2012 published by The Real Estate Center at Texas A&M University, the U.S. employment growth rate was 1.3 percent from December 2010 to December 2011, while Texas experienced 2.0 percent employment growth during the same period. The same report indicates the annual employment growth rate for the Austin-Round Rock metropolitan area from December 2010 to December 2011 as eleventh in the State of Texas at 2.1 percent. According to the Bureau of Labor Statistics, Texas experienced a decrease in the unemployment rate during the same time period, to 7.2 percent, while the U.S. rate in 2010 was 8.0 percent. The *Southwest Economy*, published by the Federal Reserve Bank of Dallas, attributes the performance of the Texas economy compared to the rest of the nation to Texas' business-friendly environment which helped keep alive firms that might have succumbed to the recession elsewhere, a slower than the national average in state spending, high energy prices and Texas' reliance on sales taxes rather than income taxes. *Southwest Economy* states that income is impacted greater than consumption during economic downturns because people try to maintain their living standards while enduring temporary wage cuts or unemployment spells. So income tax revenue tends to fall further than sales tax revenue during recessions, leaving income-tax-reliant states facing deeper shortfalls.

The national economy continued a very slow recovery process this year from the recession that began in December 2007. The recession was caused by a combination of the housing market collapse, credit crunch and financial turmoil. The Bureau of Labor Statistics reports that the national unemployment rate fluctuated between 9.4 and 9.8 percent during the year, ending the year at 9.4 percent. The Texas Consumer Price Index ("CPI-U"), as reported by the Texas Comptroller, shows a slight increase of 3.8 percent from May 2010 to 2011, which compares to the increase of 3.6 percent for the same period at the national level, as reported by the U.S. Department of Labor. For the year ending December 31, 2010, the national economy experienced a 1.6 percent increase, with a sharp rise in the index for fuel oil being the largest contributor to this increase.

Home sales are an important indicator of the local and national economy. Data compiled by the Real Estate Research Center at Texas A&M shows Austin home sales increased 7 percent in 2011 with an ending inventory of 5.8 months compared to a 4.2 percent decline in 2010, with an ending inventory of 6.6 months. Texas sales also showed improvement during 2011. Annual home sales increased 1 percent in 2011 with an ending inventory of 7.4 months compared to a 4.6 percent decline in 2010 with an ending inventory of 7.4 months.

Economic Outlook

The U.S. economy continued to face challenges in 2011, with unemployment at 8.5 percent. The Federal Reserve predicted that the pace of recovery would be slow in 2011 and will gain momentum in 2012. One of the region's leading economists, Angelos Angelou stated in his 2010-2011 Economic Address that the significant job losses realized during 2009 could take 6 – 8 years to recoup. The Texas economy, the world's 11th largest economy, supported by sector-diversity in Houston, Dallas-Ft. Worth, San Antonio and Austin, continued to outperform the U.S. economy in 2011.

The Texas Comptroller's Office reports that despite the state's economy contracting in 2009, Texas' relative economic advantage should continue as the state and U.S. economies turn around and expand again in 2010. The Comptroller's Office estimates that the Texas' Gross State Product will grow by 2.6 percent during 2010 and the U.S. economy should grow at a slower rate of 2.0 percent during the year.

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. The City's budget approach emphasizes fiscal responsibility by limiting spending in a given year to projected revenue collections. S&P recognized Austin's sound financial management when the rating agency upgraded the City's general obligation bond rating to "AAA" status in January 2008 and reaffirmed Austin's "AAA" long-term rating for the City's 2011 public improvement bonds offered to sale this past August. Standard and Poor's upgraded the Austin Water Utility's bond rating two levels from "A+" to "AA" in December 2008.

The 2011-12 Budget was developed in a manner true to the City's unwavering commitment to openness, transparency, and public engagement. Input was gathered and evaluated to address the many issues, concerns, and priorities identified by Austin's citizens, employees, and Council Members. Coupled with ongoing development of strategic plans – Imagine Austin Comprehensive Plan, Strategic Mobility Plan, Solid Waste Services Master Plan, and the City-wide Strategic Facility Assessment and Roadmap – the blueprint for a strong and vibrant Austin for decades to come is created. The FY 2011-12 Budget for the General Fund totals $690.2 million and provides funding for basic municipal services, such as public safety, health and human services, parks and recreation, and the City's library system. This figure represents an increase of $38.3 million from the FY 2010-11 Amended Budget. The increased revenue primarily results from a 2.52 cent increase in the overall tax rate, set at 48.23 cents per $100 of assessed property valuation, and projected growth in sales tax revenue. The General Fund maintains three reserve funds: a contingency reserve, an emergency reserve and a budget stabilization reserve. This Budget maintains the contingency reserve at 1% of departmental expenditures, or $6.5 million. The emergency reserve remains fixed with a balance of $40 million. A third General Fund reserve is the budget stabilization reserve, projected at $36.2 million at the end of FY 2011-12.

Austin includes several enterprise activities, including a municipally-owned electric utility, water/wastewater utility, airport, and other miscellaneous operations. The City's largest enterprise department, Austin Energy, serves more than 400,000 customers with a service territory of approximately 437 square miles and an approved budget for Fiscal Year 2011-12 of $1.14 billion in annual revenue and $1.21 billion in requirements. The FY 2011-12 Budget supports Austin Energy's efforts to face its challenges and continue to deliver clean, affordable, reliable energy and excellent customer service. Austin Energy has continued efforts to manage costs in order to keep rates affordable and mitigate budget shortfalls. Cost controls alone have not been sufficient to achieve structural balance of the Austin Energy budget, indicating the need for a rate review. Austin Energy's customers have benefited from seventeen years of stable electric rates with base electric rates (excludes fuel) unchanged since 1994. A rate review is currently underway. The FY 2011-12 Budget does not include additional revenue from this planned rate increase as the final analysis, rate design and revenue estimates are still being developed. A rate structure will be developed that keeps rates affordable and Austin Energy financially sound. Austin Energy's capital improvement spending plan of $220.4 million includes significant projects such as the System Control Center, Holly Power Plant decommissioning, Customer Information Billing System replacement, new substations (Mueller, Dunlap, Elroy) and various generation unit improvements.

The City's enterprise activities also include the Austin Water Utility, which provides water and wastewater services to more than 212,000 customers within Austin and surrounding areas. Revenue from the sale of water, wastewater, and reclaimed water service, along with other revenue, is projected at $463.4 million in FY 2011-12. Total requirements for operations and maintenance, debt service, and transfers are proposed at $465.9 million. The Water and Wastewater minimum charge and volumetric service rates effective November 1, 2011, reflect a 5.1% increase over the rates charged in the prior year and a new Water Revenue Stability Fee that reduces service revenue volatility and improves stabilization of Utility finances. Including the new Revenue Stability Fee, the water and wastewater service rates reflect a 9.2% increase over the rates charged in the prior year. A major cost driver for the Austin Water Utility is required capital improvements to replace aging infrastructure, capacity improvements, and service extensions. The Austin Water Utility's proposed spending in the capital improvements budget is $287.8 million in FY 2011-12. Total operating requirements do not include any additional positions and the utility's contractual and commodity budgets were targeted at 2010 levels in order to keep the rate increase to a minimum.

Other enterprise funds and their FY 2011-2012 expense budgets include Aviation ($110.8 million), Convention Center ($56.9 million), and Solid Waste Services ($84.5 million).

Major Initiatives

The City of Austin's vision of being the most livable city in the country means that Austin must also be the best managed city in the country where all residents can 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. Adopted in April 2007 and amended in 2009, the Council established the following priorities:

- Rich Social and Cultural Community
- Vibrant Urban Fabric
- Healthy, Safe, and Family-Friendly City
- 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 is described below:

<u>Waller Creek Tunnel Project.</u> This project began as an underground storm water bypass tunnel to alleviate risk of severe flooding along a stretch of Waller Creek from Waterloo Park to Lady Bird Lake. After an intense design process that included survey and geotechnical work, computer model analysis, public input, and presentations to City Council, the project has been divided into 12 smaller projects, including the tunnel itself, a boathouse, inlet, outlet, and the creek side inlets. On February 17, 2011, the Austin City Council approved the award of a $49.5 million construction contract to build the main shaft of the Waller Creek Tunnel Project. Ground breaking occurred in April 2011; project completion is expected in 2014. The tunnel project is primarily funded through the Waller Creek Tax Increment Financing Zone. In October 2011, the City delivered certificates of obligation, which provided approximately $35,000,000 to contribute towards the financing of this project.

<u>Comprehensive Plan.</u> According to the City Charter, the Comprehensive Plan contains the Council's policies for growth, development and beautification of the land within the corporate limits and the extraterritorial jurisdiction of the City. "Imagine Austin" is a two-year process designed to help shape community input to lay out a vision for what Austin will look like in the future. The process will create the new Comprehensive Plan and address key themes currently at the center of civic debate such as growth and development, sustainability and climate change, environmental protection, neighborhood preservation, affordable housing, economic development, and local and regional mobility. Phase One kicked off in August 2009 and Phase Two, which consists of the vision and plan framework, was recently approved by the City Council on March 10, 2011. Phase 3, which began in March 2011, will define specific strategies and actions to implement the framework. Stakeholders will begin meeting to develop the policies to fulfill the framework objectives and will be organized around the following areas: land use and transportation, economy, housing and neighborhoods, conservation and environmental resources, City facilities and services, society, and culture.

<u>Accelerate Austin</u>. Accelerate Austin, which began in April 2009, is a major transportation initiative aimed at addressing Austin's critical transportation infrastructure issues while assisting in jump-starting Austin's economy by creating up to 300 jobs locally. Accelerate Austin will bring forward $69.1 million in road improvement projects ahead of schedule within eighteen months, accelerating the timelines called for in the 2006 bond program approved by Austin voters. Major projects recently under way include the reconstruction of Rio Grande Street from Martin Luther King Jr. Blvd. to 24th Street and the reconstruction of 32nd Street from Red River to Duval.

Affordable Housing. The Rental Housing Development Assistance (RHDA) program provides funding for nonprofit and for-profit developers to acquire, rehabilitate, or construct affordable rental housing for low-income households. On November 7, 2006, Austin voters approved $55 million in General Obligation Bonds to be issued for the development and retention of affordable housing, $33 million of which is expected to be used in the RHDA Program. The program exceeded its annual goal in Fiscal Year 2009-2010 by 12 percent. A major factor in exceeding the goal included the preservation of 130 project-based Section 8 units using Private Activity Bonds and General Obligation Bond funding. Accomplishments include completion of 262 units expending $19.7 million in GO Bond funding and $1.8 million in grant and other funding sources.

CityWorks Academy. In December of 2009, 28 Austin residents graduated in the inaugural class of CityWorks Academy, an 11-week program created with the idea of providing Austin residents a unique opportunity to learn about the City's governmental processes, its procedures, the services it provides, and the people who deliver those services. The program has proven to be a huge success. Thirty Austinites, representing a cross-section of the community, were chosen for the third CityWorks Academy. The City received more than 150 applications from residents interested in participating in the 2012 session. The City plans to offer the academy each year in the fall.

American Recovery and Reinvestment Act (ARRA)

In 2009, the City established a Recovery Office to coordinate its efforts in applying for and reporting on funding received through ARRA. As of March 2011, the City of Austin has been awarded $83 million in stimulus funds across multiple federal government programs and has either expended or encumbered approximately $53 million of those awarded funds.

In February of 2010, Austin Water broke ground on green infrastructure improvements at the Hornsby Bend Biosolids Management Plant with $31.8 million of ARRA funding. The first phase of the project, the composting pad expansion, achieved substantial completion in January 2011 – one year ahead of schedule and accounted for approximately 15 – 20 full-time equivalent positions monthly.

Austin Energy was awarded $8.1 million for its Weatherization Assistance for Low-Income Persons Program. The program's goal is to address issues with a personal residence that may impact the energy, health or safety of the dwelling and its occupants. As of September 2011, 1,171 total units have been reported as completed to Texas Department of Housing and Community Affairs.

Other approved ARRA-funded projects include road, traffic signal and sidewalk improvements, police department technology improvements, crime victims assistance service enhancements, financial assistance for new homeowners, clean energy and energy efficiency, and homeless prevention.

Financial Policies

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

Internal Controls

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

Budgetary Control

The annual operating budget is proposed by the City Manager and approved by the City Council after public discussion. Annual updates to the Capital Improvements Program budgets follow a similar process. Primary responsibility for fiscal analysis of budget to actual expense or revenue and overall program fiscal standing rests with the department operating the program. As demonstrated by the statements and schedules included in the City's 2010 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 2011, the City's cash resources were invested in money market funds, local government investment pools, municipal bonds, 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.

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Employment by Industry in the Austin Metropolitan Area (a)

Employment Characteristics

Industrial Classification	2007	% of Total	2008	% of Total	2009	% of Total	2010	% of Total	2011	% of Total
Manufacturing	60,600	7.9%	55,000	7.0%	49,500	6.5%	47,300	6.2%	49,200	6.2%
Government	158,400	20.8%	163,700	21.0%	167,900	22.1%	170,500	22.2%	169,700	21.6%
Trade, transportation & utilities	159,800	21.0%	163,700	21.0%	152,500	20.1%	134,200	17.5%	141,300	17.9%
Services and miscellaneous	290,100	38.0%	300,500	38.5%	304,000	40.0%	333,200	43.5%	344,200	43.8%
Finance, insurance and real estate	45,200	5.9%	47,200	6.0%	43,900	5.8%	42,300	5.5%	43,900	5.6%
Natural resources, mining & construction	49,200	6.4%	50,800	6.5%	42,000	5.5%	39,000	5.1%	38,300	4.9%
Total	763,300	100.0%	780,900	100.0%	759,800	100.0%	766,500	100.00%	786,600	100.00%

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

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

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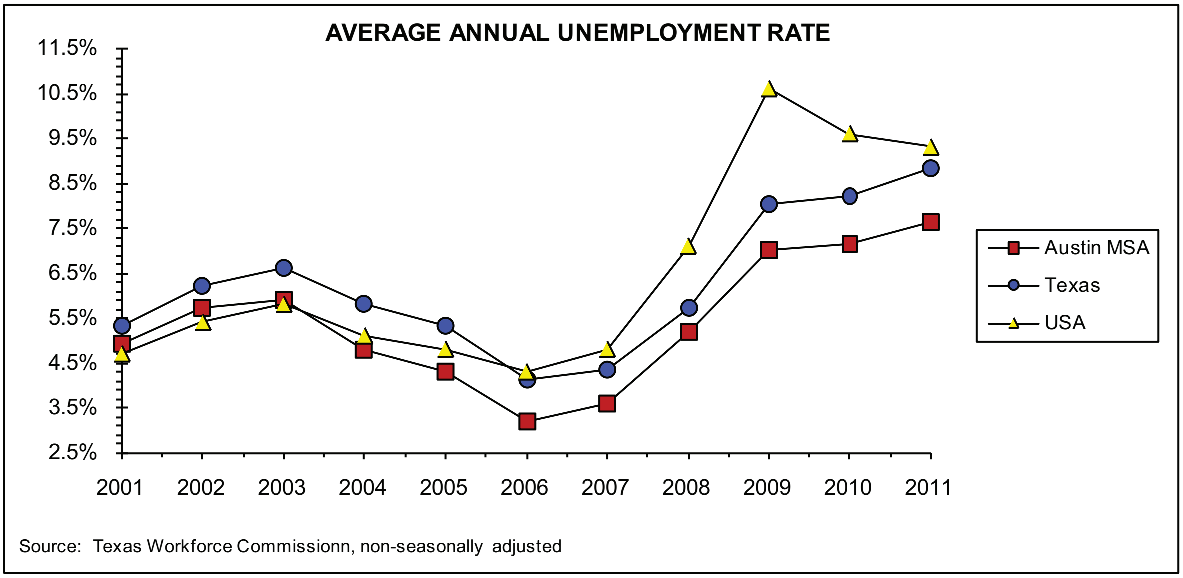
Average Annual Unemployment Rate



	Austin MSA	Texas	U.S.
2001	4.9%	5.3%	4.7%
2002	5.7%	6.2%	5.4%
2003	5.9%	6.6%	5.8%
2004	4.8%	5.8%	5.1%
2005	4.3%	5.3%	4.8%
2006	3.2%	4.1%	4.3%
2007	3.6%	4.3%	4.8%
2008	5.2%	5.7%	7.1%
2009	7.0%	8.0%	10.6%
2010	7.1%	8.2%	9.6%
2011 December	5.7%	7.2%	8.3%

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

City Sales Tax Collections (In Millions)

Period	Amount	Period	Amount	Period	Amount	Period	Amount	Period	Amount
1-1-07	$11.422	1-1-08	$11.639	1-1-09	$10.864	1-1-10	$10.215	1-1-11	$11.492
2-1-07	16.371	2-1-08	16.569	2-1-09	14.289	2-1-10	15.921*	2-1-11	16.149
3-1-07	11.080	3-1-08	12.109	3-1-09	10.528	3-1-10	10.736	3-1-11	11.117
4-1-07	11.414	4-1-08	11.355	4-1-09	9.724	4-1-10	10.290	4-1-11	10.311
5-1-07	14.611	5-1-08	13.882	5-1-09	12.612	5-1-10	14.145	5-1-11	14.022
6-1-07	11.748	6-1-08	12.185	6-1-09	11.213	6-1-10	11.533	6-1-11	11.941
7-1-07	12.011	7-1-08	12.129	7-1-09	10.752	7-1-10	11.569	7-1-11	11.824
8-1-07	14.101	8-1-08	14.486	8-1-09	13.495	8-1-10	12.799	8-1-11	14.387
9-1-07	11.883	9-1-08	12.349	9-1-09	10.673	9-1-10	11.427	9-1-11	11.307
10-1-07	12.257	10-1-08	11.781	10-1-09	11.037	10-1-10	11.562	10-1-11	13.385
11-1-07	14.774	11-1-08	13.595	11-1-09	12.419	11-1-10	13.347	11-1-11	13.873
12-1-07	12.365	12-1-08	12.190	12-1-09	11.165	12-1-10	11.216		

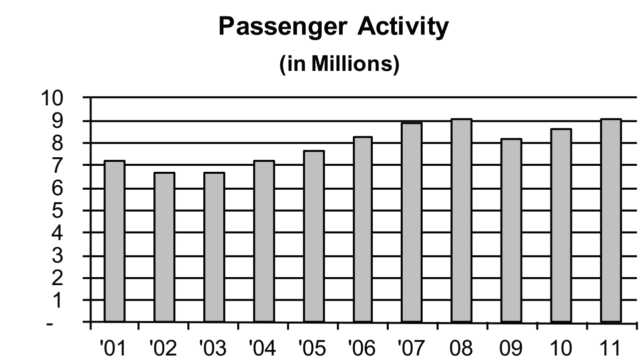
*Includes a $1.5 million one-time sales tax correction.
Source: City of Austin, Budget Office.

Ten Largest Employers (As of September 30, 2010)

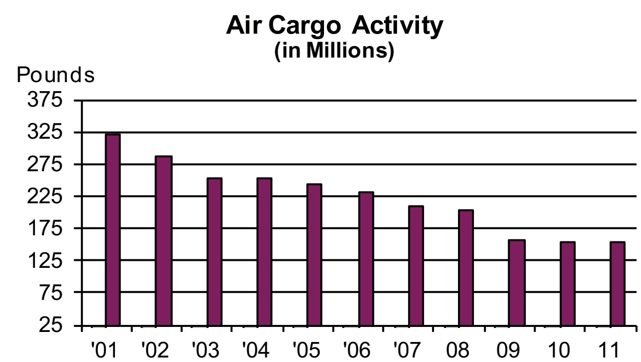
Employer	Product or Service	Employees
State Government	State Government	38,538
The University of Texas at Austin	Education	24,864
Dell Computer Corporation	Computers	14,000
City of Austin	City Government	11,815
Austin Independent School District	Education	11,570
Seton Healthcare Network	Healthcare	11,500
Federal Government	Government	11,100
HEB Grocery	Grocery/Retail	10,904
St. David's Healthcare Partnership	Healthcare	6,600
IBM Corporation	Computers	6,239

Source: 2010 Comprehensive Annual Financial Report.

Transportation



Source: COA Aviation Department. 2011 Activity through December - Calendar Year basis.



Source: COA Aviation Department. 2011 Activity through December - Calendar Year basis.

Austin-Bergstrom International Airport

The City of Austin's Austin-Bergstrom International Airport, which opened for passenger service on May 23, 1999 and replaced Robert Mueller as the City's commercial passenger service airport, is served by eight signatory airlines: American Airlines, Continental, Delta, Frontier, JetBlue, Southwest, United and US Airways. Non-stop service is available to 36 U.S. destinations.

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

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

Wealth Indicators

The Austin-Round Rock MSA has experienced growth in median household income and per capita personal income.

Demographic and Economic Statistics - Last Ten Years

Year	City of Austin Population (1)	Area of Incorporation (Square Miles) (1)	Population MSA (2) (3)	Income (MSA) (thousands of dollars) (2)	Median Household Income MSA (3)	Capital Personal Income MSA (2)	Unemployment Rate (MSA) (4)
2001	661,639	266	1,325,305	$42,489,015	$39,811	$32,060	4.9%
2002	671,044	273	1,355,241	41,908,425	47,089	30,923	5.8%
2003	674,719	276	1,385,723	43,104,097	41,909	31,106	6.0%
2004	683,551	291	1,423,161	46,134,871	39,227	32,417	4.9%
2005	695,881	294	1,464,563	51,058,588	40,335	34,863	4.5%
2006	714,237	296	1,528,958	56,105,872	40,888	36,695	4.0%
2007	732,381	297	1,594,525	59,758,105	42,263	37,477	3.9%
2008	746,105	298	1,654,100	61,800,403	46,340	37,362	4.7%
2009	770,296	302	1,705,075	60,568,377	47,520	35,522	7.2%
2010	778,560	306	1,703,994	60,999,640 (5)	48,460	38,798 (5)	6.8%
2001-2010 Change	17.67%	15.04%	28.57%	43.57%	21.73%	11.66%	

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

(1) Source: City Demographer, City of Austin, Neighborhood Planning and Zoning Department based on full purpose area as of September 30.

(2) Source: Bureau of Economic Analysis for all years except 2010, which will not be available until first quarter 2011.

(3) Source: Claritas, a Nielson Company.

(4) Source: Bureau of Labor Statistics; United State Department of Labor as of September 30.

(5) Data not available for 2010. Figures are estimated.

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Connections and Permits

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

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

Housing Units

The average two-bedroom apartment in the Austin MSA was $983 per month, with an occupancy rate of 94.7% for the second quarter 2011, per Austin Investor Interests, LLC.

Residential Sales Data

Year	Number of Sales	Total Volume	Average Price
2002	18,716	$3,695,947,381	$197,475
2003	19,793	3,899,018,519	196,990
2004	22,567	4,487,464,528	198,851
2005	26,905	5,660,934,916	210,405
2006	30,278	6,960,536,304	229,888
2007	28,047	6,910,684,916	246,397
2008	22,438	5,470,241,896	243,783
2009	20,747	4,924,240,373	237,347
2010	19,872	4,906,445,110	246,792
2011	21,190	5,334,557,220	251,700

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

City-Wide Austin Office Occupancy Rate

Year	Occupancy Rate
2002	77.1%
2003	76.7%
2004	80.8%
2005	84.2%
2006	87.5%
2007	85.6%
2008	80.6%
2009	77.7%
2010	80.0%
2011	81.6%

Source: Oxford Commercial.

Education

The Austin Independent School District had an enrollment of 85,929 for the 2010/2011 school year. This reflects an increase in enrollment from the end of the 2010 school year. The District includes 110 campus buildings.

School Year	Average Daily Membership	Average Daily Attendance
2001/02	76,347	71,638
2002/03	77,009	72,494
2003/04	77,313	73,085
2004/05	77,937	73,572
2005/06	79,500	74,860
2006/07	82,063	74,212
2007/08	82,739	74,622
2008/09	83,730	75,606
2009/10	84,996	76,658
2010/11	85,929	80,177

Source: Austin Independent School District.

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

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

Tourism

The impact of tourism on the Austin economy is significant. There are more than 257 hotels available within the Austin Metropolitan Area and year to date occupancy through June 2011 is 68.8%.

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

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APPENDIX B

AUDITED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Austin, Texas (the "City"), as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements. These financial statements are the responsibility of the City's management. Our responsibility is to express 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. 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 2 and 14, the City implemented GASB Statement No. 51 "Accounting and Financial Reporting for Intangible Assets" and GASB Statement No. 53 "Accounting and Financial Reporting for Derivative Instruments" and restated the beginning net assets of the Austin Water and Waster Fund and total Business-Type Activities to reflect the retroactive impact of implementing GASB Statement No. 51.

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

Deloitte & Touche LLP

March 30, 2011

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, 2010.

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. 53, and No. 55 through No. 58.

FINANCIAL HIGHLIGHTS

Government-wide financial statements
The assets of the City exceeded its liabilities at the end of the fiscal year 2010, resulting in $4.5 billion of net assets. Net assets associated with governmental activities are approximately $1.6 billion, or 35% of the total net assets of the City. Net assets associated with business-type activities are approximately $2.9 billion, or 65% 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 $3.5 billion, or 79% of total net assets.

Unrestricted net assets, which may be used to meet the City's future obligations, are $345.3 million, or 8% of the City's total net assets. Unrestricted net assets for governmental activities are a deficit of $58.0 million, while unrestricted net assets for business-type activities are approximately $403.3 million, or 14% of total business-type net assets. The deficit in governmental unrestricted net assets is largely due to the recognition of $169.4 million in other post employment benefit liabilities for governmental activities in accordance with GASB Statement No. 45.

During fiscal year 2010, total net assets for the City of Austin decreased $11.3 million or 0.3% before a restatement of Water and Wastewater Fund water rights and accounting for regulated operations associated with the implementation of GASB Statement No. 51 (see Note 2). Of this amount, governmental activities decreased $25.3 million, or 1.6% from the previous year and business-type activities increased $14 million, or 0.5% from the previous year.

Total revenues for the City decreased $75.9 million; revenues for governmental activities decreased $2.8 million; revenues for business-type activities decreased $73.1 million. Total expenses for the City decreased $2.3 million; expenses for governmental activities increased $15.3 million; expenses for business-type activities decreased $17.6 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 Required Supplementary Information (RSI) section immediately follows the basic financial statements and related notes section of this report. The City adopts an annual appropriated budget for the General Fund. 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 and other post employment benefits plans is presented in RSI. Following the RSI are other statements and schedules, including the combining statements for nonmajor governmental and enterprise funds, internal service funds, and fiduciary funds.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

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

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

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current assets	$ 606,064	674,926	1,094,991	1,463,251	1,701,055	2,138,177
Capital assets	2,372,210	2,303,263	6,576,192	6,339,459	8,948,402	8,642,722
Other noncurrent assets	10,566	5,669	848,606	507,636	859,172	513,305
Deferred outflows of resources	--	--	212,884	--	212,884	--
Total assets and deferred outflows	2,988,840	2,983,858	8,732,673	8,310,346	11,721,513	11,294,204
Current liabilities	279,013	272,454	618,289	479,524	897,302	751,978
Noncurrent liabilities	1,151,279	1,127,518	5,202,364	4,944,693	6,353,643	6,072,211
Deferred inflows of resources	--	--	7,710	--	7,710	--
Total liabilities and deferred inflows	1,430,292	1,399,972	5,828,363	5,424,217	7,258,655	6,824,189
Net assets:						
Invested in capital assets, net of related debt	1,544,834	1,545,216	1,998,753	1,902,398	3,543,587	3,447,614
Restricted	71,716	95,641	502,211	488,413	573,927	584,054
Unrestricted (deficit)	(58,002)	(56,971)	403,346	495,318	345,344	438,347
Total net assets	$ 1,558,548	1,583,886	2,904,310	2,886,129	4,462,858	4,470,015

In the current fiscal year, total assets and deferred outflows of the City increased by $427.3 million before restatement (see Note 2). Total liabilities and deferred inflows increased by $434.5 million. Governmental-type total assets increased by $5.0 million and business-type increased $422.3 million, while governmental-type liabilities increased by $30.3 million and business-type increased $404.2 million.

Significant factors in the increase of governmental total assets and deferred outflows include a decrease in cash and investments of $90.1 million, an increase in capital assets of $68.9 million, and the recognition of a net pension asset of $4.9 million. Factors in the increase of governmental-type liabilities and deferred inflows include increases in the pension obligation payable of $10.7 million and other post employment benefits of $59.6 million offset by a decrease in general obligation bonds payable of $53.2 million.

Significant factors in the increase of business-type total assets and deferred outflows include an increase in capital assets of $236.7 million and the addition of deferred outflows of resources of $212.9 million with the implementation of GASB Statement No. 53. Significant increases in total liabilities and deferred inflows include revenue bonds payable of $200 million, the addition of derivative instruments of $212.9 million with the implementation of GASB Statement No. 53, and other post employment benefits of $35.4 million. Significant decreases include commercial paper notes payable of $40.2 million, and capital appreciation bonds payable of $41.6 million.

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by $4.5 billion at the end of the current fiscal year. However, the largest portion of the City's net assets are invested in capital assets, net of related debt (e.g. land, building, and equipment), which are $3.5 billion, or 79% 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, $573.9 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, $345.3 million of unrestricted net assets, may be used to meet the government's future obligations. Unrestricted net assets decreased $93.0 million in the current fiscal year. A significant portion of the decrease in unrestricted net assets is due to the recognition of $95.0 million in other post employment benefit expense in accordance with GASB Statement No. 45.

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 business-type activities; however unrestricted net assets for governmental activities are a deficit of $58.0 million.

b -- Changes in net assets

Total net assets of the City decreased by $7.2 million in the current fiscal year after restatement (see Note 2). Governmental net assets decreased $25.3 million. The decrease is attributable to expenses exceeding revenues by $121.4 million before transfers from other funds of $96 million. Business-type net assets increased by $14.0 million due to revenues exceeding expenses by $110.1 million, before transfers to other funds of $96 million and restatement adjustment of $4.1 million.

Changes in Net Assets
September 30
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Program revenues:						
Charges for services	$ 109,136	140,989	1,814,907	1,833,856	1,924,043	1,974,845
Operating grants and contributions	66,831	54,022	--	--	66,831	54,022
Capital grants and contributions	50,546	85,085	31,703	71,819	82,249	156,904
General revenues:						
Property tax	341,812	309,888	--	--	341,812	309,888
Sales tax	144,710	139,795	--	--	144,710	139,795
Franchise fees and gross receipts tax	87,996	85,183	--	--	87,996	85,183
Interest and other	31,960	20,827	13,935	27,938	45,895	48,765
Total revenues	832,991	835,789	1,860,545	1,933,613	2,693,536	2,769,402
Program expenses:						
General government	89,315	80,819	--	--	89,315	80,819
Public safety	455,760	442,690	--	--	455,760	442,690
Transportation, planning and sustainability	65,565	79,840	--	--	65,565	79,840
Public health	63,215	81,773	--	--	63,215	81,773
Public recreation and culture	91,732	90,307	--	--	91,732	90,307
Urban growth management	143,884	121,237	--	--	143,884	121,237
Interest on debt	44,889	42,435	--	--	44,889	42,435
Electric	--	--	1,086,470	1,089,632	1,086,470	1,089,632
Water	--	--	169,708	200,162	169,708	200,162
Wastewater	--	--	166,979	160,962	166,979	160,962
Airport	--	--	92,780	98,403	92,780	98,403
Convention	--	--	51,818	52,219	51,818	52,219
Environmental and health services	--	--	66,380	67,097	66,380	67,097
Public recreation	--	--	9,715	10,274	9,715	10,274
Urban growth management	--	--	106,618	89,306	106,618	89,306
Total expenses	954,360	939,101	1,750,468	1,768,055	2,704,828	2,707,156
Excess (deficiency) before transfers	(121,369)	(103,312)	110,077	165,558	(11,292)	62,246
Transfers	96,031	82,686	(96,031)	(82,686)	--	--
Increase (decrease) in net assets	(25,338)	(20,626)	14,046	82,872	(11,292)	62,246
Beginning net assets, as previously reported	1,583,886	1,604,512	2,886,129	2,882,151	4,470,015	4,486,663
Restatement adjustment	--	--	4,135	(78,894)	4,135	(78,894)
Beginning net assets, as restated	1,583,886	1,604,512	2,890,264	2,803,257	4,474,150	4,407,769
Ending net assets	$ 1,558,548	1,583,886	2,904,310	2,886,129	4,462,858	4,470,015

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

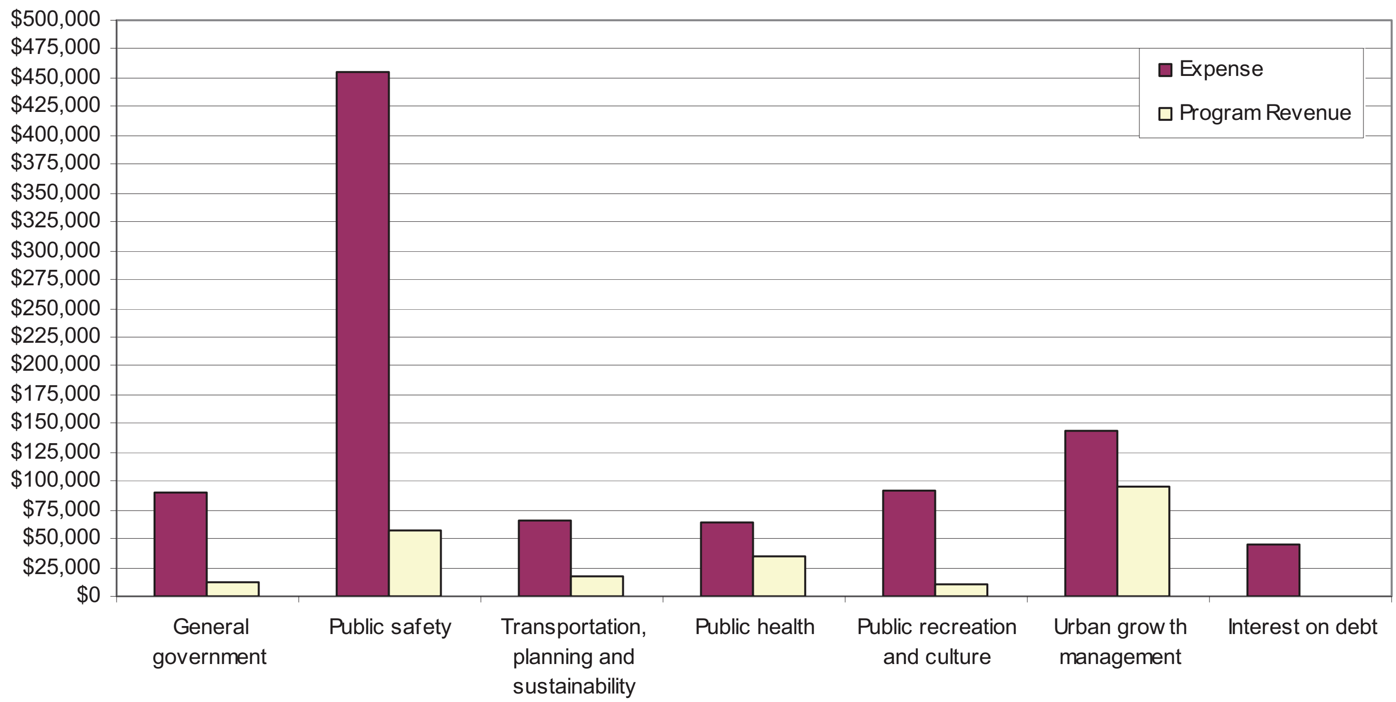
c -- Program revenues and expenses -- governmental activities

Governmental activities decreased the City's net assets by $25.3 million in fiscal year 2010, a 1.6% decrease of governmental net assets from the previous year. Key factors for the change from fiscal year 2009 to 2010 are as follows:

- Charges for services decreased $31.9 million primarily due to the transfer of hospital district activities to the Travis County Hospital District ($17.6 million). Capital grants and contributions decreased $34.5 million primarily due to decreases in contributed and annexed infrastructure.
- The City's property tax revenue increased by $31.9 million from the previous year as a result of an increase in assessed property values and an increase in the City's tax rate from 40.12 cents to 42.09 per $100 valuation.
- Sales tax collections for fiscal year 2010 were $4.9 million more than fiscal year 2009. Franchise fees and gross receipts taxes increased $2.8 million due largely to an increased service area for cable franchise fees.
- General government expenses increased $8.5 million primarily due to increases in payments to internal service funds for services provided and public safety expenses increased $13.1 million due to increases in salaries and contractual expenses. Transportation, planning and sustainability expenses decreased $14.3 million, while public health expenses decreased $18.6 million due to the transfer of hospital district activities to the Travis County Hospital District. Urban growth management expenses increased $22.6 million.

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

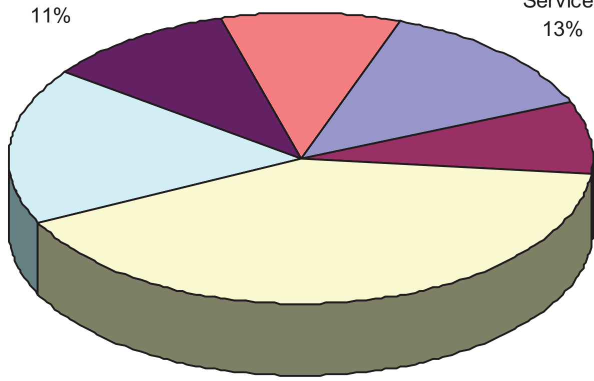
Government-wide Program Expenses and Revenues – Governmental Activities
(in thousands)



FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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

Government-wide Revenues by Source -- Governmental Activities



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

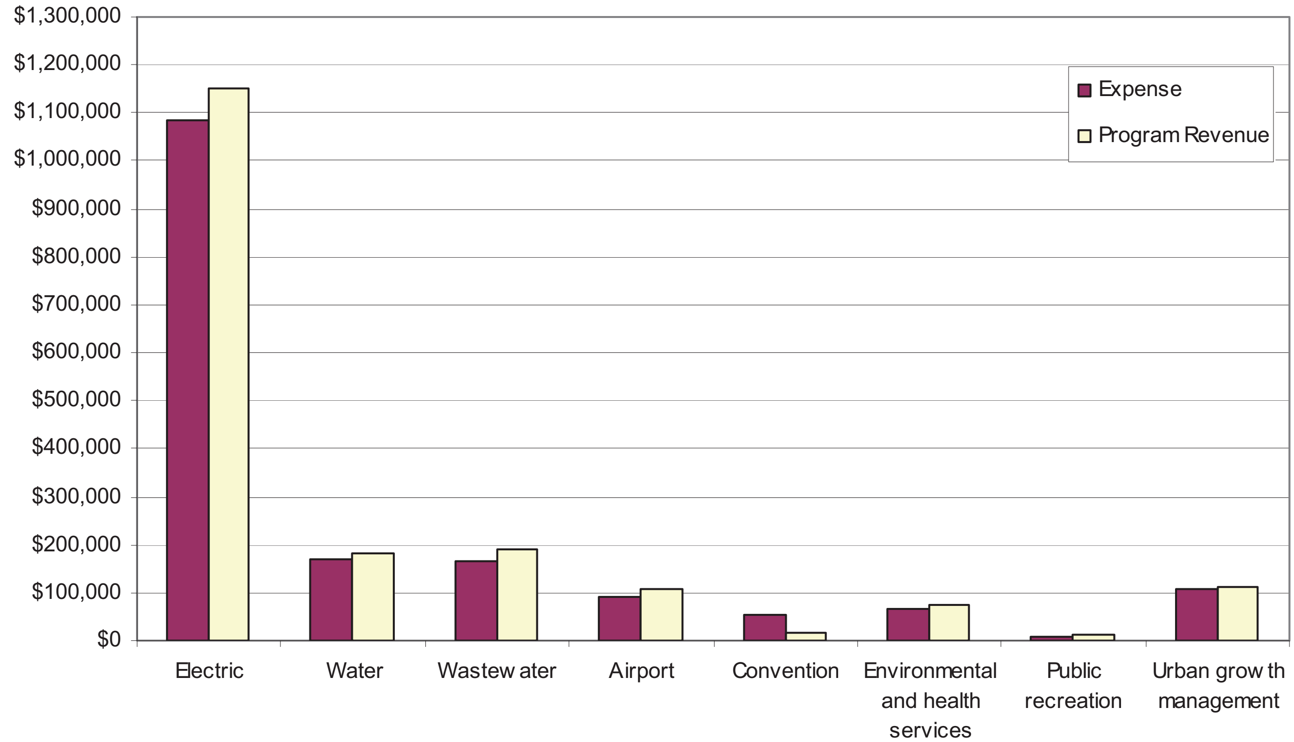
Business-type activities increased the City's net assets by approximately $14 million, accounting for a 0.3% increase in the City's total net assets. Key factors include:

- Electric net assets decreased approximately $25.2 million. Revenues decreased 1.3% largely due to lower fuel costs, which are passed through as fuel revenue. Expenses increased 2.1% as lower fuel costs were offset by an increase in other operating expenses.
- Water and Wastewater net assets increased approximately $1.7 million. Revenues decreased 8.0% due primarily to greater than usual rainfall and mandatory water conservation during the period of wastewater winter averaging. Water revenue for 2010 decreased by approximately 12.3% and Wastewater revenue decreased 3.7% from the prior year.
- Airport net assets increased approximately $16.7 million. Revenues increased 3.0% due to an increase in passenger traffic and expenses increased 6.2% due to an increase in operations and maintenance costs.
- Convention net assets decreased approximately $1.9 million. Revenues and transfers from the Hotel Occupancy Tax Fund decreased 9.3% due primarily to fewer events and the slowed economy. Expenses increased due to increases in operations and maintenance costs.
- Environmental and health services activities are comprised of nonmajor enterprise funds that include the Solid Waste Services Fund and Hospital Fund. Net assets increased by approximately $8.4 million. This increase is primarily attributed to increased revenues derived from an approved rate increase and customer growth.
- Public recreation activities are comprised of nonmajor enterprise funds that include the Golf Fund and Recreation Program Fund. Net assets increased by $3.0 million as a result of the transfer of a portion of the Golf Fund debt to governmental activities.
- Urban growth management activities are comprised of nonmajor enterprise funds that include the Drainage Fund and Transportation Fund. Net assets increased by approximately $9.8 million. Drainage revenues increased 6.6% primarily due to an approved rate increase while Drainage expenses remained steady.

As shown in the following chart, the electric utility, with expenses of $1.09 billion, is the City's largest business-type activity, followed by water ($170 million), wastewater ($167 million), urban growth management ($107 million), airport ($93 million), environmental and health services ($66 million), convention ($52 million), and public recreation ($10 million). For the fiscal year, operating revenues exceeded operating expenses for all business-type activities except convention.

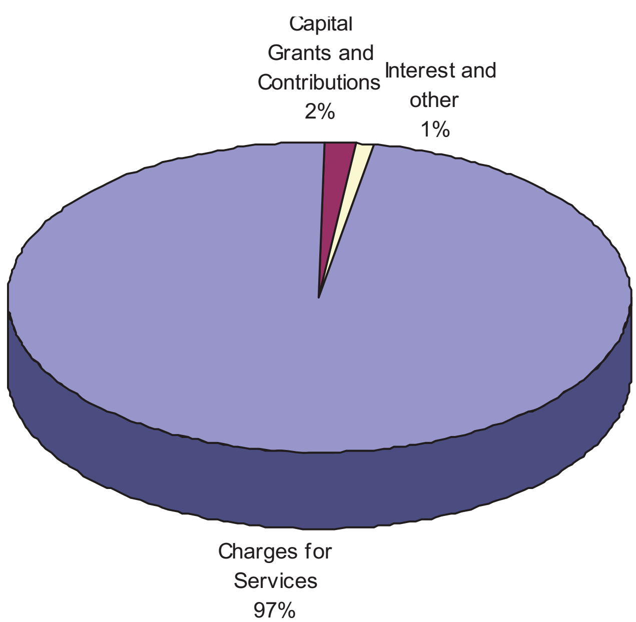
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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

Government-wide Revenue by Source – Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND LEVEL STATEMENTS

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

a -- Governmental funds

The City reports the following types of governmental funds: the general fund, special revenue funds, debt service funds, capital projects funds, and permanent funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and available resources. Such information is useful in assessing the City's financing requirements. In particular, 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 $370.4 million, a decrease of $81.5 million from the previous year. Approximately $191.5 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 $40.3 million in comparison to the prior year, primarily due to an increase in the reservation for encumbrances of $37.0 million in capital projects funds authorized in 2006.

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 $104.6 million, while total fund balance was $108.7 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 17.6% of total General Fund expenditures of $595.6 million, and total fund balance represents 18.3% 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 $58.6 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 increased $16.5 million during the fiscal year, while unreserved fund balance increased $16.9 million. Significant differences from the previous year include:

- Property tax revenues increased $25.7 million due to an increase in assessed property values and the City's property tax rate increased from 40.12 cents to 42.09 cents per $100 valuation.
- Sales tax revenues increased $4.9 million, while licenses, permits and inspections decreased $4.8 million due to a decline in building permits.

General fund expenditures increased $24.7 million, due primarily to an increase in public safety expenditures of $13.8 million and general government expenditures of $13.1. The increase in public safety expenditures is primarily due to increases in salaries and contractual expenditures. The increase in general government expenditures is due to increases in payments to internal service funds for services provided.

b -- Proprietary funds

The City's proprietary funds provide the same type of information found in the business-type activities of the government-wide financial statements, but in more detail. Overall, net assets of the City's enterprise funds increased by $9.0 million before consolidation of the internal service funds activities.

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

OTHER INFORMATION

a -- General Fund budgetary highlights
The original expenditure budget of the General Fund was amended during fiscal year 2010 to increase public safety costs for the purchase of two ambulances.

During the year, revenues were $12.9 million more than budgeted. Sales tax collections were $12.7 million more than budgeted.

Actual General Fund budget-basis expenditures were $13.9 million less than budgeted. Transportation, planning and sustainability expenditures exceeded budget by $13 thousand and general city responsibilities exceeded budget by $66 thousand; while all other General Fund departments were under budget. The total budget-basis fund balance at year-end was $99.9 million.

b -- Capital assets
The City's capital assets for governmental and business-type activities as of September 30, 2010, total $8.9 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, equipment, vehicles, infrastructure, construction in progress, nuclear fuel, plant held for future use, and water rights. The total increase in the City's capital assets for the current fiscal year was $307 million (3.6%), with an increase of 3.0% for governmental activities and an increase of 3.8% 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	
	2010	2009	2010	2009	2010	2009
Land and improvements	$ 332	324	464	449	796	773
Other assets not depreciated	20	20	1	1	21	21
Building and improvements	442	450	1,363	1,392	1,805	1,842
Equipment	64	73	3,867	3,555	3,931	3,628
Vehicles	35	36	63	58	98	94
Infrastructure	1,237	1,255	--	--	1,237	1,255
Construction in progress	242	145	667	747	909	892
Nuclear fuel, net of amortization	--	--	34	33	34	33
Plant held for future use	--	--	28	28	28	28
Water rights, net of amortization	--	--	89	75	89	75
Total net capital assets	$ 2,372	2,303	6,576	6,338	8,948	8,641

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

- Governmental capital assets increased $69 million primarily due to additions of new and on-going projects for facility and system improvements. Construction progressed on 2006 bond funded projects, which included flood mitigation, affordable housing, recreation center and park improvements, and a training facility for fire, police and EMS personnel. Other projects included a digital video system for police, street and pedestrian improvements, a new fire station, and infrastructure additions for the Mueller redevelopment.
- Business-type activities purchased or completed construction on capital assets of $238 million. The increase was largely due to plant and equipment additions and land acquisitions for the Electric, Water and Wastewater, Convention Center, Drainage and Transportation funds. The Electric fund added power plant improvements, improvements to electric distribution and metering systems, and various substations. The Water and Wastewater fund continued rehabilitation and replacement activities under the Austin Clean Water Program and continued work on the Water Treatment Plant #4 projects. The Water and Wastewater fund also received ARRA funds for biosolids management and compost operations projects. Wastewater improvements included service extensions to annexed areas. Work also continued on the Convention Center Waller Creek Tunnel project and the parking meter replacement program.

OTHER INFORMATION, continued

c -- Debt administration

At the end of the current fiscal year, the City reported $5.0 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	
	2010	2009	2010	2009	2010	2009
General obligation bonds and other tax supported debt, net	$ 900	953	125	131	1,025	1,084
Commercial paper notes, net	--	--	300	340	300	340
Revenue notes	--	--	28	28	28	28
Revenue bonds, net	--	--	3,643	3,443	3,643	3,443
Capital lease obligations	1	--	2	2	3	2
Total	$ 901	953	4,097	3,944	4,998	4,897

During fiscal year 2010, the City's total outstanding debt increased by $101 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 $52 million due to debt service payments made during the year.
- Outstanding debt for business-type functions increased $153 million. The City issued $220.3 million of Electric Utility System separate lien revenue refunding bonds and $166.6 million of Water and Wastewater Fund separate lien revenue refunding bonds to refund commercial paper ($316 million) and existing debt ($74 million).

During the year, the City's general obligation bonds and other tax supported debt received favorable bond rating upgrades from Moody's Investors Services, Inc and Fitch, Inc. The Water and Wastewater Utility revenue bonds received favorable bond rating upgrades from Moody's Investors Services, Inc. All other bond ratings were unchanged. Ratings of the City's obligations for various debt instruments at September 30, 2010 and 2009 are as follows:

Debt	Moody's Investors Service, Inc		Standard & Poor's		Fitch, Inc.	
	2010	2009	2010	2009	2010	2009
General obligation bonds and other tax supported debt	Aaa	Aa1	AAA	AAA	AAA	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	AA	AA	AA-	AA-
Utility revenue bonds - separate lien:						
Electric	A1	A1	A+	A+	AA-	AA-
Water and Wastewater	Aa2	Aa3	AA	AA	AA-	AA-
Airport system revenue bonds	NUR(1)	NUR(1)	A-	A-	NUR(1)	NUR(1)
Airport variable rate bonds	NUR(1)	NUR(1)	A-	A-	NUR(1)	NUR(1)
Convention Center revenue bonds	A2	A2	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 experienced signs of recovery in 2010; a key indicator being an increase in sales tax revenues of 3.5 percent, compared to a 9.5 percent decline in the previous year. Austin's diverse economic base and national reputation as a great place to live continues to attract talented individuals and new employment opportunities. The Austin metro area ranked highest in employment growth of the five major metro areas in Texas, which includes Dallas-Fort Worth, Houston, San Antonio, El Paso, and Austin, and experienced the third highest growth rate in the state, gaining nearly 8,200 jobs in 2010.

The City's 2011 budget was developed in a manner true to the City Manager's unwavering commitment to openness, transparency, and public engagement. Input from Council, City employees, and Citizens played a major role in the development of a variety of structural applications designed to positively affect our City's fiscal sustainability over the long term and present a balanced budget for the City Council's review. The Austin City Council has adopted a comprehensive set of financial policies to provide the foundation for long-range financial sustainability. These financial policies are directly aligned with the City Council's priority of budget stability while at the same time maintaining affordability, investment in future economic development, infrastructure needs, and quality of life. These policies are also crucial in maintaining the City's favorable bond ratings. City management will continue to monitor the economy and take corrective actions to help mitigate any unfavorable economic events. The assessed taxable property values within the City decreased by 3.8% for 2010. The property tax rate for fiscal year 2011 is 45.71 cents per $100 valuation, up from 42.09 cents per $100 valuation in 2010. The tax rate consists of 32.62 cents for the General Fund and 13.09 cents for debt service.

Each 1 cent of the 2010 (Fiscal Year 2011) property tax rate is equivalent to $7,789,686 of tax levy, as compared to $8,096,541 in the previous year. Fiscal Year 2011 rate increases for the Water and Wastewater Fund are: 5.4% for Water and 3.6% for Wastewater for a combined increase of 4.5%. Austin Energy customer base rates remain unchanged.

e -- Requests for Information

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

BASIC FINANCIAL STATEMENTS

(In thousands)

	Governmental Activities	Business-type Activities	Total (†)
ASSETS			
Current assets:			
Cash	$ 76	65	141
Pooled investments and cash	443,957	309,790	753,747
Pooled investments and cash - restricted	--	159,929	159,929
Total pooled investments and cash	443,957	469,719	913,676
Investments, at fair value	21,901	8,023	29,924
Investments, at fair value - restricted	--	231,561	231,561
Cash held by trustee - restricted	2,512	101	2,613
Working capital advances	--	6,554	6,554
Property taxes receivable	14,283	--	14,283
Less allowance for uncollectible taxes	(4,298)	--	(4,298)
Net property taxes receivable	9,985	--	9,985
Accounts and other receivables	181,671	205,840	387,511
Less allowance for doubtful accounts	(82,358)	(3,797)	(86,155)
Net accounts receivable	99,313	202,043	301,356
Receivables from other governments	15,359	--	15,359
Notes receivable, net of allowance of $22,263	12,367	--	12,367
Internal balances	(8,060)	32,663	24,603
Internal balances - restricted	(189)	(24,414)	(24,603)
Inventories, at cost	1,951	79,160	81,111
Real property held for resale	5,419	--	5,419
Prepaid items	244	2,825	3,069
Other assets	1,229	27,764	28,993
Other receivables	--	6,209	6,209
Deferred costs and expenses, net of amortization	--	52,718	52,718
Total current assets	606,064	1,094,991	1,701,055
Noncurrent assets:			
Pooled investments and cash - restricted	--	149,301	149,301
Investments, at fair value - restricted	--	161,150	161,150
Investments held by trustee - restricted	--	168,033	168,033
Interest receivable - restricted	--	1,121	1,121
Capital assets			
Land and other nondepreciable assets	352,760	465,609	818,369
Property, plant, and equipment in service	2,864,249	8,675,336	11,539,585
Less accumulated depreciation	(1,086,457)	(3,382,591)	(4,469,048)
Net property, plant, and equipment in service	1,777,792	5,292,745	7,070,537
Construction in progress	241,658	666,564	908,222
Nuclear fuel, net of amortization	--	34,355	34,355
Plant held for future use	--	27,783	27,783
Water rights, net of amortization	--	89,136	89,136
Total capital assets	2,372,210	6,576,192	8,948,402
Derivative instruments - energy risk management	--	7,710	7,710
Net pension asset	4,943	--	4,943
Other long-term assets	--	62	62
Deferred costs and expenses, net of amortization	5,623	361,229	366,852
Total noncurrent assets	2,382,776	7,424,798	9,807,574
Total assets	2,988,840	8,519,789	11,508,629
Deferred outflows of resources	--	212,884	212,884
Total assets and deferred outflows	$ 2,988,840	8,732,673	11,721,513

(†) 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	Total (†)
LIABILITIES			
Current liabilities:			
Accounts payable	$ 41,582	62,060	103,642
Accounts and retainage payable from restricted assets	--	45,852	45,852
Accrued payroll	32,010	17,951	49,961
Accrued compensated absences	47,127	23,021	70,148
Claims payable	17,865	--	17,865
Accrued interest payable from restricted assets	--	96,317	96,317
Interest payable on capital appreciation bonds and other debt	3,730	50,318	54,048
Commercial paper notes payable	--	44,377	44,377
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	66,233	11,493	77,726
General obligation bonds payable and other tax supported debt payable from restricted assets, net of discount and inclusive of premium	--	4,931	4,931
Revenue bonds payable from restricted assets	--	147,804	147,804
Capital lease obligations payable	283	369	652
Customer and escrow deposits payable from restricted assets	--	36,662	36,662
Accrued landfill closure and postclosure costs	--	765	765
Deferred credits and other current liabilities	70,183	76,369	146,552
Total current liabilities	279,013	618,289	897,302
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	65,371	1,338	66,709
Claims payable	15,570	--	15,570
Capital appreciation bond interest payable	--	103,295	103,295
Commercial paper notes payable, net of discount	--	255,420	255,420
Revenue notes payable	--	28,000	28,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	833,267	108,220	941,487
Revenue bonds payable, net of discount and inclusive of premium	--	3,495,307	3,495,307
Pension obligation payable	53,736	52,640	106,376
Other post employment benefits payable	169,432	100,716	270,148
Capital lease obligations payable	433	1,259	1,692
Accrued landfill closure and postclosure costs	--	7,175	7,175
Decommissioning liability payable from restricted assets	--	150,591	150,591
Derivative instruments - energy risk management	--	113,480	113,480
Derivative instruments - interest rate swaps	--	99,473	99,473
Deferred credits and other liabilities	13,470	684,519	697,989
Other liabilities payable from restricted assets	--	931	931
Total noncurrent liabilities	1,151,279	5,202,364	6,353,643
Total liabilities	1,430,292	5,820,653	7,250,945
Deferred inflows of resources	--	7,710	7,710
Total liabilities and deferred inflows	1,430,292	5,828,363	7,258,655
NET ASSETS			
Invested in capital assets, net of related debt	1,544,834	1,998,753	3,543,587
Restricted for:			
Debt service	18,228	87,404	105,632
Strategic reserve	--	148,519	148,519
Capital projects	29,559	154,435	183,994
Renewal and replacement	--	10,948	10,948
Bond Reserve	--	62,283	62,283
Passenger facility charges	--	26,808	26,808
Operating reserve	--	11,814	11,814
Perpetual Care:			
Expendable	764	--	764
Nonexpendable	1,040	--	1,040
Other purposes	22,125	--	22,125
Unrestricted (deficit)	(58,002)	403,346	345,344
Total net assets	$ 1,558,548	2,904,310	4,462,858

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

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

Statement of Activities
For the year ended September 30, 2010
(In thousands)

City of Austin, Texas
Exhibit A-2

		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**	**Total**
Governmental activities							
General government	$ 89,315	7,902	169	3,760	(77,484)	--	(77,484)
Public safety	455,760	47,530	9,593	12	(398,625)	--	(398,625)
Transportation, planning, and sustainability	65,565	3,792	--	14,136	(47,637)	--	(47,637)
Public health	63,215	7,561	23,313	3,495	(28,846)	--	(28,846)
Public recreation and culture	91,732	3,456	1,473	4,607	(82,196)	--	(82,196)
Urban growth management	143,884	38,895	32,283	24,536	(48,170)	--	(48,170)
Interest on debt	44,889	--	--	--	(44,889)	--	(44,889)
Total governmental activities	954,360	109,136	66,831	50,546	(727,847)	--	(727,847)
Business-type activities							
Electric	1,086,470	1,147,676	--	4,856	--	66,062	66,062
Water	169,708	171,457	--	9,461	--	11,210	11,210
Wastewater	166,979	189,192	--	1,433	--	23,646	23,646
Airport	92,780	100,223	--	7,799	--	15,242	15,242
Convention	51,818	14,784	--	--	--	(37,034)	(37,034)
Environmental and health services	66,380	74,399	--	634	--	8,653	8,653
Public recreation	9,715	8,864	--	3,945	--	3,094	3,094
Urban growth management	106,618	108,312	--	3,575	--	5,269	5,269
Total business-type activities	1,750,468	1,814,907	--	31,703	--	96,142	96,142
Total	$ 2,704,828	1,924,043	66,831	82,249	(727,847)	96,142	(631,705)
	General revenues:						
	Property tax				341,812	--	341,812
	Sales tax				144,710	--	144,710
	Franchise fees and gross receipts tax				87,996	--	87,996
	Interest and other				31,960	13,935	45,895
	Transfers-internal activities				96,031	(96,031)	--
	Total general revenues and transfers				702,509	(82,096)	620,413
	Change in net assets				(25,338)	14,046	(11,292)
	Beginning net assets, as restated (see Note 2)				1,583,886	2,890,264	4,474,150
	Ending net assets				$ 1,558,548	2,904,310	4,462,858

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

(In thousands)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash	$ 56	5	61
Pooled investments and cash	102,327	240,391	342,718
Investments, at fair value	--	21,901	21,901
Cash held by trustee-restricted	160	1,758	1,918
Property taxes receivable	9,025	5,258	14,283
Less allowance for uncollectible taxes	(2,789)	(1,509)	(4,298)
Net property taxes receivable	6,236	3,749	9,985
Accounts and other receivables	133,570	41,441	175,011
Less allowance for doubtful accounts	(82,099)	(259)	(82,358)
Net accounts receivable	51,471	41,182	92,653
Receivables from other governments	--	15,359	15,359
Notes receivable, net of allowance	--	12,367	12,367
Due from other funds	227	57,746	57,973
Advances to other funds	--	4,539	4,539
Inventories, at cost	916	--	916
Real property held for resale	--	5,419	5,419
Prepaid items	86	81	167
Other assets	60	1,169	1,229
Total assets	161,539	405,666	567,205
LIABILITIES AND FUND BALANCES			
Accounts payable	4,768	30,699	35,467
Accrued payroll	26,028	144	26,172
Accrued compensated absences	768	--	768
Due to other funds	--	57,984	57,984
Deferred revenue	18,664	6,779	25,443
Advances from other funds	--	407	407
Deposits and other liabilities	2,601	47,928	50,529
Total liabilities	52,829	143,941	196,770
Fund balances			
Reserved:			
Encumbrances	3,133	129,416	132,549
Inventories and prepaid items	1,002	81	1,083
Notes receivable	--	12,367	12,367
Advances receivable	--	4,539	4,539
Real property held for resale	--	5,419	5,419
Debt service	--	21,958	21,958
Permanent funds	--	1,040	1,040
Unreserved, designated:			
Emergencies	40,000	--	40,000
Contingencies	5,958	--	5,958
Budget stabilization	58,617	--	58,617
Unreserved, undesignated:			
Special revenue	--	57,694	57,694
Capital projects	--	28,447	28,447
Permanent funds	--	764	764
Total fund balances	108,710	261,725	370,435
Total liabilities and fund balances	$ 161,539	405,666	567,205

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

(In thousands)

Total fund balances - Governmental funds		$ 370,435
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Governmental capital assets	3,381,534	
Less: accumulated depreciation	(1,048,019)	
		2,333,515
Other long-term assets are not available as current-period resources and are not reported in the funds.		
Accounts and other taxes receivable	16,985	
Deferred revenue - property taxes and interest	5,804	
Deferred costs and expenses	5,619	
Net Pension Asset	4,943	
		33,351
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	(894,434)	
Pension obligation payable	(53,736)	
Other post employment benefits payable	(169,432)	
Compensated absences	(104,444)	
Interest payable	(3,710)	
Deferred credits and other liabilities	(20,730)	
		(1,246,486)
Internal service funds are used by management to charge the costs of capital project management, combined emergency communication center, employee benefits, fleet maintenance, information systems, liability reserve, support services, wireless communication, and workers' compensation to individual funds.		
Certain assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		67,733
Total net assets - Governmental activities		$ 1,558,548

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

(In thousands)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes	$ 236,302	104,502	340,804
Sales taxes	144,710	--	144,710
Franchise fees and other taxes	41,013	47,308	88,321
Fines, forfeitures and penalties	18,692	5,879	24,571
Licenses, permits and inspections	15,716	--	15,716
Charges for services/goods	33,394	31,200	64,594
Intergovernmental	--	86,557	86,557
Property owners' participation and contributions	--	6,937	6,937
Interest and other	8,059	27,504	35,563
Total revenues	497,886	309,887	807,773
EXPENDITURES			
Current:			
General government	59,727	6,560	66,287
Public safety	417,798	4,160	421,958
Transportation, planning and sustainability	916	9,718	10,634
Public health	37,929	15,300	53,229
Public recreation and culture	61,311	12,778	74,089
Urban growth management	17,875	82,343	100,218
Debt service:			
Principal	--	70,424	70,424
Interest	--	44,590	44,590
Fees and commissions	--	17	17
Capital outlay-capital project funds	--	166,491	166,491
Total expenditures	595,556	412,381	1,007,937
Deficiency of revenues over expenditures	(97,670)	(102,494)	(200,164)
OTHER FINANCING SOURCES (USES)			
Issuance of tax supported debt	--	15,000	15,000
Transfers in	130,233	67,436	197,669
Transfers out	(16,014)	(77,943)	(93,957)
Total other financing sources (uses)	114,219	4,493	118,712
Net change in fund balances	16,549	(98,001)	(81,452)
Fund balances at beginning of year	92,161	359,726	451,887
Fund balances at end of year	$ 108,710	261,725	370,435

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

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
For the year ended September 30, 2010
(In thousands)

Net change in fund balances - Governmental funds		$ (81,452)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital outlay	171,734	
Depreciation expense	(93,994)	
Loss on disposal of capital assets	(24,725)	
		53,015
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		
Property taxes	1,008	
Charges for services	287	
Interest and other	(365)	
Capital assets contribution	14,999	
		15,929
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Issuance of long-term debt	(15,000)	
Principal repayment on long-term debt	70,424	
		55,424
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated absences	(3,082)	
Pension obligation	(5,741)	
Other post employment benefits	(59,581)	
Interest and other	3,099	
		(65,305)
Internal services. A portion of the net revenue (expense) of the internal service funds is reported with the governmental activities.		(2,949)
Change in net assets - Governmental activities		$ (25,338)

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

Proprietary Funds
Statement of Net Assets
September 30, 2010
(In thousands)

	Business-Type Activities		
	Electric	**Water and Wastewater**	**Airport**
ASSETS			
Current assets:			
Cash	$ 18	9	8
Pooled investments and cash	133,576	27,675	1,800
Pooled investments and cash - restricted	68,041	39,199	32,363
Total pooled investments and cash	201,617	66,874	34,163
Investments, at fair value	--	--	--
Investments, at fair value - restricted	100,568	106,247	14,174
Cash held by trustee - restricted	--	101	--
Working capital advances	6,554	--	--
Accounts receivable	134,988	53,040	3,638
Less allowance for doubtful accounts	(2,270)	(514)	(648)
Net accounts receivable	132,718	52,526	2,990
Due from other funds	442	--	--
Due from other funds - restricted	--	27	--
Inventories, at cost	75,011	1,565	1,396
Prepaid expenses	2,581	15	9
Other assets	27,764	--	--
Other receivables - restricted	1,670	423	1,612
Deferred costs and expenses, net of amortization	29,656	23,062	--
Total current assets	578,599	250,849	54,352
Noncurrent assets:			
Pooled investments and cash - restricted	14,874	--	134,427
Advances to other funds	26,876	--	--
Advances to other funds - restricted	--	--	107
Investments, at fair value - restricted	161,150	--	--
Investments held by trustee - restricted	168,033	--	--
Interest receivable - restricted	1,121	--	--
Capital assets			
Land and other nondepreciable assets	65,200	212,841	95,914
Property, plant, and equipment in service	4,019,644	3,439,485	690,294
Less accumulated depreciation	(1,895,660)	(1,121,365)	(191,785)
Net property, plant, and equipment in service	2,123,984	2,318,120	498,509
Construction in progress	328,196	253,410	29,133
Nuclear fuel, net of amortization	34,355	--	--
Plant held for future use	27,783	--	--
Water rights, net of amortization	--	89,136	--
Total capital assets	2,579,518	2,873,507	623,556
Derivative instruments - energy risk management	7,710	--	--
Other long-term assets	62	--	--
Deferred costs and expenses, net of amortization	170,713	183,280	2,929
Total noncurrent assets	3,130,057	3,056,787	761,019
Total assets	3,708,656	3,307,636	815,371
Deferred outflows of resources	113,411	34,606	48,227
Total assets and deferred outflows	$ 3,822,067	3,342,242	863,598

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

	Business-Type Activities		Governmental
	Nonmajor Enterprise Funds	Total	Activities- Internal Service Funds
ASSETS			
Current assets:			
Cash	30	65	15
Pooled investments and cash	146,739	309,790	101,239
Pooled investments and cash - restricted	20,326	159,929	--
Total pooled investments and cash	167,065	469,719	101,239
Investments, at fair value	8,023	8,023	--
Investments, at fair value - restricted	10,572	231,561	--
Cash held by trustee - restricted	--	101	594
Working capital advances	--	6,554	--
Accounts receivable	14,174	205,840	2,015
Less allowance for doubtful accounts	(365)	(3,797)	--
Net accounts receivable	13,809	202,043	2,015
Due from other funds	717	1,159	11
Due from other funds - restricted	--	27	--
Inventories, at cost	1,188	79,160	1,035
Prepaid expenses	220	2,825	77
Other assets	--	27,764	--
Other receivables - restricted	2,504	6,209	--
Deferred costs and expenses, net of amortization	--	52,718	--
Total current assets	204,128	1,087,928	104,986
Noncurrent assets:			
Pooled investments and cash - restricted	--	149,301	--
Advances to other funds	30	26,906	34
Advances to other funds - restricted	55	162	--
Investments, at fair value - restricted	--	161,150	--
Investments held by trustee - restricted	--	168,033	--
Interest receivable - restricted	--	1,121	--
Capital assets			
Land and other nondepreciable assets	91,654	465,609	751
Property, plant, and equipment in service	525,913	8,675,336	74,782
Less accumulated depreciation	(173,781)	(3,382,591)	(38,438)
Net property, plant, and equipment in service	352,132	5,292,745	36,344
Construction in progress	55,825	666,564	1,600
Nuclear fuel, net of amortization	--	34,355	--
Plant held for future use	--	27,783	--
Water rights, net of amortization	--	89,136	--
Total capital assets	499,611	6,576,192	38,695
Derivative instruments - energy risk management	--	7,710	--
Other long-term assets	--	62	--
Deferred costs and expenses, net of amortization	4,307	361,229	4
Total noncurrent assets	504,003	7,451,866	38,733
Total assets	708,131	8,539,794	143,719
Deferred outflows of resources	16,640	212,884	--
Total assets and deferred outflows	724,771	8,752,678	143,719

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

Proprietary Funds
Statement of Net Assets
September 30, 2010
(In thousands)

	Business-Type Activities		
	Electric	Water and Wastewater	Airport
LIABILITIES			
Current liabilities:			
Accounts payable	$ 52,528	3,082	1,724
Accounts and retainage payable from restricted assets	11,425	27,521	3,763
Accrued payroll	8,181	4,011	1,179
Accrued compensated absences	10,681	5,520	1,500
Claims payable	--	--	--
Due to other funds	--	--	--
Accrued interest payable from restricted assets	49,594	42,698	1,851
Interest payable on capital appreciation bonds and other debt	29,690	20,000	1
Commercial paper notes payable	8,603	35,774	--
General obligation bonds payable and other tax supported debt	--	--	28
General obligation bonds payable and other tax supported debt payable from restricted assets	152	4,779	--
Revenue bonds payable from restricted assets	75,084	50,660	13,515
Capital lease obligations payable	38	--	331
Customer and escrow deposits payable from restricted assets	24,686	8,405	417
Accrued landfill closure and postclosure costs	--	--	--
Deferred credits and other liabilities	51,003	24,252	1,071
Total current liabilities	321,665	226,702	25,380
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	895	--	61
Claims payable	--	--	--
Advances from other funds	--	3,505	--
Advances from other funds payable from restricted assets	--	24,603	--
Capital appreciation bond interest payable	18,717	84,578	--
Commercial paper notes payable, net of discount	76,552	178,868	--
Revenue notes payable	--	--	28,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	1,040	22,600	234
Revenue bonds payable, net of discount and inclusive of premium	1,251,199	1,761,237	281,768
Pension obligation payable	23,617	11,823	3,570
Other post employment benefits payable	41,078	25,386	7,477
Capital lease obligations payable	1,259	--	--
Accrued landfill closure and postclosure costs	--	--	--
Decommissioning liability payable from restricted assets	150,591	--	--
Derivative instruments - energy risk management	113,480	--	--
Derivative instruments - interest rate swaps	--	34,606	48,227
Deferred credits and other liabilities	214,709	465,587	--
Other liabilities payable from restricted assets	--	307	62
Total noncurrent liabilities	1,893,137	2,613,100	369,399
Total liabilities	2,214,802	2,839,802	394,779
Deferred inflows of resources	7,710	--	--
Total liabilities and deferred inflows	$ 2,222,512	2,839,802	394,779

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

	Business-Type Activities Nonmajor Enterprise Funds	Business-Type Activities Total	Governmental Activities-Internal Service Funds
LIABILITIES			
Current liabilities:			
Accounts payable	4,726	62,060	6,115
Accounts and retainage payable from restricted assets	3,143	45,852	--
Accrued payroll	4,580	17,951	5,838
Accrued compensated absences	5,320	23,021	6,725
Claims payable	--	--	17,865
Due to other funds	1,023	1,023	163
Accrued interest payable from restricted assets	2,174	96,317	--
Interest payable on capital appreciation bonds and other debt	627	50,318	20
Commercial paper notes payable	--	44,377	--
General obligation bonds payable and other tax supported debt	11,465	11,493	480
General obligation bonds payable and other tax supported debt payable from restricted assets	--	4,931	--
Revenue bonds payable from restricted assets	8,545	147,804	--
Capital lease obligations payable	--	369	283
Customer and escrow deposits payable from restricted assets	3,154	36,662	--
Accrued landfill closure and postclosure costs	765	765	--
Deferred credits and other liabilities	43	76,369	5,095
Total current liabilities	45,565	619,312	42,584
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	382	1,338	561
Claims payable	--	--	15,570
Advances from other funds	2,640	6,145	486
Advances from other funds payable from restricted assets	--	24,603	--
Capital appreciation bond interest payable	--	103,295	--
Commercial paper notes payable, net of discount	--	255,420	--
Revenue notes payable	--	28,000	--
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	84,346	108,220	4,586
Revenue bonds payable, net of discount and inclusive of premium	201,103	3,495,307	--
Pension obligation payable	13,630	52,640	--
Other post employment benefits payable	26,775	100,716	--
Capital lease obligations payable	--	1,259	433
Accrued landfill closure and postclosure costs	7,175	7,175	--
Decommissioning liability payable from restricted assets	--	150,591	--
Derivative instruments - energy risk management	--	113,480	--
Derivative instruments - interest rate swaps	16,640	99,473	--
Deferred credits and other liabilities	4,223	684,519	--
Other liabilities payable from restricted assets	562	931	--
Total noncurrent liabilities	357,476	5,233,112	21,636
Total liabilities	403,041	5,852,424	64,220
Deferred inflows of resources	--	7,710	--
Total liabilities and deferred inflows	403,041	5,860,134	64,220

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

(Continued)

Proprietary Funds
Statement of Net Assets
September 30, 2010
(In thousands)

	Business-Type Activities		
	Electric	**Water and Wastewater**	**Airport**
NET ASSETS			
Invested in capital assets, net of related debt	$ 1,118,770	379,995	302,606
Restricted for:			
Debt service	50,974	20,721	13,634
Strategic reserve	141,695	--	--
Capital projects	33,534	--	110,397
Renewal and replacement	64	--	10,000
Bond reserve	19,455	42,828	--
Passenger facility charges	--	--	26,808
Operating reserve	--	--	9,158
Unrestricted	235,063	58,896	(3,784)
Total net assets	$ 1,599,555	502,440	468,819
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	5,309	2,480	1,006
Total net assets - Business-type activities	$ 1,604,864	504,920	469,825

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

	Business-Type Activities		Governmental
	Nonmajor Enterprise Funds	Total	Activities-Internal Service Funds
NET ASSETS			
Invested in capital assets, net of related debt	197,382	1,998,753	32,917
Restricted for:			
Debt service	2,075	87,404	--
Strategic reserve	6,824	148,519	--
Capital projects	10,504	154,435	1,952
Renewal and replacement	884	10,948	--
Bond reserve	--	62,283	--
Passenger facility charges	--	26,808	--
Operating reserve	2,656	11,814	--
Unrestricted	101,405	391,580	44,630
Total net assets	321,730	2,892,544	79,499
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	2,971	11,766	
Total net assets - Business-type activities	324,701	2,904,310	

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, 2010
(In thousands)

	Business-Type Activities		
	Electric	**Water and Wastewater**	**Airport**
OPERATING REVENUES			
Utility services	$ 1,147,676	360,649	--
User fees and rentals	--	--	83,277
Billings to departments	--	--	--
Employee contributions	--	--	--
Operating revenues from other governments	--	--	--
Other operating revenues	--	--	--
Total operating revenues	1,147,676	360,649	83,277
OPERATING EXPENSES			
Operating expenses before depreciation	887,152	171,171	60,843
Depreciation and amortization	121,570	85,705	19,154
Total operating expenses	1,008,722	256,876	79,997
Operating income (loss)	138,954	103,773	3,280
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	9,740	287	1,452
Interest on revenue bonds and other debt	(80,029)	(94,468)	(14,396)
Interest capitalized during construction	--	--	1,370
Passenger facility charges	--	--	16,946
Amortization of bond issue cost	(1,027)	(717)	(229)
Cost (recovered) to be recovered in future years	(428)	18,375	--
Other nonoperating revenue (expense)	1,593	(4,057)	235
Total nonoperating revenues (expenses)	(70,151)	(80,580)	5,378
Income (loss) before contributions and transfers	68,803	23,193	8,658
Capital contributions	4,856	10,894	7,799
Transfers in	--	--	--
Transfers out	(101,000)	(33,429)	--
Change in net assets	(27,341)	658	16,457
Total net assets - beginning, as restated (See Note 2)	1,626,896	501,782	452,362
Total net assets - ending	$ 1,599,555	502,440	468,819
Reconciliation to government-wide Statement of Activities			
Change in net assets	(27,341)	658	16,457
Adjustment to consolidate internal service activities	2,143	1,056	237
Change in net assets - Business-type activities	$ (25,198)	1,714	16,694

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

	Business-Type Activities: Nonmajor Enterprise Funds	Business-Type Activities: Total	Governmental Activities- Internal Service Funds
OPERATING REVENUES			
Utility services	--	1,508,325	--
User fees and rentals	206,359	289,636	--
Billings to departments	--	--	291,411
Employee contributions	--	--	36,888
Operating revenues from other governments	--	--	2,643
Other operating revenues	--	--	3,478
Total operating revenues	206,359	1,797,961	334,420
OPERATING EXPENSES			
Operating expenses before depreciation	195,132	1,314,298	312,912
Depreciation and amortization	22,054	248,483	8,516
Total operating expenses	217,186	1,562,781	321,428
Operating income (loss)	(10,827)	235,180	12,992
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	2,456	13,935	409
Interest on revenue bonds and other debt	(14,367)	(203,260)	(299)
Interest capitalized during construction	2,559	3,929	--
Passenger facility charges	--	16,946	--
Amortization of bond issue cost	(304)	(2,277)	8
Cost (recovered) to be recovered in future years	--	17,947	--
Other nonoperating revenue (expense)	(6,834)	(9,063)	(6,921)
Total nonoperating revenues (expenses)	(16,490)	(161,843)	(6,803)
Income (loss) before contributions and transfers	(27,317)	73,337	6,189
Capital contributions	8,154	31,703	3,580
Transfers in	41,928	41,928	--
Transfers out	(3,530)	(137,959)	(7,681)
Change in net assets	19,235	9,009	2,088
Total net assets - beginning, as restated (See Note 2)	302,495	2,883,535	77,411
Total net assets - ending	321,730	2,892,544	79,499
Reconciliation to government-wide Statement of Activities			
Change in net assets	19,235	9,009	
Adjustment to consolidate internal service activities	1,601	5,037	
Change in net assets - Business-type activities	20,836	14,046	

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

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2010
(In thousands)

	Business-Type Activities		
	Electric	Water and Wastewater	Airport
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	$ 1,203,742	359,640	85,838
Cash payments to suppliers for goods and services	(728,298)	(81,894)	(34,843)
Cash payments to employees for services	(151,914)	(77,059)	(22,427)
Cash payments to claimants/beneficiaries	--	--	--
Taxes collected and remitted to other governments	(35,269)	--	--
Net cash provided by operating activities	288,261	200,687	28,568
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	--	--	--
Transfers out	(101,000)	(33,429)	--
Interest paid on revenue notes and other debt	(221)	--	--
Increase in deferred assets	(970)	--	--
Loans to other funds	(12)	--	--
Loans from other funds	--	24,603	--
Loan repayments to other funds	--	(380)	--
Loan repayments from other funds	442	27	11
Collections from other governments	--	--	724
Net cash provided (used) by noncapital financing activities	(101,761)	(9,179)	735
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	94,130	181,350	--
Proceeds from the sale of revenue bonds	--	10,840	--
Principal paid on long-term debt	(66,073)	(59,753)	(13,449)
Purchased interest received	1,157	710	--
Interest paid on revenue bonds and other debt	(99,910)	(104,438)	(13,632)
Passenger facility charges	--	--	16,946
Acquisition and construction of capital assets	(205,299)	(199,435)	(13,885)
Contributions to municipality	--	--	--
Contributions in aid of construction	4,856	5,635	7,799
Bond issuance costs	(2,205)	(1,476)	--
Bond discounts	(59)	--	--
Bond premiums	7,620	6,695	--
Bonds issued for advanced refundings of debt	220,245	166,575	--
Cash paid for bond refunding escrow	(226,150)	(171,795)	--
Cash paid for nuclear fuel inventory	(14,801)	--	--
Net cash provided (used) by capital and related financing activities	$ (286,489)	(165,092)	(16,221)

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

	Business-Type Activities		Governmental
	Nonmajor Enterprise Funds	Total	Activities-Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	206,260	1,855,480	334,943
Cash payments to suppliers for goods and services	(102,647)	(947,682)	(71,230)
Cash payments to employees for services	(90,335)	(341,735)	(107,114)
Cash payments to claimants/beneficiaries	--	--	(130,783)
Taxes collected and remitted to other governments	--	(35,269)	--
Net cash provided by operating activities	13,278	530,794	25,816
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	41,928	41,928	--
Transfers out	(3,530)	(137,959)	(7,681)
Interest paid on revenue notes and other debt	(4)	(225)	--
Increase in deferred assets	--	(970)	--
Loans to other funds	(7)	(19)	--
Loans from other funds	40	24,643	--
Loan repayments to other funds	(898)	(1,278)	(253)
Loan repayments from other funds	85	565	--
Collections from other governments	24	748	--
Net cash provided (used) by noncapital financing activities	37,638	(72,567)	(7,934)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	--	275,480	--
Proceeds from the sale of revenue bonds	--	10,840	--
Principal paid on long-term debt	(18,608)	(157,883)	280
Purchased interest received	--	1,867	--
Interest paid on revenue bonds and other debt	(13,206)	(231,186)	(301)
Passenger facility charges	--	16,946	--
Acquisition and construction of capital assets	(39,048)	(457,667)	(8,619)
Contributions to municipality	(15)	(15)	--
Contributions in aid of construction	1,897	20,187	--
Bond issuance costs	--	(3,681)	--
Bond discounts	--	(59)	--
Bond premiums	--	14,315	--
Bonds issued for advanced refundings of debt	--	386,820	--
Cash paid for bond refunding escrow	--	(397,945)	--
Cash paid for nuclear fuel inventory	--	(14,801)	--
Net cash provided (used) by capital and related financing activities	(68,980)	(536,782)	(8,640)

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

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2010
(In thousands)

	Business-Type Activities		
	Electric	**Water and Wastewater**	**Airport**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	$ (464,157)	(158,182)	(30,298)
Proceeds from sale and maturities of investment securities	391,201	131,957	30,692
Interest on investments	8,269	287	1,452
Net cash provided (used) by investing activities	(64,687)	(25,938)	1,846
Net increase (decrease) in cash and cash equivalents	(164,676)	478	14,928
Cash and cash equivalents, October 1	381,185	66,506	153,670
Cash and cash equivalents, September 30	216,509	66,984	168,598
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	138,954	103,773	3,280
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	121,570	84,717	19,154
Amortization	--	988	--
Change in assets and liabilities:			
Increase in working capital advances	(3,161)	--	--
(Increase) decrease in accounts receivable	(982)	(226)	1,736
Increase (decrease) in allowance for doubtful accounts	55	(201)	121
Decrease in due from other funds	--	--	--
(Increase) decrease in inventory	13,693	219	213
Decrease in prepaid expenses and other assets	5,668	(2)	19
(Increase) decrease in deferred costs and other expenses	(8,491)	25	--
(Increase) decrease in other long-term assets	5	--	--
Increase (decrease) in accounts payable	(5,482)	4	(379)
Increase in accrued payroll and compensated absences	885	197	135
Decrease in claims payable	--	--	--
Increase in pension obligations payable	5,793	2,843	835
Increase in other post employment benefits payable	14,445	8,927	2,629
Increase (decrease) in deferred credits and other liabilities	2,154	(1,766)	846
Increase (decrease) in customer deposits	3,155	1,189	(21)
Total adjustments	149,307	96,914	25,288
Net cash provided by operating activities	$ 288,261	200,687	28,568

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

	Business-Type Activities Nonmajor Enterprise Funds	Business-Type Activities Total	Governmental Activities- Internal Service Funds
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	(20,810)	(673,447)	--
Proceeds from sale and maturities of investment securities	19,294	573,144	--
Interest on investments	2,456	12,464	409
Net cash provided (used) by investing activities	940	(87,839)	409
Net increase (decrease) in cash and cash equivalents	(17,124)	(166,394)	9,651
Cash and cash equivalents, October 1	184,219	785,580	92,197
Cash and cash equivalents, September 30	167,095	619,186	101,848
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	(10,827)	235,180	12,992
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	22,054	247,495	8,516
Amortization	--	988	--
Change in assets and liabilities:			
Increase in working capital advances	--	(3,161)	--
(Increase) decrease in accounts receivable	(118)	410	138
Increase (decrease) in allowance for doubtful accounts	74	49	(222)
Decrease in due from other funds	--	--	11
(Increase) decrease in inventory	(758)	13,367	179
Decrease in prepaid expenses and other assets	488	6,173	461
(Increase) decrease in deferred costs and other expenses	--	(8,466)	276
(Increase) decrease in other long-term assets	--	5	--
Increase (decrease) in accounts payable	(13)	(5,870)	(622)
Increase in accrued payroll and compensated absences	284	1,501	655
Decrease in claims payable	--	--	3,158
Increase in pension obligations payable	3,210	12,681	--
Increase in other post employment benefits payable	9,416	35,417	--
Increase (decrease) in deferred credits and other liabilities	(10,564)	(9,330)	274
Increase (decrease) in customer deposits	32	4,355	--
Total adjustments	24,105	295,614	12,824
Net cash provided by operating activities	13,278	530,794	25,816

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

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2010
(In thousands)

	Business-Type Activities		
	Electric	**Water and Wastewater**	**Airport**
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
(Increase) decrease in deferred assets/expenses	$ (9,807)	6,142	--
Capital appreciation bonds interest accreted	7,304	11,970	--
Capital assets contributed from other funds	--	--	--
Increase in contributed facilities	--	5,259	--
Increase (decrease) in the fair value of investments	(1,238)	(406)	427
Amortization of bond issue costs	1,027	(717)	(229)
Amortization of bond discounts and premiums	(5,077)	(3,709)	260
Amortization of deferred gain (loss) on refundings	9,986	3,804	(1,085)
Gain (loss) on disposal of assets	1,593	(4,057)	(490)
Deferred gain (loss) on bond refunding	(2,792)	--	--
Bond issuance costs, discounts, premiums, and accrued interest written off due to refunding	1,357	--	--
Deferred costs (recovered) to be recovered	3,487	18,375	--
Increase (decrease) in deferred credits and other liabilities	150,705	(32,999)	--
Capital lease obligations	1,258	--	486
Bonds assumed with debt transfer	--	(8,046)	--
Contributions	--	--	--
Debt obligations transferred to other funds	--	--	--

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

	Business-Type Activities		Governmental
	Nonmajor Enterprise Funds	Total	Activities-Internal Service Funds
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
(Increase) decrease in deferred assets/expenses	221	(3,444)	--
Capital appreciation bonds interest accreted	--	19,274	--
Capital assets contributed from other funds	173	173	2,254
Increase in contributed facilities	--	5,259	--
Increase (decrease) in the fair value of investments	(967)	(2,184)	--
Amortization of bond issue costs	(304)	(223)	4
Amortization of bond discounts and premiums	(789)	(9,315)	--
Amortization of deferred gain (loss) on refundings	1,612	14,317	--
Gain (loss) on disposal of assets	(2,748)	(5,702)	(102)
Deferred gain (loss) on bond refunding	--	(2,792)	--
Bond issuance costs, discounts, premiums, and accrued interest written off due to refunding	--	1,357	--
Deferred costs (recovered) to be recovered	--	21,862	--
Increase (decrease) in deferred credits and other liabilities	--	117,706	323
Capital lease obligations	--	1,744	--
Bonds assumed with debt transfer	(4,522)	(12,568)	--
Contributions	375	375	--
Debt obligations transferred to other funds	3,339	3,339	--

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

(In thousands)

	Private-purpose Trust	Agency
ASSETS		
Pooled investments and cash	$ 1,410	3,644
Other assets	121	--
Total assets	1,531	3,644
LIABILITIES		
Accounts payable	--	11
Due to other governments	--	2,799
Deposits and other liabilities	663	834
Total liabilities	663	3,644
NET ASSETS		
Held in trust	868	
Total net assets	$ 868	

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

	Private-purpose Trust
ADDITIONS	
Contributions	$ 431
Interest and other	19
Total additions	450
DEDUCTIONS	
Benefit payments	396
Total deductions	396
Net additions (deductions)	54
Total net assets - beginning	814
Total net assets - ending	$ 868

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The City of Austin's charter requires an annual audit by an independent certified public accountant. These financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB). The City has implemented GASB Statements No. 1 through No. 53, and No. 55 through No. 58. In fiscal year 2010, the City implemented GASB Statement No. 51 entitled "*Accounting and Financial Reporting for Intangible Assets*" (see Note 2 for impact), GASB Statement No. 53 entitled "*Accounting and Financial Reporting for Derivative Instruments*" (see Note 14 for impact), GASB Statement No. 57 entitled "*OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*", and GASB Statement No. 58 entitled "*Accounting and Financial Reporting for Chapter 9 Bankruptcies*". Implementation of the GASB Statement No. 57 and No. 58 did not have a significant impact on the City's financial statements. 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 Mental Retardation Center - The nine board members are appointed by the City, Travis County, and the Austin Independent School District.
- Urban Renewal Agency - The Mayor, with consent of the City Council, appoints the board of commissioners for this agency, whose primary responsibility is to oversee the implementation and compliance of urban renewal plans adopted by the City Council.
- Austin Housing Authority - The Mayor appoints the persons to serve as commissioners of this organization.

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

- 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.

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 No. 34; the City has elected to present the Airport Fund as a major fund even though it does not meet the minimum criteria. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All other funds are aggregated into nonmajor governmental, nonmajor enterprise, or internal service fund groupings.

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

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

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

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

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.

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

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

The City reports the following major governmental fund:

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

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

> Special Revenue Funds: Account for 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); 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.

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

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

The City reports the following major enterprise funds:

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

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

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

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

Convention: Accounts for convention center and public events activities.
Environmental and health services: Accounts for hospital and solid waste services activities.
Public recreation: Accounts for golf and parks and recreation activities.
Urban growth management: 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 payroll accruals, employee training, and other fund-level expenditures are budgeted as general city responsibilities.

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
d -- Budget, continued

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 carry a negative balance in pooled cash and investments are not allocated interest earnings nor charged interest expense.

Investments -- Certain investments are required to be reported at fair value, based on quoted market prices. Realized gains or losses resulting from the sale of investments are determined by the specific cost of the securities sold. The City carries all of its investments in U.S. government and agency debt securities and money market mutual funds at fair value as of September 30, 2010. Investments in local government investment pools are carried at amortized cost, which approximates fair value.

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, 2010 (in thousands):

	Charges for Services	Fines	Taxes	Other Govern-ments	Other	Total
Governmental activities						
General Fund	$ 79,001	25,907	33,307	–	--	138,215
Nonmajor governmental funds	599	16	11,751	28,356	719	41,441
Internal service funds	2,015	–	–	–	--	2,015
Allowance for doubtful accounts	(70,487)	(11,612)	–	(259)	--	(82,358)
Total	$ 11,128	14,311	45,058	28,097	719	99,313

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

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

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

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

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

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

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 accounting for regulated operations (formerly FASB Statement No. 71), enabling legislation also includes restrictions on asset use established by its governing board which is the City Council.

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	$ 141,695	--	--	--	141,695
Capital projects	44,960	31,038	121,054	10,154	207,206
Customer and escrow deposits	24,686	8,405	417	3,154	36,662
Debt service	100,568	106,247	13,634	2,130	222,579
Federal grants	--	307	1,612	2,480	4,399
Plant decommissioning	184,029	--	--	--	184,029
Revenue bond reserve	19,455	--	--	8,497	27,952
Operating reserve account	--	--	9,158	6,158	15,316
Passenger facility charge account	--	--	26,808	--	26,808
Renewal and replacement account	64	--	10,000	884	10,948
	$ 515,457	145,997	182,683	33,457	877,594

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

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

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

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 accounting for regulated operations.

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
Plant and 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
Water rights	--	--	101	--	--
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.

Water rights represent the amortized cost of a $100 million contract, net of accumulated amortization of $10.9 million between the City and the Lower Colorado River Authority (LCRA) for a fifty-one year assured water supply agreement, with an option to extend another fifty years. The City and LCRA entered into the contract in 1999. The asset amortization period is 101.25 years.

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

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

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

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

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

	Work-week	Non-Civil Service Employees (1)	Civil Service Police (2)	Civil Service Fire (3)
Vacation	0-40	240	240	240
	42	270	N/A	N/A
	48	309	N/A	N/A
	53	N/A	N/A	360
Exception vacation (4)	0-40	160	160	176
	42	160	N/A	N/A
	48	160	N/A	N/A
	53	N/A	N/A	264
Sick leave	0-40	720	1,400	720
	42	756	N/A	N/A
	48	926	N/A	N/A
	53	N/A	N/A	1080

(1) Non-civil service employees are eligible for accumulated sick leave payout if hired before October 1, 1986.
(2) Civil service police employees with 10 years of actual service are eligible for accumulated sick leave payout.
(3) Civil service fire employees are eligible for accumulated sick leave payout regardless of hire date.
(4) Exception vacation hours are hours accumulated by an employee when the employee works on a City holiday.

Other Post Employment Benefits -- The City provides certain health care benefits for its retired employees and their families as more fully described in Note 16. The City implemented GASB Statement No. 45 and reports the actuarially determined cost of these post-employment benefits, other than pensions. At September 30, 2010, the City’s total actuarial accrued liability for these retiree benefits was approximately $1.1 billion. The City funds the costs of these benefits on a pay-as-you-go basis.

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

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

Revenue bonds issued to finance capital projects of certain enterprise funds are to be repaid from 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.

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

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 the Water and Wastewater Fund.

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

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

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

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

	Bad Debt Expense
Electric	$ 4,166
Water and Wastewater	1,469
Airport	120
Nonmajor Enterprise	1,184

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 a fuel cost adjustment clause that permits recovery of fuel costs in the month incurred or in future months. The City reports fuel costs on the same basis as it recognizes revenue. Unbilled revenue is recorded in the Electric Fund by estimating the daily power generation and allocating by each billing district meter read dates as of September 30, 2010. The amount of unbilled revenue recorded, as of September 30, 2010, for the Electric Fund was $40.4 million. The Water and Wastewater Fund records unbilled revenue as earned based upon the percentage of October's billing that represented water usage through September 30, 2010. The amount of unbilled revenue recorded as of September 30, 2010 was $11.2 million for water and $10.7 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. In the government-wide statement of activities, the effect of interfund activity has generally been removed from the statements. Exceptions include the chargeback of services, such as utilities or vehicle maintenance, and charges for central administrative costs. Elimination of these charges would distort the direct costs and program revenues of the various functions reported. The City recovers indirect costs that are incurred in the Support Services Fund, which is reported as an internal service fund. Indirect costs are calculated in a citywide cost allocation plan or through indirect cost rates, which are based on the cost allocation plan.

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

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

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

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

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

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

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

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

Risk Management -- The City is exposed to employee-related risks for health benefits and workers' compensation, as well as to various risks of loss related to torts; theft of, damage to, or destruction of assets; fraud; and natural disasters. The City is self-insured for legal liabilities, workers' compensation claims, and 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 15).

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.

f -- Comparative Data

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

g -- Use of Estimates

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

2 – RESTATEMENT AS A RESULT OF THE IMPLEMENTATION OF A NEW ACCOUNTING STANDARD

During fiscal year 2010, the City implemented a new accounting standard, GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* which established standards of accounting and reporting for intangible assets. GASB Statement No. 51 requires a restatement of prior financial statements for prior period impacts of implementation. The statement addresses the basis of the useful life of an intangible asset. The City assessed the useful life of the Water and Wastewater Fund's water rights agreement and determined that the useful life should be adjusted from 40 years to 101.25 years to reflect the time period of the contract, including the renewal period. In accordance with accounting for regulated operations, the City also assessed the effect of the implementation of GASB Statement No. 51 on the regulatory accounting for the portion of the water rights funded by debt. The City has restated the beginning net assets in 2010 for the Water and Wastewater Fund and Business-type activities to reflect this implementation as follows:

	Exhibit A-2	Exhibit C-2	
	Business-Type Activities	Water and Wastewater	Business-Type Activities
Net assets at September 30, 2009, as previously reported	$ 2,886,129	497,647	2,879,400
Adjustments to properly record:			
Implementation of GASB Statement No. 51	15,125	15,125	15,125
Implementation effect on accounting for regulated operations	(10,990)	(10,990)	(10,990)
Net assets at September 30, 2009, as restated	$ 2,890,264	501,782	2,883,535

3 – DEFICITS IN FUND BALANCES AND NET ASSETS

At September 30, 2010, the following funds reported deficits in fund balances/net assets (in thousands). Management intends to recover these deficits through future operating revenues, transfers, or debt issues.

Nonmajor Governmental	Deficit
Special Revenue Funds:	
Medicaid Administrative Claims	$ 696
PARD Police Asset Forfeitures	2
Senior Nutrition	10
Performance Contracting	1,051
City Hall	117
Mueller Tax Increment Financing	212
One Texas Center	600
RMMA Reimbursement	18
Rutherford Lane Facility	792
Capital Projects Funds:	
Street & traffic signals	8
Parks and recreation facilities	288
Libraries	17
Radio Trunking	537
Affordable Housing	22,038
Central Library	225
TPSD general improvements	1,916
Build Austin	281
CMTA Mobility	458
Police and courts	5,584
Public Works	184
Watershed Protection	663
City Hall, plaza, parking garage	7,055
Conservation Land	15
Nonmajor Enterprise	
Parks and recreation	326

4 – POOLED INVESTMENTS AND CASH

The following summarizes the amounts of pooled investments and cash by fund at September 30, 2010 (in thousands):

	Pooled Investments and Cash	
	Unrestricted	Restricted
General Fund	$ 102,327	--
Nonmajor governmental funds	240,391	--
Electric	133,576	82,915
Water and Wastewater	27,675	39,199
Airport	1,800	166,790
Nonmajor enterprise funds	146,739	20,326
Internal service funds	101,239	--
Fiduciary funds	5,054	--
Subtotal pooled investments and cash	758,801	309,230
Total pooled investments and cash	$ 1,068,031	

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. 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;

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

7. Collateralized repurchase agreements having a defined termination date and described in more detail in the Investment Policy;
8. Certificates of deposit issued by state and national banks domiciled in Texas that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or as further described in the Investment Policy;
9. Certificates of deposit issued by savings banks domiciled in Texas;
10. Share certificates issued by a state or federal credit unions domiciled in Texas;
11. Money market mutual funds; and
12. Local government investment pools (LGIPs).

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

The City invests in TexPool, TexasDAILY, and TexStar to provide its liquidity needs. TexPool, TexasDAILY, and TexStar 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, TexasDAILY, and TexStar 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, TexasDAILY, and TexStar are rated AAAm and must maintain a dollar weighted average maturity not to exceed a 60-day limit. At September 30, 2010, TexPool, TexasDAILY, and TexStar had a weighted average maturity of 30 days, 52 days and 46 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 2010.

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 investments of the City at September 30, 2010 (in thousands):

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Non-pooled investments:				
Local Government Investment Pools	$ 21,901	291,270	--	313,171
Money Market Funds	--	54,276	--	54,276
US Treasury Notes	--	79,344	--	79,344
US Agency Bonds	--	138,882	--	138,882
US Agency Bonds-Step	--	4,995	--	4,995
Total non-pooled investments	21,901	568,767	--	590,668
Pooled investments:				
Local Government Investment Pools	204,394	284,992	2,327	491,713
US Agency Bonds	239,453	333,921	2,680	576,054
US Agency Bonds-Step	4,156	5,794	47	9,997
Total pooled investments	448,003	624,707	5,054	1,077,764
Total investments	$ 469,904	1,193,474	5,054	1,668,432

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

Concentration of Credit Risk
At September 30, 2010, the City of Austin was exposed to concentration of credit risk since it held investments with more than five percent of the total investment portfolio balances of the City in securities of the following issuers (in millions): Federal Farm Credit Bank ($176.6 or 11%), Federal Home Loan Bank ($166.6 or 10%), Federal Home Loan Mortgage Corporation ($205.3 or 12%), and Federal National Mortgage Association ($181.4 or 11%).

b -- Investment categories

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

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

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

Operating Funds
As of September 30, 2010, the City operating funds had the following investments:

	Fair Value (in thousands)				
Investment Type	**Governmental Activities**	**Business-type Activities**	**Fiduciary Funds**	**Total**	**Weighted Average Maturity (days)**
Local Government Investment Pools	$ 204,394	284,992	2,327	491,713	1
US Agency Bonds	239,453	333,921	2,680	576,054	538
US Agency Bonds-Step	4,156	5,794	47	9,997	1,057
Total	$ 448,003	624,707	5,054	1,077,764	296

Credit Risk
None of the portfolio consists of direct obligations of the US government. As of September 30, 2010, Standard and Poor's issued the following ratings for other investments:

Local Government Investment Pools	46%	AAAm
US Agencies	54%	AAA

Concentration of Credit Risk
At September 30, 2010, the operating funds held investments with more than five percent of the total in securities of the following issuers (in millions): Federal Farm Credit Bank ($141.5 or 13%), Federal Home Loan Bank ($117.1 or 11%), Federal Home Loan Mortgage Corporation ($166.2 or 15%), and Federal National Mortgage Association ($161.3 or 15%).

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, 2010, less than half 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 obligations. Term limits on individual maturities did not exceed three years from the purchase date. The dollar weighted average maturity of all securities was 296 days, which was less than the threshold of 365 days.

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

Debt Service Funds
As of September 30, 2010, the City's debt service funds had the following investments:

Investment Type	Fair Value (in thousands) Governmental Activities	Fair Value (in thousands) Business-type Activities	Final Maturity
General Obligation Debt Service			
Local Government Investment Pools	$ 21,901	--	N/A
Enterprise-Utility (1)			
Local Government Investment Pools	--	182,213	N/A
Enterprise-Airport			
Local Government Investment Pools	--	14,097	N/A
Nonmajor Enterprise-Convention Center			
Local Government Investment Pools	--	18,596	N/A
Total	$ 21,901	214,906	

(1) Includes combined pledge debt service

Credit Risk
As of September 30, 2010, Standard and Poor's rated TexPool AAAm.

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

Special Project Fund
Airport Construction
As of September 30, 2010, the City's special project fund had the following investments:

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

Credit Risk
As of September 30, 2010, Standard and Poor's rated TexPool AAAm.

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

Special Purpose Funds
Austin Energy Strategic Reserve Fund
As of September 30, 2010, 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	$ 32,231	1
US Treasury Notes	32,719	1,030
US Agency Bonds	71,747	1,002
US Agency Bonds-Step	4,998	990
Total	$ 141,695	773

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

Credit Risk
At September 30, 2010, the Austin Energy Strategic Reserve Fund held an investment in TexPool, an LGIP rated AAAm by Standard and Poor's, with the remainder invested in short-to-medium term US Agency and Treasury obligations. Standard and Poor's rated the US Agency Bonds AAA. The remaining securities are direct obligations of the US government.

Concentration of Credit Risk
At September 30, 2010, the Austin Energy Strategic Reserve Fund held investments with more than five percent of the total in securities of the following issuers (in millions): Federal Farm Credit Bank ($15.2 or 11%), Federal Home Loan Bank ($21.4 or 15%), Federal Home Loan Mortgage Corporation ($20.0 or 14%), and Federal National Mortgage Association ($20.1 or 14%).

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, 2010, 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 773 days (2.12 years).

Austin Energy Nuclear Decommissioning Trust Funds
As of September 30, 2010, the City's Special Purpose Fund (Nuclear Decommissioning Trust Funds, NDTF) had the following investments:

Investment Type	Fair Value (in thousands)	Weighted Average Maturity (years)
US Treasury Notes	$ 46,625	4.06
US Agency Bonds	67,132	3.14
Money Market Funds	54,276	1 day
Total	$ 168,033	2.52

Credit Risk
As of September 30, 2010, Standard and Poor's rated the US Agency Bonds AAA and the Money Market Fund AAAm. The remaining securities are direct obligations of the US government.

Concentration of Credit Risk
At September 30, 2010, the NDTF held investments with more than five percent of the total in securities of the following issuers (in millions): Federal Farm Credit Bank ($19.8 or 12%), Federal Home Loan Bank ($28.2 or 17%), and Federal Home Loan Mortgage Corporation ($19.1 or 11%).

Interest Rate Risk
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy for the Nuclear Decommissioning Trust Funds portfolios requires that the dollar weighted average maturity, using final 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, 2010, the dollar weighted average maturity was 2.52 years.

Combined Utility Reserve
As of September 30, 2010, the City's special project fund had the following investments:

Investment Type	Fair Value (in thousands) Business-type Activities	Final Maturity
Local Government Investment Pools	$ 44,057	N/A

Credit Risk
As of September 30, 2010, Standard and Poor's rated TexPool AAAm.

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.

c -- Investments and Deposits

Investments and deposits portfolio balances at September 30, 2010, are as follows (in thousands):

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Non-pooled investments and cash	$ 24,489	568,933	--	593,422
Pooled investments and cash	451,379	629,415	5,054	1,085,848
Total investments and cash	475,868	1,198,348	5,054	1,679,270
Unrestricted cash	76	65	--	141
Restricted cash	2,512	101	--	2,613
Pooled investments and cash	451,379	629,415	5,054	1,085,848
Investments	21,901	568,767	--	590,668
Total investments and cash	$ 475,868	1,198,348	5,054	1,679,270

A difference of $17.8 million exists between portfolio balance and book balance, primarily due to deposits in transit offset by outstanding checks.

Deposits
The September 30, 2010, carrying amount of deposits at the bank and cash on hand are as follows (in thousands):

	Governmental Activities	Business-Type Activities	Total
Cash			
Unrestricted	$ 76	65	141
Cash held by trustee			
Restricted	2,512	101	2,613
Pooled cash	3,376	4,708	8,084
Total deposits	$ 5,964	4,874	10,838

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, 2010.

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, 2009, upon which the 2010 levy was based, was $80,960,540,976.

Taxes are due by January 31 following the October 1 levy date. During the year ended September 30, 2010, 98.97% of the current tax levy (October 1, 2009) was collected. The statutory lien date is January 1.

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

6 – PROPERTY TAXES, continued

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

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

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

The tax rate to finance general governmental functions, other than the payment of principal and interest on general obligation long-term debt, for the year ended September 30, 2010, was $.2950 per $100 assessed valuation. The City has a tax margin for general governmental purposes of $.7050 per $100 assessed valuation, and could levy approximately $570,771,814 in additional taxes from the assessed valuation of $80,960,540,976 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 2010 in the following funds related to the construction of various enterprise fund capital improvement projects (in thousands):

Enterprise Funds	
Major fund:	
Airport	$ 1,370
Nonmajor enterprise funds:	
Convention Center	962
Drainage	1,278
Golf	3
Solid Waste Services	220
Transportation	96

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Governmental Activities

Capital asset activity for the year ended September 30, 2010, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 324,546	13,262	(5,351)	332,457
Arts and treasures	5,724	201	(11)	5,914
Library collections	14,069	340	(20)	14,389
Total	344,339	13,803	(5,382)	352,760
Depreciable property, plant, and equipment in service				
Building and improvements	633,147	14,719	(3,221)	644,645
Plant and equipment	153,341	9,427	(6,187)	156,581
Vehicles	94,017	6,730	(7,485)	93,262
Infrastructure	1,930,110	39,833	(182)	1,969,761
Total	2,810,615	70,709	(17,075)	2,864,249
Less accumulated depreciation for				
Building and improvements	(183,644)	(18,901)	5	(202,540)
Plant and equipment	(80,293)	(17,933)	5,188	(93,038)
Vehicles	(57,522)	(8,096)	7,089	(58,529)
Infrastructure	(674,838)	(57,580)	68	(732,350)
Total	(996,297)	(102,510) (2)	12,350	(1,086,457)
Net property, plant, and equipment in service	1,814,318	(31,801)	(4,725)	1,777,792
Other capital assets				
Construction in progress	144,606	170,095	(73,043)	241,658
Total capital assets	$ 2,303,263	152,097	(83,150)	2,372,210

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

(2) Depreciation expense was charged to functions and internal service funds as follows (in thousands):

Governmental activities:	
General government	$ 5,489
Public safety	12,574
Transportation, planning, and sustainability	48,704
Public health	1,327
Public recreation and culture	9,974
Urban growth management	15,926
Internal service funds	8,516
Total increases in accumulated depreciation	$ 102,510

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Electric Fund

Capital asset activity for the year ended September 30, 2010, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 64,007	1,193	--	65,200
Total	64,007	1,193	--	65,200
Depreciable property, plant, and equipment in service				
Building and improvements	652,394	2,981	(102)	655,273
Plant and equipment	3,111,288	251,791	(27,877)	3,335,202
Vehicles	28,190	3,081	(2,102)	29,169
Total	3,791,872	257,853	(30,081)	4,019,644
Less accumulated depreciation for				
Building and improvements	(343,288)	(17,826)	98	(361,016)
Plant and equipment	(1,438,308)	(101,136)	21,756	(1,517,688)
Vehicles	(16,385)	(2,608)	2,037	(16,956)
Total	(1,797,981)	(121,570) (1)	23,891	(1,895,660)
Net property, plant, and equipment in service	1,993,891	136,283	(6,190)	2,123,984
Other capital assets				
Construction in progress	385,600	201,877	(259,281)	328,196
Nuclear fuel, net of amortization	33,117	14,800	(13,562)	34,355
Plant held for future use	27,783	--	--	27,783
Total capital assets	$ 2,504,398	354,153	(279,033)	2,579,518

(1) Components of accumulated depreciation increases:	
Current year depreciation	$ 121,570

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Water and Wastewater Fund

Capital asset activity for the year ended September 30, 2010, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 205,569	7,375	(103)	212,841
Total	205,569	7,375	(103)	212,841
Depreciable property, plant, and equipment in service				
Building and improvements	536,428	11,089	(180)	547,337
Plant and equipment	2,629,053	235,230	(5,173)	2,859,110
Vehicles	30,923	3,738	(1,623)	33,038
Total	3,196,404	250,057	(6,976)	3,439,485
Less accumulated depreciation for				
Building and improvements	(174,704)	(12,041)	--	(186,745)
Plant and equipment	(848,338)	(70,038)	2,782	(915,594)
Vehicles	(17,879)	(2,638)	1,491	(19,026)
Total	(1,040,921)	(84,717) (2)	4,273	(1,121,365)
Net property, plant, and equipment in service	2,155,483	165,340	(2,703)	2,318,120
Other capital assets				
Construction in progress	288,694	210,681	(245,965)	253,410
Water rights, net of amortization	90,124	--	(988) (3)	89,136
Total capital assets	$ 2,739,870	383,396	(249,759)	2,873,507

(1) Increases and decreases do not include transfers (at net book value) between Water and Wastewater activities.

(2) Components of accumulated depreciation increases:

Current year depreciation	
Water	$ 35,566
Wastewater	49,151
	$ 84,717

(3) Components of water rights, net of amortization decreases:

Current year amortization - Water	$ 988

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Airport Fund

Capital asset activity for the year ended September 30, 2010, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 94,155	937	--	95,092
Arts and treasures	822	--	--	822
Total	94,977	937	--	95,914
Depreciable property, plant, and equipment in service				
Building and improvements	649,650	12,473	--	662,123
Plant and equipment	23,341	1,476	(2,187)	22,630
Vehicles	5,678	473	(610)	5,541
Total	678,669	14,422	(2,797)	690,294
Less accumulated depreciation for				
Building and improvements	(160,720)	(17,175)	--	(177,895)
Plant and equipment	(10,160)	(1,587)	886	(10,861)
Vehicles	(3,108)	(392)	471	(3,029)
Total	(173,988)	(19,154) (1)	1,357	(191,785)
Net property, plant, and equipment in service	504,681	(4,732)	(1,440)	498,509
Other capital assets				
Construction in progress	27,054	15,315	(13,236)	29,133
Total capital assets	$ 626,712	11,520	(14,676)	623,556

(1) Components of accumulated depreciation increases:

Current year depreciation	$ 19,154

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Nonmajor Enterprise Funds

Capital asset activity for the year ended September 30, 2010, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 84,922	6,120	--	91,042
Arts and treasures	612	--	--	612
Total	85,534	6,120	--	91,654
Depreciable property, plant, and equipment in service				
Building and improvements	320,777	301	(315)	320,763
Plant and equipment	121,709	13,321	(2,247)	132,783
Vehicles	65,682	10,674	(3,989)	72,367
Total	508,168	24,296	(6,551)	525,913
Less accumulated depreciation for				
Building and improvements	(88,058)	(9,392)	134	(97,316)
Plant and equipment	(33,151)	(5,615)	519	(38,247)
Vehicles	(34,840)	(7,047)	3,669	(38,218)
Total	(156,049)	(22,054) (2)	4,322	(173,781)
Net property, plant, and equipment in service	352,119	2,242	(2,229)	352,132
Other capital assets				
Construction in progress	45,950	37,578	(27,703)	55,825
Total capital assets	$ 483,603	45,940	(29,932)	499,611

(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	$ 8,307
Environmental and health services	6,157
Public recreation	669
Urban growth management	6,921
Total increases in accumulated depreciation	$ 22,054

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Total

Capital asset activity for the year ended September 30, 2010, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 448,653	15,625	(103)	464,175
Arts and treasures	1,434	--	--	1,434
Total	450,087	15,625	(103)	465,609
Depreciable property, plant, and equipment in service				
Building and improvements	2,159,249	26,844	(597)	2,185,496
Plant and equipment	5,885,391	501,803	(37,469)	6,349,725
Vehicles	130,473	17,951	(8,309)	140,115
Total	8,175,113	546,598	(46,375)	8,675,336
Less accumulated depreciation for				
Building and improvements	(766,770)	(56,434)	232	(822,972)
Plant and equipment	(2,329,957)	(178,376)	25,943	(2,482,390)
Vehicles	(72,212)	(12,685)	7,668	(77,229)
Total	(3,168,939)	(247,495) (2)	33,843	(3,382,591)
Net property, plant, and equipment in service	5,006,174	299,103	(12,532)	5,292,745
Other capital assets				
Construction in progress	747,298	465,451	(546,185)	666,564
Nuclear fuel, net of amortization	33,117	14,800	(13,562)	34,355
Plant held for future use	27,783	--	--	27,783
Water rights, net of amortization	90,124	--	(988) (3)	89,136
Total capital assets	$ 6,354,583	794,979	(573,370)	6,576,192

(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	$ 121,570
Water	35,566
Wastewater	49,151
Airport	19,154
Convention Center	8,307
Environmental and health services	6,157
Public recreation	669
Urban growth management	6,921
Total increases in accumulated depreciation	$ 247,495

(3) Components of water rights, net of amortization decreases:

Current year amortization - Water	$ 988

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, 2009. Membership in the plans at December 31, 2009, 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	5,061	534	539	6,134
Current employees	8,142	1,651	1,025	10,818
Total	13,203	2,185	1,564	16,952

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

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%	13.0%	15.7%
City's contribution (percent of earnings)	12% (1)	18.63% (2)	18.05% (3)

(1) The City contribution includes an 8% employee match plus a subsidy contribution of 4%. The City contributes two-thirds of the cost of prior service benefit payments.
(2) A rate of 18.63% was effective October 1, 2009. This rate increased to 19.63% effective October 1, 2010.
(3) This rate increased to 19.05% effective October 1, 2010.

8 – RETIREMENT PLANS, continued
b -- Funding Policy, continued

While the contribution requirements are not actuarially determined, state law requires that a qualified actuary approve each plan of benefits adopted. Contributions for fiscal year ended September 30, 2010, are as follows (in thousands):

	City Employees	Police Officers	Fire Fighters	Total
City	$ 50,877	22,878	13,621	87,376
Employees	33,784	15,959	11,847	61,590
Total contributions	$ 84,661	38,837	25,468	148,966

c -- Annual Pension Cost and Net Pension Obligation (Asset)

The City's annual pension cost of $109,226,000 for fiscal year ended September 30, 2010, was $21,850,000 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):				
2008	$ 56,848	19,872	14,835	91,555
2009	59,067	19,909	10,102	89,078
2010	78,559	20,609	10,058	109,226
Percentage of APC contributed:				
2008	65%	100%	87%	N/A
2009	69%	97%	135%	N/A
2010	69%	112%	133%	N/A
Net Pension Obligation (Asset):				
2008	$ 63,740	--	3,709	67,449
2009	82,146	646	218	83,010
2010	106,376	(1,799)	(3,144)	101,433

The Net Pension Obligation associated with the City Employees' Retirement and Pension Fund, the Police Officers' Retirement and Pension Fund, and the Fire Fighters' Relief and Retirement Fund is as follows (in thousands):

	City Employees	Police Officers	Fire Fighters
Annual required contribution	$ 77,163	20,600	10,051
Interest in net pension obligation	6,099	37	32
Adjustment to annual required contribution	(4,703)	(28)	(25)
Annual pension cost	78,559	20,609	10,058
Employer contributions	(54,329)	(23,054)	(13,420)
Change in net pension obligation	24,230	(2,445)	(3,362)
Beginning net pension obligation	82,146	646	218
Net pension obligation (asset)	$ 106,376	(1,799)	(3,144)

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

The latest actuarial valuations for the City Employees' Retirement and Pension Fund, the Police Officers' Retirement and Pension Fund, and the Austin Fire Fighters' Relief and Retirement Fund were completed as of December 31, 2009. The actuarial cost method and significant assumptions underlying the actuarial calculations are as follows:

	City Employees	Police Officers	Fire Fighters
Actuarial Cost Method	Entry Age Normal	Entry Age	Entry Age Normal
Asset Valuation Basis	5-year smoothed market	5-year adjusted market value	20% of market value plus 80% of expected actuarial value
Inflation Rate	3.25%	4%	3.5%
Projected Annual Salary Increases	5% to 6%	6.8% average	1% to 13.1%
Post retirement benefit increase	None	None	1% per year
Assumed Rate of Return on Investments	7.75%	8%	7.75%
Amortization method	Level percent of projected pay, open	Level percent of projected payroll, open	Level percent of projected pay, open
Remaining Amortization Period	30 years	30 years	30 years

d -- Schedule of funding progress

Information pertaining to the schedule of funding progress for each plan is as follows (in thousands):

Valuation Date, December 31st	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
City Employees						
2009	$ 1,672,470	2,330,937	658,467	71.8%	442,539	148.8%
Police Officers						
2009	518,112	733,635	215,523	70.6%	122,928	175.3%
Fire Fighters (2)						
2009	589,261	664,185	74,924	88.7%	78,980	94.9%

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

The schedule of funding progress, presented as RSI, presents multiyear trend information regarding the ratio of the actuarial value of assets and actuarial accrued liabilities.

9 – SELECTED REVENUES
a -- Major enterprise funds

Electric and Water and Wastewater

The Texas Public Utility Commission (PUC) has jurisdiction over electric utility wholesale transmission rates. On June 9, 2006, the PUC approved the City's most recent wholesale transmission rate of $1.002466/kW. Transmission revenues totaled approximately $60.7 million in 2010. 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 reviewed annually on a calendar year basis or when over- or under-recovery is more than 10% of expected fuel costs.

Airport

The City has entered into certain lease agreements as lessor for concessions at the Airport. These lease agreements qualify as operating leases for accounting purposes. In fiscal year 2010, the Airport Fund revenues included minimum concession guarantees of $8,458,468.

The following is a schedule by year of minimum future rentals on noncancelable operating leases with remaining terms of up to fifteen years for the Airport Fund as of September 30, 2010 (in thousands):

Fiscal Year Ended September 30	Enterprise Airport Lease Receipts
2011	$ 11,568
2012	11,425
2013	11,420
2014	8,745
2015	3,559
2016-2020	5,152
2021-2023	209
Totals	$ 52,078

Projection of minimum future rentals for the Austin-Bergstrom Landhost Enterprises, Inc. is based on the current adjusted minimum rent for the period May 1, 2009 through April 30, 2014. The minimum rent is adjusted every five years commensurate with the percentage increase in the Consumer Price Index – Urban Wage Earners and Clerical Workers, U.S. Owner Average, (CPI) published by the U.S. Department of Labor Bureau of Labor Statistics over the five-year period.

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

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

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

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for 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, 2010 (in thousands):

Description	October 1, 2009	Increases	Decreases	September 30, 2010	Amounts Due Within One Year
Governmental activities (1)					
General obligation bonds, net	$ 845,741	--	(56,122)	789,619	53,247
Certificates of obligation, net	78,525	--	(6,939)	71,586	7,750
Contractual obligations, net	28,456	15,000	(5,161)	38,295	5,236
General obligation bonds and other tax supported debt total	952,722	15,000	(68,222)	899,500	66,233
Capital lease obligations	468	248	--	716	283
Debt service requirements total	953,190	15,248	(68,222)	900,216	66,516
Other long-term obligations					
Accrued compensated absences	109,460	3,258	(220)	112,498	47,127
Claims payable	30,277	4,162	(1,004)	33,435	17,865
Pension obligation payable	43,052	10,684	--	53,736	--
Other post employment benefits	109,851	59,581	--	169,432	--
Other liabilities	90,266	1,644	(8,257)	83,653	70,183
Governmental activities total	1,336,096	94,577	(77,703)	1,352,970	201,691
Business-type activities:					
Electric activities					
General obligation bonds, net	1,186	--	(73)	1,113	73
Contractual obligations	231	--	(152)	79	79
General obligation bonds and other tax supported debt total	1,417	--	(225)	1,192	152
Commercial paper notes, net	140,707	94,448	(150,000)	85,155	8,603
Revenue bonds, net	1,236,140	220,245	(130,102)	1,326,283	75,084
Capital lease obligations	1,164	133	-	1,297	38
Debt service requirements total	1,379,428	314,826	(280,327)	1,413,927	83,877
Other long-term obligations					
Accrued compensated absences	11,644	776	(844)	11,576	10,681
Decommissioning expense payable	167,001	--	(16,410)	150,591	--
Pension obligation payable	17,824	5,793	--	23,617	--
Other post employment benefits	26,633	14,445	--	41,078	--
Deferred credits and other liabilities	231,569	58,829	--	290,398	75,689
Electric activities total	1,834,099	394,669	(297,581)	1,931,187	170,247
Water and Wastewater activities					
General obligation bonds, net	1,682	--	(503)	1,179	569
Contractual obligations, net	15,312	--	(2,941)	12,371	3,189
Other tax supported debt, net	6,650	8,122	(943)	13,829	1,021
General obligation bonds and other tax supported debt total	23,644	8,122	(4,387)	27,379	4,779
Commercial paper notes, net	199,292	181,350	(166,000)	214,642	35,774
Revenue bonds, net	1,682,182	177,415	(47,700)	1,811,897	50,660
Contract revenue bonds, net	914	--	(914)	--	--
Debt service requirements total	1,906,032	366,887	(219,001)	2,053,918	91,213
Other long-term obligations					
Accrued compensated absences	5,701	464	(645)	5,520	5,520
Pension obligation payable	8,980	2,843	--	11,823	--
Other post employment benefits	16,459	8,927	--	25,386	--
Deferred credits and other liabilities	515,393	17,621	(34,463)	498,551	32,657
Water and Wastewater activities total	2,452,565	396,742	(254,109)	2,595,198	129,390

(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	October 1, 2009	Increases	Decreases	September 30, 2010	Amounts Due Within One Year
Airport activities					
General obligation bonds, net	289	--	(27)	262	28
General obligation bonds and other tax supported debt total	289	--	(27)	262	28
Revenue notes	28,000	--	--	28,000	--
Revenue bonds, net	307,365	--	(12,082)	295,283	13,515
Capital lease obligations	817	--	(486)	331	331
Debt service requirements total	336,471	--	(12,595)	323,876	13,874
Other long-term obligations					
Accrued compensated absences	1,572	114	(125)	1,561	1,500
Pension obligation payable	2,736	834	--	3,570	--
Other post employment benefits	4,848	2,629	--	7,477	--
Deferred credits and other liabilities	746	846	(42)	1,550	1,488
Airport activities total	346,373	4,423	(12,762)	338,034	16,862
Nonmajor activities					
General obligation bonds, net	18,353	--	(4,674)	13,679	1,546
Certificates of obligation, net	42,877	--	(2,708)	40,169	2,319
Contractual obligations	44,652	--	(7,038)	37,614	7,360
Other tax supported debt, net	--	4,564	(215)	4,349	240
General obligation bonds and other tax supported debt total	105,882	4,564	(14,635)	95,811	11,465
Revenue bonds, net	216,655	--	(7,007)	209,648	8,545
Debt service requirements total	322,537	4,564	(21,642)	305,459	20,010
Other long-term obligations					
Accrued compensated absences	5,811	265	(374)	5,702	5,320
Accrued landfill closure and postclosure costs	18,212	--	(10,272)	7,940	765
Pension obligation payable	10,418	3,212	--	13,630	--
Other post employment benefits	17,360	9,415	--	26,775	--
Deferred credits and other liabilities	7,682	698	(398)	7,982	3,197
Nonmajor activities total	382,020	18,154	(32,686)	367,488	29,292
Total business-type activities					
General obligation bonds, net	21,510	--	(5,277)	16,233	2,216
Certificates of obligation, net	42,877	--	(2,708)	40,169	2,319
Contractual obligations, net	60,195	--	(10,131)	50,064	10,628
Other tax supported debt, net	6,650	12,686	(1,158)	18,178	1,261
General obligation bonds and other tax supported debt total	131,232	12,686	(19,274)	124,644	16,424
Commercial paper notes, net	339,999	275,798	(316,000)	299,797	44,377
Revenue notes	28,000	--	--	28,000	--
Revenue bonds, net	3,442,342	397,660	(196,891)	3,643,111	147,804
Contract revenue bonds, net	914	--	(914)	--	--
Capital lease obligations	1,981	133	(486)	1,628	369
Debt service requirements total	3,944,468	686,277	(533,565)	4,097,180	208,974
Other long-term obligations					
Accrued compensated absences	24,728	1,619	(1,988)	24,359	23,021
Accrued landfill closure and postclosure costs	18,212	--	(10,272)	7,940	765
Decommissioning expense payable	167,001	--	(16,410)	150,591	--
Pension obligation payable	39,958	12,682	--	52,640	--
Other post employment benefits	65,300	35,416	--	100,716	--
Deferred credits and other liabilities	755,390	77,994	(34,903)	798,481	113,031
Business-type activities total	5,015,057	813,988	(597,138)	5,231,907	345,791
Total liabilities (2)	$ 6,351,153	908,565	(674,841)	6,584,877	547,482

(2) This schedule excludes select short-term liabilities of $77,322 for governmental activities; and for business-type activities, select short-term liabilities of $272,498, capital appreciation bond interest payable of $103,295, and derivative instruments of $212,953.

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, 2010, 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
Assumed MUD Debt	December 1997	$ 33,135	18,790	6,691	(1)(3)(4)	3.00 - 7.00%	9/01/2011-2026
Series 2000	September 2000	6,060	295	15	(1)	5.00%	9/1/2011
Series 2001 Refunding	June 2001	123,445	18,825	3,222	(1)	4.75 - 5.50%	9/1/2011-2022
Series 2001	August 2001	79,650	8,530	656	(1)	5.00 - 5.25%	9/1/2011-2012
Series 2001	August 2001	65,335	18,920	4,412	(1)	4.38 - 5.00%	9/1/2011-2021
Series 2002 Refunding	June 2002	12,190	9,745	1,571	(1)	4.13 - 5.00%	3/1/2011-2017
Series 2002	August 2002	99,615	61,800	19,972	(1)	3.63 - 5.00%	9/1/2011-2022
Series 2002	August 2002	34,095	17,500	4,952	(1)	3.63 - 5.38%	9/1/2011-2022
Series 2003 Refunding	May 2003	62,585	10,005	881	(1)	5.00%	9/1/2011-2013
Series 2003 Refunding	September 2003	68,855	56,395	20,732	(1)	3.75 - 5.00%	9/1/2011-2023
Series 2003A Refunding	September 2003	2,530	995	100	(1)	4.75 - 5.00%	9/1/2011-2013
Series 2003	September 2003	4,450	3,335	1,159	(1)	4.00 - 4.80%	9/1/2011-2023
Series 2003	September 2003	8,610	705	12	(2)	3.38%	11/1/2010
Series 2004 Refunding	September 2004	67,835	57,040	21,008	(1)	3.50 - 5.00%	9/1/2011-2024
Series 2004A Refunding	September 2004	2,430	1,315	172	(1)	4.40 - 4.75%	9/1/2011-2014
Series 2004	September 2004	25,000	18,400	7,575	(1)	4.63 - 5.00%	9/1/2011-2024
Series 2004	September 2004	21,830	5,505	186	(2)	3.10 - 3.35%	11/1/2010-2011
Series 2005 Refunding	February 2005	145,345	137,785	37,827	(1)	5.00%	9/1/2011-2020
Series 2005 Refunding	August 2005	19,535	14,240	6,876	(1)	4.00 - 4.50%	9/1/2011-2025
Series 2005	August 2005	7,185	6,010	2,212	(1)	3.50 - 5.85%	9/1/2011-2025
Series 2005	August 2005	14,940	5,550	308	(2)	3.50 - 3.75%	11/1/2010-2012
Series 2006	August 2006	31,585	31,385	16,670	(1)	4.00 - 5.38%	9/1/2011-2026
Series 2006	August 2006	24,150	21,005	8,629	(1)	4.00 - 5.00%	9/1/2011-2026
Series 2006	August 2006	14,120	7,635	642	(2)	4.00 - 4.25%	11/1/2010-2013
Series 2006	August 2006	12,000	11,080	4,685	(1)(5)	4.00 - 6.00%	9/1/2011-2026
Series 2007	August 2007	97,525	93,425	58,801	(1)	4.64%	9/1/2011-2027
Series 2007	August 2007	3,820	3,460	1,717	(1)	4.88%	9/1/2011-2027
Series 2007	August 2007	9,755	7,090	855	(2)	3.66%	11/1/2010-2017
Series 2008 Refunding	January 2008	172,505	137,675	37,167	(1)	5.00%	9/1/2011-2021
Series 2008	August 2008	76,045	65,045	40,069	(1)	3.50 - 5.00%	9/1/2011-2028
Series 2008	August 2008	10,700	10,070	4,926	(1)	3.00 - 5.00%	9/1/2011-2028
Series 2008	August 2008	26,715	21,785	2,291	(2)	3.00% - 3.50%	11/1/2010-2015
Series 2009A	September 2009	20,905	11,450	1,960	(1)	3.00 - 5.00%	9/1/2011-2016
Series 2009B	September 2009	78,460	78,460	52,545	(1)	4.15 - 5.31%	9/1/2017-2029
Series 2009	September 2009	12,500	11,935	6,794	(1)	3.00 - 4.75%	9/1/2011-2039
Series 2009	September 2009	13,800	13,150	1,639	(2)	2.00% - 3.25%	11/1/2010-2019
Series 2009	October 2009	15,000	15,000	6,693	(1)(5)	2.50 - 4.25%	9/1/2011-2029
			$ 1,011,335				

(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 principal ($13,806) and interest ($4,726) and Drainage principal ($4,321) and interest ($1,822).
(5) Included with contractual obligations are Mueller Local Government Corporation contract revenue bonds.

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

In October 2009, the City issued $15,000,000 of Mueller Local Government Corporation Tax Increment Contract Revenue Bonds, Series 2009. The Mueller Local Government Corporation is a not-for-profit local government corporation acting on behalf of the City of Austin, Texas. The proceeds from the issue will be used to provide funds for certain public infrastructure improvements within the Reinvestment Zone Number Sixteen, City of Austin, Texas, a tax increment reinvestment zone created by the City. These bonds will be amortized serially on September 1 of each year from 2011 to 2029. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2010. Total interest requirements for these bonds, at rates ranging from 2.5% to 4.25%, are $7,221,066.

General obligation bonds authorized and unissued amounted to $369,180,000 at September 30, 2010. Bond ratings at September 30, 2010, were Aaa (Moody’s Investor Services, Inc.), AAA (Standard & Poor’s), and AAA (Fitch).

Build America Bonds. The City issued $78,460,000 of Public Improvement Bonds, Taxable Series 2009B in August 2009. These bonds are Build America Bonds (BABs) and are part of the Federal American Recovery and Reinvestment Act of 2009. Upon the City’s request each year, the U.S. Treasury Department will make a direct payment to the City in an amount equal to 35% of the interest payment on the BABs, lowering the City’s net borrowing cost. In 2010, the City recorded $1,290,686 of tax credits for subsidies received from the U.S. Treasury Department. In order for the City to continue to receive the subsidy, the bonds have to maintain their Build America Bonds status, the City has to comply with the investment of the proceeds and the use of the property financed there from, and the City has to file the necessary tax return no later than 45 days prior to the interest payment date. The City was in compliance with these requirements as of September 30, 2010.

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, 2010, exclusive of discounts, premiums, and loss on refundings consists of $168,211,746 prior lien bonds and $236,454,512 subordinate lien bonds. Aggregate interest requirements for all prior lien and subordinate lien bonds are $397,046,479 at September 30, 2010. Revenue bonds authorized and unissued amount to $1,492,642,660 at that date. Bond ratings at September 30, 2010, for the prior lien and subordinate lien bonds were, respectively, A1 and A1 (Moody’s Investor Services, Inc.), AA and AA (Standard & Poor’s), and AA- and AA- (Fitch).

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 shorter of the life of the refunding bonds or the life of the bonds refunded 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 -- Revenue Bond Retirement Reserve Account - In January 2010, the City established a City of Austin Combined Utility Reserve Account with a transfer of $44 million from Austin Energy operating funds to satisfy its bond ordinance requirements. As allowed by the bond ordinance provision for the Bond Retirement Reserve Fund, the City had previously funded the required reserve with an insurance policy issued by an insurance company rated in the highest rating category by the rating agencies. As a result of the financial market distress in late 2008 and 2009, the credit rating of the insurance company holding the City's policy fell below the rating required by the bond ordinance. As of February 2009, there were no insurance companies with the required rating; therefore, the City had twelve months to remedy the provision of the bond ordinance by funding a cash reserve. The required reserve of $44 million is based on the average annual debt service and will decline as the bonds are paid off.

Of the $44 million, approximately $19 million is allocated to Austin Energy and $25 million is allocated to Austin Water based on their portion of the outstanding combined utility system revenue bonds. Austin Energy funded the entire reserve and an interfund payable from Austin Water to Austin Energy was created for Austin Water's portion.

Combined Utility Systems Debt -- Bonds Issued and Outstanding - The following schedule shows the original and refunding revenue bonds outstanding at September 30, 2010 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding		Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
1990B Refunding	February 1990	$ 236,009	3,668	20,502	(1)(3)	7.35%	11/15/2014-2017
1992 Refunding	March 1992	265,806	21,752	59,348	(1)(3)	6.85%	11/15/2010-2012
1992A Refunding	May 1992	351,706	22,530	57,105	(1)(3)	6.80%	11/15/2010-2011
1993 Refunding	January 1993	203,166	36,564	6,038	(1)(3)	6.13 - 6.30%	11/15/2010-2013
1993A Refunding	June 1993	263,410	1,763	3,121	(1)(3)	5.95%	11/15/2010
1994 Refunding	September 1994	142,559	26,894	96,961	(1)(3)	6.60%	05/15/2017-2019
1998 Refunding	July 1996	180,000	55,040	5,739	(1)(2)	6.75%	11/15/2010-2012
1998 Refunding	October 1998	139,965	135,980	75,175	(1)	5.25%	5/15/2011-2025
1998A Refunding	October 1998	105,350	95,125	72,235	(1)(3)	4.25 - 5.00%	5/15/2011-2028
1998B	August 1998	10,000	5,350	822	(1)	3.35 - 3.75%	11/15/2010-2017
			$ 404,666				

(1) Interest is paid semiannually on May 15 and November 15.
(2) Series 1998 Refunding had a delayed delivery.
(3) Interest requirements include accreted interest.

Combined Utility Systems Debt -- Commercial Paper Notes - The City is authorized by ordinance to issue commercial paper notes in an aggregate principal amount not to exceed $350,000,000 outstanding at any 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, 2010, 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.

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

At September 30, 2010, the Electric Fund had outstanding commercial paper notes of $51,615,000 and the Water and Wastewater Fund had $214,642,000 of commercial paper notes outstanding. Interest rates on the notes range from 0.29% to 0.36%, which are adjusted daily. Subsequent issues cannot exceed the maximum rate of 15%. The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt. The notes have the following terms:

Note Series	Liquidity Provider	Commitment Fee Rate	Credit Fee Rate	Remarketing Agent	Remarketing Fee Rate	Outstanding	Expiration
various	JP Morgan Chase	1.15%	1.25%	Goldman Sachs	0.075%	$ 108,981	3/28/2011
various	Bank of America	1.15%	1.25%	Goldman Sachs	0.075%	68,381	3/28/2011
various	State Street	1.15%	1.25%	Goldman Sachs	0.075%	88,895	3/28/2011
						$ 266,257	

These notes are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the notes, the notes will be purchased by the respective liquidity providers and become bank notes with principal to be paid in 12 equal, quarterly installments. Bank notes bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate.

Combined Utility Systems Debt -- Taxable Commercial Paper Notes - The City is authorized by ordinance to issue taxable commercial paper notes (the "taxable notes") in an aggregate principal amount not to exceed $50,000,000 outstanding at any time. Proceeds from the taxable notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2010, 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, 2010, the Electric Fund had outstanding taxable commercial paper notes of $33,568,000 (net of discount of $28,266), and the Water and Wastewater Fund had no taxable notes outstanding. Interest rates on the taxable notes range from 0.33% to 0.43%. The City intends to refinance maturing commercial paper notes by issuing long-term debt. The notes have the following terms:

Note Series	Liquidity Provider	Commitment Fee Rate	Remarketing Agent	Remarketing Fee Rate	Outstanding	Expiration
various	Landesbank Hessen-Thuringen Girozentrale	0.50%	Goldman Sachs	0.075%	$ 33,568	12/31/2015

These notes are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the notes, the notes will be purchased by Landesbank Hessen-Thuringen Girozentrale and become bank notes with principal due immediately. Bank notes bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess note interest or the maximum rate.

The Notes are secured by a direct-pay Letter of Credit issued by Landesbank Hessen-Thuringen Girozentrale which permits draws for the payment of the Notes. Draws made under the Letter of Credit are immediately due and payable by the City from the resources more fully described in the Ordinance. No term loan feature is provided by the Agreement.

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

Electric Utility System Revenue Debt -- General - The City is authorized by ordinance to issue electric utility system revenue obligations. Proceeds from these obligations are used only to fund electric capital projects or to refund debt issued to fund these capital projects. Principal and interest on these obligations are payable solely from the net revenues of the Electric Fund. Bond ratings at September 30, 2010, were A1 (Moody's Investor Services, Inc.), A+ (Standard & Poor's), and AA- (Fitch).

Electric Utility System Revenue Debt -- Revenue Bond Refunding Issues - In June 2010, the City issued $119,255,000 of Electric Utility System Revenue Refunding Bonds, Series 2010A. Proceeds from the bond refunding were used to refund $50,000,000 of the City's outstanding commercial paper issued for the electric utility system; Combined Utility System Revenue Refunding Bonds, Series 1993 in the amount of $5,190,000; and Electric Utility System Revenue Refunding Bonds, Series 2001 in the amount of $69,200,000. The debt service requirements on the refunding bonds are $208,317,117, with interest rates ranging from 2% to 5%. The City realized an economic gain of $4,014,573 on this transaction. The change in net cash flows that resulted was a decrease of $6,179,632. An accounting loss of $2,791,807, which will be deferred and amortized in accordance with FASB Statement No. 71, was recognized on the refunding.

In June 2010, the City issued $100,990,000 of Electric Utility System Revenue Refunding Bonds, Series 2010B. Proceeds from the bond refunding were used to refund $100,000,000 of the City's outstanding commercial paper issued for the electric utility system. The debt service requirements on the refunding bonds are $221,496,231, with interest rates ranging from 4.54% to 5.72%. No change in net cash flows resulted from this transaction, and no gain or loss was recognized on this refunding. These bonds are Build America Bonds (BABs) and are part of the Federal American Recovery and Reinvestment Act of 2009. Upon the City's request each year, the U.S. Treasury Department will make a direct payment to the City in an amount equal 35% of the interest payment on the BABs, lowering the City's net borrowing cost. The City did not receive subsidies for Series 2010B from the U.S. Treasury Department during the fiscal year. In order for the City to receive the subsidy, the bonds have to maintain their Build America Bonds status, the City has to comply with the investment of the proceeds and the use of the property financed there from, and the City has to file the necessary tax return no later than 45 days prior to the interest payment date. The City was in compliance with these requirements as of September 30, 2010.

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, 2010 (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	January 2001	$ 126,700	3,100	112 (1)	7.25%	11/15/2010
2002 Refunding	February 2002	74,750	52,770	8,022 (1)	4.00 - 5.50%	11/15/2010-2014
2002A Refunding	July 2002	172,880	91,135	21,389 (1)	4.00 - 5.50%	11/15/2010-2016
2003 Refunding	February 2003	182,100	144,300	79,448 (1)	5.00 - 5.25%	11/15/2010-2028
2006 Refunding	May 2006	150,000	144,100	110,668 (1)	5.00%	11/15/2010-2035
2006A Refunding	October 2006	137,800	120,730	35,444 (1)	5.00%	11/15/2010-2022
2007 Refunding	August 2007	146,635	143,320	32,849 (1)	5.00%	11/15/2010-2020
2008 Refunding	March 2008	50,000	48,915	41,971 (1)	3.23 - 6.26%	11/15/2010-2032
2008A Refunding	July 2008	175,000	175,000	177,742 (1)	4.00 - 6.00%	11/15/2010-2038
2010A Refunding	June 2010	119,255	119,255	89,062 (1)	2.00 - 5.00%	11/15/2012-2040
2010B Refunding	June 2010	100,990	100,990	120,506 (1)	4.54 - 5.72%	11/15/2019-2040
			$ 1,143,615			

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

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

Electric Utility System Revenue Debt -- Pledged Revenues - The net revenue of the Electric Fund was pledged to service the outstanding principal and interest payments for revenue debt outstanding. The table below represents the pledged amounts at September 30, 2010 (in thousands):

Gross Revenue (1)	Operating Expense (2)(3)	Net Revenue	Debt Service Requirement	Revenue Bond Coverage
$ 1,159,295	866,914	292,381	165,609	176.5%

(1) Gross revenue includes revenues from operations and interest income.
(2) Excludes depreciation.
(3) Excludes unfunded other post employment benefit and pension obligation expenses.

Water and Wastewater System Debt -- Northwest Austin Municipal Utility District Number One - In February 2010, the City Council voted to approve the abolishment of the Northwest Austin Municipal Utility District Number One (the District). The City had the authority to abolish the District under Section 43.074 as the District was created from an area that, at the time of the Districts creation, was located wholly within the municipal boundaries of the City of Austin. Upon abolition of the District, the City assumed all of the assets and liabilities of the District, including the District's debt service for utility bonds.

$110,000 of Northwest Austin MUD No. 1 Unlimited Tax Bonds, Series 2001 were assumed. The debt service requirements on the bonds are $128,565, with interest rates ranging from 4.5% to 5.15%. Principal and interest payments are due March 1 and September 1 of each year from 2010 to 2016.

$2,215,000 of Northwest Austin MUD No. 1 Unlimited Tax Refunding Bonds, Series 2004 were assumed. The debt service requirements on the bonds are $2,761,594, with interest rates ranging from 3.125% to 4.3%. Principal and interest payments are due March 1 and September 1 of each year from 2010 to 2020.

$7,677,403 of Northwest Austin MUD No. 1 Unlimited Tax Refunding and Improvement Bonds, Series 2006 were assumed. The debt service requirements on the bonds are $12,140,683, with interest rates ranging from 3.9% to 4.262%. Principal and interest payments are due March 1 and September 1 of each year from 2010 to 2026.

$2,760,000 of Northwest Austin MUD No. 1 Unlimited Tax Refunding Bonds, Series 2009 were assumed. The debt service requirements on the bonds are $3,202,400, with interest rates ranging from 3% to 4.25%. Principal and interest payments are due March 1 and September 1 of each year from 2010 to 2018.

Of the $12,762,403 total debt assumed, 64.02% is allocated to water and wastewater systems and 35.98% is allocated to drainage. Water and wastewater systems allocation by series is $70,422 for Series 2001, $1,418,043 for Series 2004, $4,915,073 for Series 2006, and $1,766,952 for Series 2009. The debt service requirement on the bonds for water and wastewater systems is $11,672,921.

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 November 2009, the City issued $166,575,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2009A. Proceeds from the bond refunding were used to refund $166,000,000 of the City's outstanding commercial paper issued for the water and wastewater utility system. The debt service requirements on the refunding bonds are $317,854,463, with interest rates ranging from 4% to 5%. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

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

In January 2010, the City issued $31,815,000 of Water and Wastewater System Revenue Bonds, Series 2010 as a private placement with the Texas Water Development Board. This zero-interest issuance is part of the American Recovery and Reinvestment Act. Proceeds from the issuance will be used for green infrastructure improvements at the Hornsby Bend Biosolids Management Plant. The debt service requirements on the bonds are $31,815,000. Principal payments are due November 15 of each year from 2012 to 2041. As of September 30, 2010, the City has drawn $10,840,000 on the bonds.

Bond ratings at September 30, 2010, were Aa2 (Moody's Investor Services, Inc.), AA (Standard & Poor's), and AA- (Fitch).

Water and Wastewater System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all water and wastewater system original and refunding revenue bonds outstanding at September 30, 2010 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding		Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2001A Refunding	April 2001	$ 152,180	13,055	7,692	(1)	4.50 - 5.75%	11/15/2010-2031 (3)
2001B Refunding	April 2001	73,200	9,595	6,731	(1)	5.13 - 5.75%	5/15/2011-2031
2001C Refunding	November 2001	95,380	14,610	2,311	(1)	4.20 - 5.38%	11/15/2010-2015 (3)
2002A Refunding	July 2002	139,695	71,705	18,397	(1)	4.00 - 5.50%	11/15/2010-2016
2003 Refunding	February 2003	121,500	79,400	48,700	(1)	4.00 - 5.25%	11/15/2010-2028
2004 Refunding	August 2004	132,475	115,375	28,750	(2)	0.19% - .40%	5/16/2011-2024
2004A Refunding	September 2004	165,145	152,580	88,473	(1)	5.00%	11/15/2010-2029
2005 Refunding	May 2005	198,485	198,485	96,890	(1)	4.00 - 5.00%	5/15/2012-2030
2005A Refunding	October 2005	142,335	127,375	92,807	(1)	4.00 - 5.00%	5/15/2011-2035
2006 Refunding	August 2006	63,100	51,440	22,867	(1)	5.00%	11/15/2010-2025
2006A Refunding	November 2006	135,000	130,650	94,136	(1)	3.50 - 5.00%	11/15/2010-2036
2007 Refunding	November 2007	135,000	132,765	111,985	(1)	4.00-5.25%	11/15/2010-2037
2008 Refunding	May 2008	170,605	166,875	68,466	(2)	0.16% - 0.45%	11/15/2010-2031 (3)
2009 Refunding	January 2009	175,000	175,000	102,243	(1)	3.00-5.13%	11/15/2011-2029
2009A Refunding	November 2009	166,575	166,575	146,973	(1)	4.00-5.00%	11/15/2011-2039
2010	January 2010	10,840	10,840	-		0.00%	11/15/2012-2022
			$ 1,616,325				

(1) Interest is paid semiannually on May 15 and November 15.
(2) Interest is paid monthly and is based on a variable rate. Aggregate interest requirement is calculated utilizing the rate in effect at the end of the fiscal year.
(3) Series matures on May 15th of the final year

The Series 2004 and 2008 refunding bonds are variable rate demand bonds. The bonds have the following terms (in thousands):

Bond Sub-Series	Liquidity Provider	Commitment Fee Rate	Remarketing Agent	Remarketing Fee Rate	Outstanding	Expiration
2004	Landesbank Baden-Wurttemberg	0.75%	JP Morgan	0.075%	$ 115,375	12/29/2015
2008	DEXIA	0.35%	Goldman Sachs	0.050%	166,875	5/15/2011
					$ 282,250	

These bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the bonds, the bonds will be purchased by the respective liquidity providers and become bank bonds with principal to be paid in equal semi-annual installments over a 5-year amortization period. Bank bonds bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate.

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

Water and Wastewater System Revenue Debt -- Pledged Revenues - The net revenue of the Water and Wastewater Fund was pledged to service the outstanding principal and interest payments for revenue debt outstanding. The table below represents the pledged amounts at September 30, 2010 (in thousands):

Gross Revenue (1)	Operating Expense (2)(3)	Net Revenue	Debt Service Requirement	Revenue Bond Coverage
$ 361,342	159,402	201,940	155,678	129.7%

(1) Gross revenue includes revenues from operations and interest income.
(2) Excludes depreciation.
(3) Excludes unfunded other post employment benefit and pension obligation expenses.

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, 2010, the total airport system obligation for prior lien bonds is $308,530,000 exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior lien bonds are $110,255,210 at September 30, 2010. Revenue bonds authorized and unissued amount to $735,795,000.

The bond rating at September 30, 2010, for the prior lien bonds is A- (Standard & Poor's).

The following table summarizes all airport system original and refunding revenue bonds outstanding at September 30, 2010 (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	48,680	14,513 (1)	4.00 - 5.25%	11/15/2010-2018
2008 Remarketing	April 2008	281,300	259,850	95,742 (2)	0.18 - 0.50%	11/15/2010-2025
			$ 308,530			

(1) Interest is paid semiannually on May 15 and November 15.
(2) Interest is paid monthly and is based on a variable rate. Aggregate interest requirement is calculated utilizing the rate in effect at the end of the fiscal year.

The Series 2008 remarketing bonds are variable rate demand bonds. These bonds are separated into 4 subseries with a total principal amount of $259,850,000. The bonds have the following terms (in thousands):

Bond Sub-Series	Liquidity Provider	Commitment Fee Rate	Remarketing Agent	Remarketing Fee Rate	Outstanding	Expiration
2005-1	DEXIA	0.60%	Morgan Stanley	0.10%	$ 64,950	5/2/2011
2005-2	DEXIA	0.60%	Morgan Stanley	0.10%	64,925	5/2/2011
2005-3	DEXIA	0.60%	Morgan Stanley	0.10%	64,975	5/2/2011
2005-4	DEXIA	0.60%	Morgan Stanley	0.10%	65,000	5/2/2011
					$ 259,850	

These bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the bonds, the bonds will be purchased by Dexia and become bank bonds with principal to be paid in annual installments over the remaining life of the bond series. Bank bonds bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate.

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

Airport Debt -- Variable Rate Revenue Notes - The City is authorized by ordinance to issue airport system variable rate revenue notes. At September 30, 2010, 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 $10,935,526 including accrued interest, at September 30, 2010, and was restricted within the airport system. During fiscal year 2010, interest rates on the notes ranged from 0.16% to 0.33%, adjusted weekly at market rates; subsequent rate changes cannot exceed the maximum rate of 15%. Principal and interest on the notes are payable from the net revenues of the airport system.

The Series 1998 revenue notes are variable rate demand notes. The notes have the following terms (in thousands):

Bond Sub-Series	Liquidity Provider	Commitment Fee Rate	Remarketing Agent	Remarketing Fee Rate	Outstanding	Expiration
1998	State Street	1.75%	Citi	0.125%	$ 28,000	2/20/2012

These notes are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the notes, the notes will be purchased by State Street and become bank notes with principal to be paid in 12 equal, quarterly installments. Bank notes bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess note interest or the maximum rate.

The bond rating at September 30, 2010, for the airport variable rate notes was A- (Standard & Poor's).

Airport Revenue Debt -- Pledged Revenues - The net revenue of the Airport Fund was pledged to service the outstanding principal and interest payments for revenue debt outstanding (including revenue bonds and revenue notes). The table below represents the pledged amounts at September 30, 2010 (in thousands):

Gross Revenue (1)	Other available funds (2)	Operating Expense (3)(4)	Net Revenue and Other Available Funds	Debt Service Requirement (5)	Revenue Bond Coverage
$ 85,156	7,930	57,379	35,707	14,690	243.1%

(1) Gross revenue includes revenues from operations and interest income.
(2) In addition to gross revenue, the Airport is authorized by bond ordinance to use "other available funds" in the calculation of revenue bond coverage.
(3) Excludes depreciation.
(4) Excludes unfunded other post employment benefit and pension obligation expenses.
(5) Excludes debt service amounts paid with passenger facility charge revenues.

Nonmajor fund:

Drainage -- Northwest Austin Municipal Utility District Number One - In February 2010, the City Council voted to approve the abolishment of the Northwest Austin Municipal Utility District Number One (the District). Upon abolition of the District, the City assumed all of the assets and liabilities of the District, including the District's debt service for utility bonds.

Of the $12,762,403 total debt assumed, 64.02% is allocated to water and wastewater systems and 35.98% is allocated to drainage. Drainage allocation by series is $39,578 for Series 2001, $796,957 for Series 2004, $2,762,330 for Series 2006, and $993,048 for Series 2009. The debt service requirement on the bonds for drainage is $6,560,320.

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

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, 2010, the total convention center obligation for prior and subordinate lien bonds is $224,015,000, exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior and subordinate lien bonds are $89,903,235 at September 30, 2010. Revenue bonds authorized and unissued amount to $760,000 at September 30, 2010.

Bond ratings at September 30, 2010, for the revenue bonds were A2 (Moody's Investor Services, Inc.), and A- (Standard & Poor's).

The following table summarizes Convention Center original and refunding revenue bonds outstanding at September 30, 2010 (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	21,450	13,707 (1)	5.05 - 5.50%	11/15/2010-2029
2004 Refunding	February 2004	52,715	43,890	11,831 (1)	3.00 - 5.00%	11/15/2010-2019
2005 Refunding	May 2005	36,720	36,720	21,796 (1)	3.30 - 5.00%	11/15/2011-2029
2008AB Refunding	August 2008	125,280	121,955	42,570 (2)	0.15% - 0.55%	11/15/2010-2029
			$ 224,015			

(1) Interest is paid semiannually on May 15 and November 15.
(2) Interest is paid monthly and is based on a variable rate. Aggregate interest requirement is calculated utilizing the rate in effect at the end of the fiscal year.

The Series 2008 A and B refunding bonds are variable rate demand bonds. The bonds have the following terms (in thousands):

Bond Sub-Series	Liquidity Provider	Commitment Fee Rate	Remarketing Agent	Remarketing Fee Rate	Outstanding	Expiration
2008-A	DEXIA	0.70%	Morgan Keegan	0.060%	$ 60,975	8/15/2011
2008-B	DEXIA	0.70%	BofA/Merrill Lynch	0.050%	60,980	8/15/2011
					$ 121,955	

These bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the bonds, the bonds will be purchased by Dexia and become bank bonds with principal to be paid in equal semi-annual installments over a 5-year amortization period. Bank bonds bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate.

10 – DEBT AND NON-DEBT LIABILITIES, continued
d -- Debt Service Requirements

Governmental Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Certificates of Obligation Principal	Certificates of Obligation Interest	Contractual Obligations Principal	Contractual Obligations Interest
2011	$ 53,247	36,603	7,750	3,136	5,236	1,444
2012	48,423	34,147	7,839	2,785	3,735	1,276
2013	50,349	31,877	3,549	2,437	2,165	1,169
2014	48,685	29,478	5,116	2,302	2,161	1,097
2015	50,519	27,190	3,529	2,100	2,688	1,009
2016-2020	256,556	100,423	18,956	8,125	8,551	3,809
2021-2025	165,772	45,989	19,898	3,489	8,400	2,199
2026-2030	103,555	10,200	4,830	350	5,060	484
	777,106	315,907	71,467	24,724	37,996	12,487
Less: Unamortized bond discounts	(932)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(12,001)	--	--	--	--	--
Add: Unamortized bond premiums	25,446	--	119	--	299	--
Net debt service requirements	789,619	315,907	71,586	24,724	38,295	12,487

Fiscal Year Ended September 30	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Total Governmental Debt Service Requirements Principal	Total Governmental Debt Service Requirements Interest	Total
2011	283	11	66,516	41,194	107,710
2012	274	8	60,271	38,216	98,487
2013	159	3	56,222	35,486	91,708
2014	--	--	55,962	32,877	88,839
2015	--	--	56,736	30,299	87,035
2016-2020	--	--	284,063	112,357	396,420
2021-2025	--	--	194,070	51,677	245,747
2026-2030	--	--	113,445	11,034	124,479
	716	22	887,285	353,140	1,240,425
Less: Unamortized bond discounts	--	--	(932)	--	(932)
Unamortized gain(loss) on bond refundings	--	--	(12,001)	--	(12,001)
Add: Unamortized bond premiums	--	--	25,864	--	25,864
Net debt service requirements	$ 716	22	900,216	353,140	1,253,356

10 – DEBT AND NON-DEBT LIABILITIES, continued
d -- Debt Service Requirements, continued

Electric Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Contractual Obligations		Commercial Paper Notes (1)	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ 73	53	79	1	85,183	35
2012	79	49	--	--	--	--
2013	125	46	--	--	--	--
2014	131	39	--	--	--	--
2015	139	33	--	--	--	--
2016-2020	509	71	--	--	--	--
2021-2025	4	--	--	--	--	--
	1,060	291	79	1	85,183	35
Less: Unamortized bond discount	(2)	--	--	--	(28)	--
Unamortized gain(loss) on bond refundings	--	--	--	--	--	--
Add: Unamortized bond premium	55	--	--	--	--	--
Net debt service requirements	1,113	291	79	1	85,155	35

Fiscal Year Ended September 30	Revenue Bonds		Capital Lease Obligations		Total Electric Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2011	75,084	98,704	38	78	160,457	98,871	259,328
2012	75,773	92,959	40	76	75,892	93,084	168,976
2013	105,092	69,013	42	74	105,259	69,133	174,392
2014	123,006	53,912	44	72	123,181	54,023	177,204
2015	79,754	50,964	47	69	79,940	51,066	131,006
2016-2020	227,490	208,792	272	308	228,271	209,171	437,442
2021-2025	227,345	144,169	349	231	227,698	144,400	372,098
2026-2030	194,010	87,416	448	133	194,458	87,549	282,007
2031-2035	136,130	43,521	17	2	136,147	43,523	179,670
2036-2040	91,860	12,586	--	--	91,860	12,586	104,446
2041-2045	8,325	232	--	--	8,325	232	8,557
	1,343,869	862,268	1,297	1,043	1,431,488	863,638	2,295,126
Less: Unamortized bond discounts	(2,734)	--	--	--	(2,764)	--	(2,764)
Unamortized gain(loss) on bond refundings	(54,402)	--	--	--	(54,402)	--	(54,402)
Add: Unamortized bond premiums	39,550	--	--	--	39,605	--	39,605
Net debt service requirements	$ 1,326,283	862,268	1,297	1,043	1,413,927	863,638	2,277,565

(1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt. The underlying liquidity agreement expires within one year; therefore, the financial statements reflect amounts due in one year in accordance with GASB Interpretation No. 1.

10 – DEBT AND NON-DEBT LIABILITIES, continued
d -- Debt Service Requirements, continued

Water and Wastewater Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Contractual Obligations		Other Tax Supported Debt	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ 569	138	3,189	393	1,021	626
2012	533	107	3,011	282	1,069	582
2013	593	79	2,627	182	1,128	532
2014	165	47	1,909	90	1,327	475
2015	174	39	805	38	1,389	410
2016-2020	548	89	725	22	4,453	1,582
2021-2025	55	3	--	--	2,840	494
2026-2030	--	--	--	--	629	24
	2,637	502	12,266	1,007	13,856	4,725
Less: Unamortized bond discounts	(13)	--	--	--	(27)	--
Unamortized gain(loss) on bond refundings	(1,538)	--	--	--	--	--
Add: Unamortized bond premiums	93	--	105	--	--	--
Net debt service requirements	1,179	502	12,371	1,007	13,829	4,725

Fiscal Year Ended September 30	Commercial Paper Notes (1)		Revenue Bonds (2)(3)		Total Water and Wastewater Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2011	214,642	52	50,660	101,110	270,081	102,319	372,400
2012	--	--	67,296	97,761	71,909	98,732	170,641
2013	--	--	81,481	88,321	85,829	89,114	174,943
2014	--	--	103,799	73,610	107,200	74,222	181,422
2015	--	--	95,237	78,079	97,605	78,566	176,171
2016-2020	--	--	397,891	400,962	403,617	402,655	806,272
2021-2025	--	--	405,624	195,854	408,519	196,351	604,870
2026-2030	--	--	389,600	102,414	390,229	102,438	492,667
2031-2035	--	--	128,010	40,831	128,010	40,831	168,841
2036-2040	--	--	101,140	10,468	101,140	10,468	111,608
	214,642	52	1,820,738	1,189,410	2,064,139	1,195,696	3,259,835
Less: Unamortized bond discounts	--	--	(7,808)	--	(7,848)	--	(7,848)
Unamortized gain(loss) on bond refundings	--	--	(46,510)	--	(48,048)	--	(48,048)
Add: Unamortized bond premiums	--	--	45,477	--	45,675	--	45,675
Net debt service requirements	$ 214,642	52	1,811,897	1,189,410	2,053,918	1,195,696	3,249,614

(1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt. The underlying liquidity agreement expires within one year; therefore, the financial statements reflect amounts due in one year in accordance with GASB Interpretation No. 1.

(2) Portions of these bonds are variable rate bonds with rates of 0.16% to 0.45%.

(3) The underlying liquidity agreement expires within one year; therefore, the financial statements reflect amounts due in one year in accordance with GASB Interpretation No. 1. This schedule reflects the debt schedules as of September 30, 2010.

10 – DEBT AND NON-DEBT LIABILITIES, continued
d -- Debt Service Requirements, continued

Airport Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Revenue Notes (1) Principal	Revenue Notes (1) Interest	Revenue Bonds (2) Principal	Revenue Bonds (2) Interest
2011	$ 28	13	--	980	13,515	12,609
2012	30	11	--	980	14,165	12,033
2013	39	10	--	980	14,795	11,466
2014	26	8	--	980	15,610	10,699
2015	27	6	--	980	16,345	10,043
2016-2020	98	14	28,000	2,450	98,450	38,040
2021-2025	3	--	--	--	110,900	15,159
2026-2030	--	--	--	--	24,750	206
	251	62	28,000	7,350	308,530	110,255
Less: Unamortized bond discounts	(1)	--	--	--	(840)	--
Unamortized gain(loss) on bond refundings	1	--	--	--	(14,419)	--
Add: Unamortized bond premiums	11	--	--	--	2,012	--
Net debt service requirements	262	62	28,000	7,350	295,283	110,255

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
2011	331	4	13,874	13,606	27,480
2012	--	--	14,195	13,024	27,219
2013	--	--	14,834	12,456	27,290
2014	--	--	15,636	11,687	27,323
2015	--	--	16,372	11,029	27,401
2016-2020	--	--	126,548	40,504	167,052
2021-2025	--	--	110,903	15,159	126,062
2026-2030	--	--	24,750	206	24,956
	331	4	337,112	117,671	454,783
Less: Unamortized bond discounts	--	--	(841)	--	(841)
Unamortized gain(loss) on bond refundings	--	--	(14,418)	--	(14,418)
Add: Unamortized bond premiums	--	--	2,023	--	2,023
Net debt service requirements	$ 331	4	323,876	117,671	441,547

(1) These are variable rate notes with rates ranging from 0.16% to 0.33%.
(2) Portions of these bonds are variable rate bonds with rates ranging from 0.18% to 0.50%.

10 – DEBT AND NON-DEBT LIABILITIES, continued
d -- Debt Service Requirements, continued

Nonmajor Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ 1,546	689	2,319	1,803	7,360	1,176
2012	1,458	610	2,436	1,698	7,358	926
2013	1,595	537	1,936	1,587	6,653	681
2014	1,383	456	2,684	1,501	5,460	466
2015	1,314	387	2,131	1,382	4,737	296
2016-2020	5,994	910	11,024	5,597	5,590	271
2021-2025	432	22	11,861	2,441	--	--
2026-2030	--	--	2,245	940	--	--
2031-2035	--	--	1,405	543	--	--
2036-2040	--	--	1,420	173	--	--
	13,722	3,611	39,461	17,665	37,158	3,816
Less: Unamortized bond discounts	(46)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(1,010)	--	--	--	--	--
Add: Unamortized bond premiums	1,013	--	708	--	456	--
Net debt service requirements	13,679	3,611	40,169	17,665	37,614	3,816

Fiscal Year Ended September 30	Other Tax Supported Debt		Revenue Bonds (1)(2)		Total Nonmajor Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2011	240	173	8,545	8,817	20,010	12,658	32,668
2012	248	164	9,450	8,483	20,950	11,881	32,831
2013	255	155	10,555	8,077	20,994	11,037	32,031
2014	263	144	11,000	7,635	20,790	10,202	30,992
2015	272	134	11,455	7,164	19,909	9,363	29,272
2016-2020	1,123	760	65,040	27,929	88,771	35,467	124,238
2021-2025	1,595	278	48,700	16,196	62,588	18,937	81,525
2026-2030	353	14	59,270	5,603	61,868	6,557	68,425
2031-2035	--	--	--	--	1,405	543	1,948
2036-2040	--	--	--	--	1,420	173	1,593
	4,349	1,822	224,015	89,904	318,705	116,818	435,523
Less: Unamortized bond discounts	--	--	(679)	--	(725)	--	(725)
Unamortized gain(loss) on bond refundings	--	--	(16,948)	--	(17,958)	--	(17,958)
Add: Unamortized bond premiums	--	--	3,260	--	5,437	--	5,437
Net debt service requirements	$ 4,349	1,822	209,648	89,904	305,459	116,818	422,277

(1) A portion of these bonds are variable rate bonds with rates ranging from 0.15 to 0.55%.

(2) The underlying liquidity agreement expires within one year; therefore, the financial statements reflect amounts due in one year in accordance with GASB Interpretation No. 1. This schedule reflects the debt schedules as of September 30, 2010.

DEBT AND NON-DEBT LIABILITIES, continued
d -- Debt Service Requirements, continued

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
2011	$ 2,216	893	2,319	1,803	10,628	1,570
2012	2,100	777	2,436	1,698	10,369	1,208
2013	2,352	672	1,936	1,587	9,280	863
2014	1,705	550	2,684	1,501	7,369	556
2015	1,654	465	2,131	1,382	5,542	334
2016-2020	7,149	1,084	11,024	5,597	6,315	293
2021-2025	494	25	11,861	2,441	--	--
2026-2030	--	--	2,245	940	--	--
2031-2035	--	--	1,405	543	--	--
2036-2040	--	--	1,420	173	--	--
	17,670	4,466	39,461	17,665	49,503	4,824
Less: Unamortized bond discounts	(62)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(2,547)	--	--	--	--	--
Add: Unamortized bond premiums	1,172	--	708	--	561	--
Net debt service requirements	16,233	4,466	40,169	17,665	50,064	4,824

Fiscal Year Ended September 30	Other Tax Supported Debt Principal	Other Tax Supported Debt Interest	Commercial Paper Notes (1) Principal	Commercial Paper Notes (1) Interest	Revenue Notes (2) Principal	Revenue Notes (2) Interest
2011	1,261	799	299,825	87	--	980
2012	1,317	746	--	--	--	980
2013	1,383	687	--	--	--	980
2014	1,590	619	--	--	--	980
2015	1,661	544	--	--	--	980
2016-2020	5,576	2,342	--	--	28,000	2,450
2021-2025	4,435	772	--	--	--	--
2026-2030	982	38	--	--	--	--
2031-2035	--	--	--	--	--	--
2036-2040	--	--	--	--	--	--
	18,205	6,547	299,825	87	28,000	7,350
Less: Unamortized bond discounts	(27)	--	(28)	--	--	--
Unamortized gain(loss) on bond refundings	--	--	--	--	--	--
Add: Unamortized bond premiums	--	--	--	--	--	--
Net debt service requirements	$ 18,178	6,547	299,797	87	28,000	7,350

(1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt. The underlying liquidity agreement expires within one year; therefore, the financial statements reflect amounts due in one year in accordance with GASB Interpretation No. 1.

(2) These are variable rate notes with rates ranging from 0.16% to 0.33%.

10 – DEBT AND NON-DEBT LIABILITIES, continued
d -- Debt Service Requirements, continued

Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	Revenue Bonds (3)(4) Principal	Revenue Bonds (3)(4) Interest	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Total Business-Type Activities Debt Service Requirements Principal	Interest	Total
2011	$ 147,804	221,240	369	82	464,422	227,454	691,876
2012	166,684	211,236	40	76	182,946	216,721	399,667
2013	211,923	176,877	42	74	226,916	181,740	408,656
2014	253,415	145,856	44	72	266,807	150,134	416,941
2015	202,791	146,250	47	69	213,826	150,024	363,850
2016-2020	788,871	675,723	272	308	847,207	687,797	1,535,004
2021-2025	792,569	371,378	349	231	809,708	374,847	1,184,555
2026-2030	667,630	195,639	448	133	671,305	196,750	868,055
2031-2035	264,140	84,352	17	2	265,562	84,897	350,459
2036-2040	193,000	23,054	--	--	194,420	23,227	217,647
2041-2045	8,325	232	--	--	8,325	232	8,557
	3,697,152	2,251,837	1,628	1,047	4,151,444	2,293,823	6,445,267
Less: Unamortized bond discounts	(12,061)	--	--	--	(12,178)	--	(12,178)
Unamortized gain(loss) on bond refundings	(132,279)	--	--	--	(134,826)	--	(134,826)
Add: Unamortized bond premiums	90,299	--	--	--	92,740	--	92,740
Net debt service requirements	$ 3,643,111	2,251,837	1,628	1,047	4,097,180	2,293,823	6,391,003

(3) A portion of these bonds are variable rate bonds with rates ranging from 0.15 to 0.55%.

(4) The underlying liquidity agreement expires within one year; therefore, the financial statements reflect amounts due in one year in accordance with GASB Interpretation No. 1. This schedule reflects the debt schedules as of September 30, 2010.

e -- Defeased Debt

Over time, the City has issued refunding bonds to advance refund certain public improvement bonds, certificates of obligation, and enterprise revenue bonds. The proceeds of the sale of the refunding bonds were deposited with an escrow agent in an amount necessary to accomplish the discharge and final payment of the refunded obligations. These funds are held by the escrow agent in an escrow fund and used to purchase direct obligations of the United States of America to be held in the escrow fund. The escrow fund is irrevocably pledged to the payment of the principal and interest on the refunded obligations.

On September 30, 2010, defeased bonds remaining unredeemed or unmatured are provided below (in thousands):

Refunded Bonds	Escrow Maturity	Balance
General Obligation		
Certificates of Obligations, Series 2001	9/1/2011	$ 13,685
Public Improvement Bonds, Series 2001	9/1/2011	51,280
Certificates of Obligations, Series 2002	9/1/2012	6,750
Public Improvement Bonds, Series 2002	9/1/2012	13,100
Certificates of Obligations, Series 2004	9/1/2014	1,355
Electric		
Series 2001	11/15/2010	117,700
Series 2003	5/15/2013	18,800
Water and Wastewater		
Series 2001A	5/15/2011	118,265
Series 2001B	5/15/2011	53,605
Series 2003	5/15/2013	29,100
		$ 423,640

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 outstanding of these bonds could not be determined; however, their original issue amounts totaled $310.2 million. Subsequent to September 30, 1997, the City has issued $104 million in various series of housing revenue bonds that have an outstanding balance of $101.4 million as of September 30, 2010.

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, 2010, $350.3 million in revenue and revenue refunding bonds was outstanding that had an original issue value of $382.2 million.

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

12 – INTERFUND BALANCES AND TRANSFERS

Interfund receivables, payables, and advances at September 30, 2010, are as follows (in thousands):

		Amount	
Receivable Fund	**Payable Fund**	**Current**	**Long-Term**
Governmental funds:			
General Fund	Nonmajor governmental funds	$ 227	--
Nonmajor governmental funds	Nonmajor governmental funds	57,746	--
	Water and Wastewater	--	3,505
	Nonmajor enterprise funds	--	1,006
	Internal service funds	--	28
Internal Service funds	Nonmajor governmental funds	11	34
Business-type funds:			
Electric	Internal service funds	136	458
	Nonmajor enterprise funds	306	1,634
	Water and Wastewater	--	24,603
	Nonmajor governmental funds	--	181
Water and Wastewater (restricted)	Internal service funds	27	--
Airport (restricted)	Nonmajor governmental funds	--	107
Nonmajor enterprise funds (restricted)	Nonmajor governmental funds	--	55
Nonmajor enterprise funds	Nonmajor governmental funds	--	30
	Nonmajor enterprise funds	717	--
		$ 59,170	31,641

Interfund receivables, payables, and advances reflect loans between funds. Of the above current amount, $15.1 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 $42.6 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 2010 were as follows (in thousands):

	Transfers In			
Transfers Out	**General Fund**	**Nonmajor Governmental**	**Nonmajor Enterprise**	**Total**
General Fund	$ --	9,716	6,298	16,014
Nonmajor governmental funds	--	42,313	35,630	77,943
Electric	101,000	--	--	101,000
Water and Wastewater	28,967	4,462	--	33,429
Nonmajor enterprise funds	266	3,264	--	3,530
Internal service funds	--	7,681	--	7,681
Total transfers out	$ 130,233	67,436	41,928	239,597

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, and the transfer of hotel occupancy and vehicle rental tax collections from the Hotel-Motel Occupancy Tax and the Vehicle Rental Tax funds to other nonmajor governmental funds and the Convention Center Fund.

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, 2010. These liabilities include amounts for lawsuits settled subsequent to year-end, which are reported in the government-wide statement of net assets.

14 – DERIVATIVE INSTRUMENTS

The City has derivatives in two hedging programs: Energy Risk Management Program and Variable Rate Debt Management Program.

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

a -- Energy Risk Management Program

In an effort to mitigate the financial and market risk associated with the purchase of natural gas 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.

14 – DERIVATIVE INSTRUMENTS, continued
a -- Energy Risk Management Program, continued

Hedging Derivative Instruments

Natural Gas Derivatives
Austin Energy purchases financial contracts on the New York Mercantile Exchange (NYMEX) to provide a hedge against the physical delivery price of natural gas from its various hubs. Austin Energy enters into basis swaps to protect delivery price differences between Henry Hub and its natural gas delivery points, Western Area Hub Association (WAHA), Katy, and the Houston Ship Channel (HSC).

The fair value of futures, swaps, and basis swap contracts is determined using the NYMEX closing settlement prices as of the last day of the reporting period. The fair value is calculated by deriving the difference between the closing futures price on the last day of the reporting period and purchase price at the time the positions were established. The fair value of the options are calculated using the Black/Scholes valuation method utilizing implied volatility based on the NYMEX closing settlement prices of the options as of the last day of the reporting period, risk free interest rate, time to maturity, and the NYMEX forward price of the underlier as of the last day of the reporting period.

Premiums paid for options are deferred until the contract is settled. As of September 30, 2010, $12.7 million in premiums was deferred. As of September 30, 2010, the fair value of Austin Energy's futures, options, swaptions, and swaps, was an unrealized loss of $105.7 million, of which $113.4 million is reported as derivative instruments in liabilities and $7.7 million is reported as derivative instruments in assets. The fair values of these derivative instruments are deferred until future periods on the balance sheet using deferred outflows and deferred inflows.

Congestion Rights Derivatives
Preassigned Congestion Rights (PCRs) and Transmission Congestion Rights (TCRs) function as financial hedges against the cost of resolving zonal congestion in the Electric Reliability Council of Texas (ERCOT) market. These instruments allow Austin Energy to hedge expected future congestion that may arise during a certain period. TCRs are purchased at auction, annually and monthly at market value. Municipally owned utilities are granted the right to purchase PCRs annually at 15% of the cost of TCRs. The instruments exhibit all three characteristics - settlement, leverage, and net settlement - to classify them as derivative instruments.

As of September 30, 2010, PCRs had a fair value of $247 thousand and TCRs had a fair value of $1.3 million and are reported as derivative instruments. The market value for TCRs and PCRs is calculated using the implied market value (the difference between future zonal prices of the applicable zones) multiplied by the number of open positions. The difference in the zonal prices represents what the expected cost of congestion will be for that given point in time.

14 – DERIVATIVE INSTRUMENTS, continued
a -- Energy Risk Management Program, continued

On September 30, 2010, Austin Energy had the following outstanding hedging derivative instruments (in thousands):

Type of Transaction		Reference Index	Fair Value at September 30, 2010 Maturity Dates	Notional Volumes		Fair Value	Change in Fair Value	Premiums Deferred
Long	OTC Call Options	Henry Hub	Oct 2010 - Oct 2013	20,445,013	(1)	$ 1,819	(8,555)	19,159
Long	Options	Henry Hub	Apr 2013 - Oct 2013	2,140,000	(1)	373	(875)	-
Long	Basis Swaps	WAHA	Oct 2010 - Dec 2013	8,980,000	(1)	3,939	1,482	-
n/a	Congestion Rights	ICE (2)	Oct 2010 - Dec 2010	560,117	(3)	1,579	(364)	-
			Derivative instruments (assets)			7,710	(8,312)	19,159
Short	OTC Call Options	Henry Hub	Oct 2010 - Jun 2012	(6,410,000)	(1)	(702)	1,874	-
Short	OTC Put Options	Henry Hub	Oct 2010 - Dec 2014	(24,885,000)	(1)	(49,286)	(27,115)	(6,440)
Long	Futures	Henry Hub	Apr 2011 - Jul 2013	1,375,000	(1)	(4,050)	(2,300)	-
Short	Options	Henry Hub	Apr 2013 - Oct 2014	(2,140,000)	(1)	(4,827)	(2,012)	-
Long	OTC Swaps	Henry Hub	Oct 2010 - Jun 2015	35,427,500	(1)	(47,600)	(46,446)	-
Short	OTC Swaptions	Henry Hub	Apr 2011 - Oct 2011	(3,210,000)	(1)	(6,946)	(4,054)	-
			Derivative instruments (liabilities)			(113,411)	(80,053)	(6,440)
			Total			$ (105,701)	(88,365)	12,719

(1) Volume in MMBTUs
(2) IntercontinentalExchange
(3) Volume in MWHs

Austin Energy routinely purchases derivative instruments. The outstanding hedging derivative instruments were purchased at various dates.

The realized gains and losses related to the hedging activity derivative instruments are netted to fuel expense in the period realized.

Risks

Credit Risk. Credit risk is the risk of loss due to a counterparty defaulting on its obligations. Austin Energy's fuel derivative contracts expose Austin Energy to custodial credit risk on Exchange Traded derivative positions. In the event of default or nonperformance by brokers or the exchange, Austin Energy's operations will not be materially affected. However, Austin Energy does not expect the brokerages to fail to meet their obligations given their high credit ratings and the strict and deep credit requirements upheld by NYMEX, which these brokerage houses are members. At September 30, 2010, the brokerages had credit ratings of A and BBB.

The over-the-counter agreements expose Austin Energy to credit risk. In the event of default Austin Energy's operations will not be materially affected. However, Austin Energy does not expect the counterparties to fail to meet their obligations given their high credit rating. At September 30, 2010, the two counterparties had credit ratings of AA- and A. The contractual provisions under the ISDA (International Swaps and Derivatives Association) agreement applied to these contracts include collateral provisions. At September 30, 2010 no collateral was required under these provisions.

The congestion rights expose Austin Energy to custodial credit risk in the event of default or nonperformance by ERCOT. In the event of default of nonperformance Austin Energy's operations will not be materially affected. However, Austin Energy does not expect ERCOT to fail in meeting their obligations as they are a regulatory entity of the State of Texas.

14 – DERIVATIVE INSTRUMENTS, continued
a -- Energy Risk Management Program, continued

Termination Risk. Termination risk is the risk that a derivative will terminate prior to its scheduled maturity due to a contractual event. Contractual events include illegality, tax and credit events upon merger and other events. Termination risk for exchange-traded instruments is greatly reduced by the strict rules and guidelines set up by the exchange, which is governed by the Commodity Futures Trade Commission. Austin Energy's exposure to termination risk for over-the counter agreements is minimal due to the high credit rating of the counterparties, and the contractual provisions under the ISDA (International Swaps and Derivatives Association) agreement applied to these contracts. Termination risk is associated with all of Austin Energy's derivatives up to the fair value of the instrument.

Netting Arrangements. Austin Energy enters into netting arrangements whenever it has entered into more than one derivative instrument transaction with a counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on it's obligations, close-out netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by or owed to the non-defaulting party.

Basis Risk. Austin Energy is exposed to basis risk on its fuel hedges because the expected commodity purchases being hedged will price based on a delivery point (WAHA/Katy/HSC) different than that at which the financial hedging contracts are expected to settle NYMEX (Henry Hub). As of September 30, 2010, the NYMEX price was $3.81 per MMBTU, the WAHA Hub price was $3.67 per MMBTU, Katy was $3.785 per MMBTU, and the HSC Hub price was $3.83 per MMBTU.

Investment Derivative Instruments

In fiscal year 2010, some derivative instruments were closed out resulting in an ineffective hedge classification, accordingly a loss of $69 thousand was reported. However, this loss was deferred under the accounting requirements for regulated operations.

On September 30, 2010, Austin Energy had the following closed out investment derivative instruments (in thousands):

			Fair Value at September 30, 2010			
Type of Transaction		Reference Index	Maturity Dates	Volumes in MMBTU	Fair Value	Change in Fair Value
Long	OTC Call Options	Henry Hub	Apr 2011 - Oct 2011	3,210,000	$ --	--
Short	OTC Call Options	Henry Hub	Apr 2011 - Oct 2011	(3,210,000)	--	890
Long	Futures	Henry Hub	Aug 2013 - Oct 2013	230,000	(846)	(397)
Short	Futures	Henry Hub	Aug 2013 - Oct 2013	(230,000)	777	397
Long	OTC Swaps	Henry Hub	Apr 2011	300,000	(750)	(692)
Short	OTC Swaps	Henry Hub	Apr 2011	(300,000)	750	692
					$ (69)	890

At September 30, 2010, Austin Energy recorded an unrealized loss of $49 thousand on outstanding emission investment instruments.

<u>Risks</u>

As of September 30, 2010, Austin Energy was not exposed to credit, interest or foreign currency risk on its investment derivative instruments.

b -- Variable Rate Debt Management Program

Hedging Derivative Instruments

The intention of the City's swap portfolio is to change variable interest rate bonds to synthetically fixed rate bonds. As a means to lower its borrowing costs when compared against fixed rate bonds at the time of issuance, the City executed pay-fixed, receive-variable swaps in connection with its issuance of variable rate bonds.

14 – DERIVATIVE INSTRUMENTS, continued
b -- Variable Rate Debt Management Program, continued

As of September 30, 2010, the City has 4 outstanding swap transactions with initial and outstanding notional amounts totaling $734.6 million and $664.1 million, respectively. The mark-to-market or fair value for each swap is estimated using the zero-coupon method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the London Interbank Offered Rate (LIBOR) swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

On September 30, 2010, the City had the following outstanding interest rate swap hedging derivative instruments (in thousands):

Item	Related Variable Rate Bonds	Terms	Effective Date	Maturity Date		Notional Amount	Fair Value
Business-Type Activities - Hedging derivatives:							
WW1	Water & Wastewater Revenue Refunding Bonds, Series 2004	Pay 3.657%, receive 68% of LIBOR	8/27/2004	5/15/2024	$	115,375	(16,476)
WW2	Water & Wastewater Revenue Refunding Bonds, Series 2008	Pay 3.600%, receive SIFMA swap index	5/15/2008	5/15/2031		166,875	(18,130)
AIR1	Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005	Pay 4.051%, receive 71% of LIBOR	8/17/2005	11/15/2025		259,850	(48,227)
HOT1	Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008	Pay 3.251%, receive SIFMA swap index until 11/15/09 and 67% of LIBOR thereafter	8/14/2008	11/15/2029		121,955	(16,640)
					$	664,055	(99,473)

All swaps are pay-fixed interest rate swaps. All were entered into with the objective of hedging changes in the cash flows on the related variable rate debt.

The fair value of the City's interest rate swap hedging derivative instruments is reported as derivative instruments in liabilities with an offsetting adjustment to deferred outflow of resources. The table below provides for the fair value and changes in fair value of the City's interest rate swap agreements as of September 30, 2010 (in thousands).

			Fair Value and Classification as of September 30, 2010		Change in fair value for the year ended September 30, 2010	
Item		Outstanding Notional Amount	Amount	Classification	Deferred Outflows	Deferred Inflows
Business-Type Activities:						
Hedging derivative instruments (cash flow hedges):						
WW1	$	115,375	(16,476)	Non-current liability	(4,368)	--
WW2		166,875	(18,130)	Non-current liability	(7,918)	--
AIR1		259,850	(48,227)	Non-current liability	(12,034)	--
HOT1		121,955	(16,640)	Non-current liability	(6,060)	--
	$	664,055	(99,473)		(30,380)	--

Due to the continued decline in interest rates during fiscal year 2010, the City's interest rate swap hedging derivative instruments had negative fair values as of September 30, 2010. 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.

14 – DERIVATIVE INSTRUMENTS, continued
b -- Variable Rate Debt Management Program, continued

Risks

Credit risk. As of September 30, 2010, the City was not exposed to credit risk on any of its outstanding swap agreements because each swap had a negative fair value. However, should interest rates change and the fair value of a swap becomes positive, the City would be exposed to credit risk in the amount of the swap's fair value. The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

The counterparty credit ratings for the City's interest rate swap hedging derivative instruments at September 30, 2010 are included in the table below.

		Counterparty Ratings		
Item	**Related Variable Rate Bonds**	**Moody's Investors Service, Inc**	**Standard & Poor's**	**Fitch, Inc**
Business-Type Activities:				
WW1	Water & Wastewater Revenue Refunding Bonds, Series 2004	Aa1	AA-	AA-
WW2	Water & Wastewater Revenue Refunding Bonds, Series 2008	Aa3	A	A+
AIR1	Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005	A2	A	A
HOT1	Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008	Aa3	A+	AA-

Swap agreements for all four swaps contain collateral agreements with the counterparties. These swap agreements require collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds in the agreements. For Swap WW1, the City purchased swap insurance to mitigate the need to post collateral as long as the insurer, Financial Security Assurance, maintains a credit rating above A2/A by Moody's/Standard &Poor's (S&P). For Swap AIR1, the City purchased swap insurance to mitigate the need to post collateral as long as the insurer, Financial Security Assurance, maintains a credit rating above A2/A by Moody's/S&P. For Swap HOT1, the credit support provider of MKFP is Deutsche Bank AG, New York Branch (DBAG). This swap requires collateralization of the fair value of the swap should DBAG's credit rating fall below the applicable thresholds in the agreement.

Swap payments and associated debt. The net cash flows for the City's interest rate swap hedging derivative instruments for the year ended September 30, 2010 are included in table below (in thousands).

		Counterparty Swap Interest				
Item	**Related Variable Rate Bonds**	**Pay**	**Receive**	**Net**	**Interest to Bondholders**	**Net Interest Payments**
Business-Type Activities:						
WW1	Water & Wastewater Revenue Refunding Bonds, Series 2004	$ (4,219)	213	(4,006)	(367)	(4,373)
WW2	Water & Wastewater Revenue Refunding Bonds, Series 2008	(6,023)	438	(5,585)	(498)	(6,083)
AIR1	Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005	(10,551)	503	(10,048)	(857)	(10,905)
HOT1	Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008	(3,982)	246	(3,736)	(370)	(4,106)
		$ (24,775)	1,400	(23,375)	(2,092)	(25,467)

14 – DERIVATIVE INSTRUMENTS, continued
b -- Variable Rate Debt Management Program, continued

Basis and interest rate risk. Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The City does not bear basis risk on Swap WW2. At September 30, 2010, the City bears basis risk on the three remaining swaps. These swaps have basis risk since the City receives a percentage of LIBOR to offset the actual variable rate the City pays on the related bonds. The City is exposed to basis risk should the floating rate that it receives on a swap drop below the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

Tax risk. Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the City's underlying variable rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g. a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. The City is receiving 68% of LIBOR (a taxable index) on Swap WW1, 71% of LIBOR on AIR1, and 67% of LIBOR on Swap HOT1 and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

Termination risk. The City or the counterparties may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value. The additional termination events in the agreement are limited to credit related events only and the ratings triggers are substantially below the current credit rating of the City. Additionally, the City purchased swap insurance on the Swap WW1 and Swap AIR1 to further reduce the possibility of termination risk.

Rollover risk. The City is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, the City will be re-exposed to the risks being hedged by the hedging derivative instrument. The City is currently not exposed to rollover risk on its hedging derivative instruments.

Investment Derivative Instruments

At September 30, 2010, the City did not have any investment derivative instruments related to interest rate swaps.

c -- Swap Payments and Associated Debt

As of September 30, 2010, debt service requirements of the City's variable rate debt and net swap payments, assuming current interest rates remain the same, for their term are as follows (as rates vary, variable rate bond interest payments and net swap payments will vary):

Fiscal Year Ended September 30	Variable-Rate Bonds (in thousands) Principal	Interest	Interest Rate Swaps, Net	Total Interest
2011	$ 22,890	624	23,387	24,011
2012	29,905	597	22,418	23,015
2013	23,750	574	21,507	22,081
2014	54,920	538	20,017	20,555
2015	43,465	490	17,539	18,029
2016-2020	154,910	1,833	72,418	74,251
2021-2025	210,235	869	41,434	42,303
2026-2030	110,000	85	10,892	10,977
2031	13,980	2	333	335
Total	$ 664,055	5,612	229,945	235,557

15 – COMMITMENTS AND CONTINGENCIES
a -- Fayette Power Project

Austin Energy's coal-fired electric generating units are located at the Fayette Power Project (FPP) and operate pursuant to a participation agreement with LCRA. Austin Energy has an undivided 50 percent interest in Units 1 and 2, and LCRA wholly owns Unit 3. A management committee of four members governs FPP; each participant administratively appoints two members. As managing partner, LCRA is responsible for the operation of the project and appoints project management.

FPP's Flexible Air permit received from the Texas Commission on Environmental Quality in 2002 requires that Austin Energy and LCRA install new SO2 scrubbers on FPP Units 1 and 2 by 2012. It is estimated that the project cost will be in the range of $225 million for Austin Energy's share. The scrubber on Unit 1 began operation in January 2011 and the Unit 2 scrubber is expected to go online in the spring of 2011.

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 pro-rata interest in FPP was $209.9 million as of September 30, 2010. The increase in the pro-rata interest from 2009 is primarily due to the scrubbers. The pro-rata 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 Austin Energy's share of FPP's generation and transmission facilities is recorded in the utility plant accounts of the City in accordance with its accounting policies.

b -- South Texas Project

Austin Energy is one of three participants in the South Texas Project (STP), which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the STP are NRG South Texas LP and City Public Service of San Antonio. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. Austin Energy's 16 percent ownership in the STP represents 400 megawatts of plant capacity. At September 30, 2010, Austin Energy's investment in the STP was approximately $469 million, net of accumulated depreciation.

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

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

c -- South Texas Project Decommissioning

Austin Energy began collecting in rates and accumulating funds for decommissioning STP in 1989 in an external trust. The Decommissioning Trust assets are reported as restricted cash and restricted investments held by trustee. The related liability is reported as decommissioning liability payable. Excess or unfunded liabilities related to decommissioning STP will be adjusted in future rates so that there are sufficient funds in place to pay for decommissioning. At September 30, 2010, the trust's assets were in excess of the estimated liability by $23.8 million which is reported as part of deferred revenue and other liabilities (in thousands):

Decommissioning trust assets	$ 159,602
Pro rata decommissioning liability	(135,765)
	$ 23,837

15 – COMMITMENTS AND CONTINGENCIES, continued
c -- South Texas Project Decommissioning, continued

STP is subject to regulation by the Nuclear Regulatory Commission (NRC). The NRC requires that each holder of a nuclear plant-operating license submit a certificate of financial assurance to the NRC for plant decommissioning every two years or upon transfer of ownership. The certificate provides reasonable assurance that sufficient funds are being accumulated to provide the minimum requirement for decommissioning mandated by the NRC. The most recent annual calculation of financial assurance filed on December 31, 2008 showed that the trust assets exceeded the minimum required assurance by $38.6 million.

d -- Purchased Power

Austin Energy has commitments totaling $3.2 billion to purchase energy and capacity through purchase power agreements. This amount includes provisions for wind power through 2027, landfill power through 2020, biomass through 2032, and solar through 2035.

e -- Decommissioning and Environmental/Pollution Remediation Contingencies

Austin Energy may incur costs for environmental/pollution remediation of certain sites including the Holly, Fayette, and Seaholm Power Plants. The financial statements include a liability of approximately $23 million at September 30, 2010. Austin Energy anticipates payment of these costs in 2011 and future years. The amount is based on 2010 cost estimates to perform remediation. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

Austin Water closed the Green Water Treatment Plant (GWTP) on September 23, 2008. The estimated decommissioning cost to close the GWTP is $11 million. The financial statements include a liability of approximately $2.1 million at September 30, 2010. The amount is based on 2010 cost estimates. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. Plant decommissioning reached substantial completion in February 2011, with final completion expected to occur in fiscal year 2011.

f -- Texas Water Development Board

In November 2009, the City delivered $31,815,000 of initial Water and Wastewater System Revenue Bonds, Series 2010 as a private placement with the Texas Water Development Board (TWDB). This zero-interest issuance is part of the American Recovery and Reinvestment Act. As part of that program, the initial bonds, in $5,000 increments, are replaced with definitive bonds as the City requests reimbursement for expenditures related to the approved project: green infrastructure improvements at the Hornsby Bend Biosolids Management plant. The City recognizes a liability once the definitive bonds have been issued. The remaining commitment will be recognized as future definitive bonds are issued. At year end, the liability recognized by the Water and Wastewater System Revenue Bonds, Series 2010 and the remaining commitment are as follows (in thousands):

Total bonds authorized	$	31,815
Definitive bonds issued to date		(10,840)
Remaining commitment	$	20,975

The City intends to issue definitive bonds for the remaining commitment. If the full amount of bonds authorized is not converted to definitive bonds, the TWDB and the City would agree to cancel any remaining initial bonds authorized but not converted. The City's liability in the financial statements represents the amount of definitive bonds outstanding.

g -- Arbitrage Rebate Payable

The City's arbitrage consultant has determined that the City has 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, 2010, was $139 thousand for governmental activities, $7 thousand for water and wastewater, and $19 thousand for other nonmajor enterprise activities.

15 – COMMITMENTS AND CONTINGENCIES, continued
h -- Federal and State Financial Assistance Programs

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

i -- Capital Improvement Plan

As required by charter, the City has a *Capital Improvements Program* plan (capital budget) covering a five-year period which details anticipated spending for projects in the upcoming and future years. The City's 2010 Capital Budget has substantial contractual commitments relating to its capital improvement plan.

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

Project (in thousands)	Remaining Commitment
Governmental activities:	
General government	$ 11,509
Transportation	25,034
Public recreation and culture	106,387
Urban growth management	1,134
Business-type activities:	
Electric	299,047
Water	585,811
Wastewater	426,193
Airport	189,325
Environmental and health services	42,402
Urban growth management	245,121
Total	$ 1,931,963

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. Closure is expected to occur in May 2011. The amount of costs reported, based on landfill capacity as of the City's fiscal year-end, is as follows (in thousands):

	Closure	Postclosure	Total
Total estimated costs	$ 10,035	7,297	17,332
% capacity used through FY10	99.04%	99.04%	99.04%
Cumulative liability accrued through FY10	9,938	7,227	17,165
Costs incurred through FY10	(9,225)	--	(9,225)
Closure and post-closure liability at 9/30/10	713	7,227	7,940
Estimated FY11 costs	713	52	765
Estimated costs for remaining years	$ --	7,175	7,175

These amounts are based on the 2010 cost estimates to perform closure and postclosure care. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. State and federal laws require owners to demonstrate financial assurance for closure, postclosure, and/or corrective action. The City complies with the financial and public notice components of the local government financial test and government-guarantee of the test.

15 – 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 HMO for health coverage. Approximately 30% of city employees and 41% of retirees use the HMO option; approximately 70% of city employees and 59% 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 the number of full-time equivalent (FTE) employees per fund.

The City purchases stop-loss insurance for the City's PPO and HMO. This stop-loss insurance covers individual claims that exceed $500,000 per calendar year, up to a maximum of $2 million. In fiscal year 2010, six claims exceeded the stop-loss limit of $500,000; during fiscal year 2009, five claims exceeded the stop-loss limit of $500,000; during fiscal year 2008, no claims exceeded the stop-loss limit of $500,000. City coverage is limited to $2 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 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. Possible losses are estimated to range from $33.4 to $47.5 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	
	2010	2009	2010	2009	2010	2009
Liability balances, beginning of year	$ 9,260	4,796	6,965	7,848	14,052	13,818
Claims and changes in estimates	9,480	9,807	3,270	2,784	3,908	3,391
Claim payments	(8,182)	(5,343)	(2,659)	(3,667)	(2,659)	(3,157)
Liability balances, end of year	$ 10,558	9,260	7,576	6,965	15,301	14,052

The Liability Reserve Fund claims liability balance at fiscal year end includes liabilities of $4.9 million discounted at 4.22% in 2010 and $5.0 million discounted at 4.45% in 2009.

15 – COMMITMENTS AND CONTINGENCIES, continued
l -- Redevelopment of Robert Mueller Municipal Airport

In December 2004, City Council approved a master development agreement with Catellus Development Group (Catellus) to develop approximately 700 acres at the former site of the City's municipal airport into a mixed-use urban village near downtown Austin. Catellus will develop and market the property. The Mueller Local Government Corporation (MLGC), created by the City for this development, will issue debt to fund infrastructure such as streets, drainage facilities, public parks, and greenways, which will be supported by taxes generated from this development.

In September 2006, the MLGC issued debt in the amount of $12 million. Proceeds of the debt have been used to reimburse the developer for eligible infrastructure such as streets, drainage, and parks. Debt service payments will be funded through an economic development grant from the City of Austin, and supported by sales tax proceeds from the development.

In October 2009, the MLGC issued debt in the amount of $15 million. Proceeds of the debt have been used to reimburse the developer for additional eligible infrastructure for the residential portion of the development. Debt service payments will be funded through an economic development grant from the City of Austin, and supported by property tax proceeds from the development.

The development contains Class A office space which hosts over 40 employers providing more than 3,000 jobs at Mueller. The development has more than 350,000 sq. ft. of retail space. From the start of home sales in 2007, the community has been well received. As of September 30, 2010, approximately 661 single-family homes were either complete or under construction. In addition, 477 apartment units were complete. Catellus also completed the infrastructure for an additional 49 single-family homes and initiated the development of 52 multi-family residences.

m -- Other Commitments and Contingencies

The City is committed under various leases for building and office space, tracts of land and rights-of-way, and certain equipment. These leases are considered operating leases for accounting purposes. Lease expense for the year ended September 30, 2010, was $21.8 million. The City expects these leases to be replaced with similar leases in the ordinary course of business. Future minimum lease payments for these leases will remain approximately the same.

The City has entered into certain lease agreements to finance equipment for both governmental and business-type activities. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of the future minimum lease payments at their inception date. Refer to Note 10 for the debt service requirements on these leases.

The following summarizes capital assets recorded at September 30, 2010, under capital lease obligations (in thousands):

		Business-type Activities		
Capital Assets	**Governmental Activities**	**Electric**	**Airport**	**Total**
Building and improvements	$ --	1,405	--	1,405
Equipment	1,051	--	2,320	2,320
Accumulated depreciation	(297)	(281)	(1,753)	(2,034)
Net capital assets	$ 754	1,124	567	1,691

16 – 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, dental, and vision insurance for the retiree and the retiree's family and $1,000 of life insurance on the retiree only. All retirees who are eligible to receive pension benefits under any of the City's three pension systems are eligible for other post-employment benefits. Retirees may also enroll eligible dependents under the medical, dental, and vision plan(s) in which they participate. The City's other post-employment benefits plan is a single employer plan.

The City is under no obligation to pay any portion of the cost of other post-employment benefits for retirees or their dependents. Allocation of city funds to pay other post-employment benefits is determined on an annual basis by the City Council as part of the budget approval process on a pay-as-you-go basis.

The City recognizes the cost of providing these benefits as an expense and corresponding revenue in the Employee Benefits Fund; no separate plan report is available. The City pays actual claims for medical and 100% of the retiree's life insurance premium. Group dental and vision coverage is available to retirees and their eligible dependents. The retiree pays the full cost of the dental and vision premium.

Medical, dental, vision, and life insurance expenses are reported in the Employee Benefits Fund. The estimated pay-as-you-go cost of providing medical and life benefits for 3,118 retirees was $21.7 million in 2010 and $19.6 million in 2009 for 3,115 retirees.

Annual Other Post Employment Benefits (OPEB) Cost and Net OPEB (Obligation) Asset

The annual OPEB cost associated with the City's retiree benefits for the fiscal year ended September 30, 2010, is as follows (in thousands):

	OPEB
Annual required contribution	$ 119,299
Interest on net OPEB obligation	7,374
Adjustment to annual required contribution	(9,969)
Annual OPEB cost	116,704
Contributions made	(21,707)
Change in net OPEB obligation	94,997
Beginning net OPEB obligation	175,151
Net OPEB obligation	$ 270,148

Schedule of Funding Progress (in thousands):

Year Ended September 30	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
2010	$ --	1,134,864	1,134,864	0.0%	620,526	182.9%

(1) UAAL – Unfunded Actuarial Accrued Liability

The schedule of funding progress, presented as RSI, presents multiyear trend information regarding the ratio of the actuarial value of assets and actuarial accrued liabilities.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and the two preceding years are as follows (in thousands):

Year Ended September 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	$ 108,574	19%	87,507
2009	107,207	18%	175,150
2010	116,704	18%	270,148

16 – OTHER POST-EMPLOYMENT BENEFITS, continued

The actuarial cost method and significant assumptions underlying the actuarial calculation are as follows:

	OPEB
Actuarial Valuation Date	October 1, 2008
Actuarial Cost Method	Projected Unit Credit
Amortization method	Level Percentage Open
Remaining Amortization Period	30 years
Inflation Rate	N/A
Salary Increase	None
Payroll Increase	None
Assumed Rate of Return on Investments	4.21%
Health Care Cost Trend Rate	10% in 2009, decreasing 1% per year for five years to an ultimate trend of 5% in 2014

17 – SUBSEQUENT EVENTS
a -- General Obligation Bond Issue

In October 2010, the City issued $79,528,000 of Public Improvement Bonds, Series 2010A. The proceeds from the issue will be used as follows: street improvements ($16,998,000), streets and signals ($15,800,000), drainage improvements ($24,000,000), park improvements ($20,130,000), cultural arts ($100,000), central library ($1,000,000), and public safety facility ($1,500,000). These bonds will be amortized serially on September 1 of each year from 2011 to 2030. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2011. Total interest requirements for these bonds, at rates ranging from 2.00% to 4.00%, are $37,170,378.

In October 2010, the City issued $26,400,000 of Public Improvement Bonds, Taxable Series 2010B. The proceeds from the issue will be used as follows: affordable housing ($26,400,000). These bonds will be amortized serially on September 1 of each year from 2011 to 2030. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2011. Total interest requirements for these bonds, at rates ranging from 3.00% to 4.65%, are $16,225,123.

In October 2010, the City issued $22,300,000 of Certificates of Obligation, Series 2010. The proceeds from this issue will be used as follows: public safety facilities ($3,850,000), solid waste services landfill closure ($8,100,000), public works transportation projects ($9,000,000), and improvements ($1,350,000). These certificates of obligation will be amortized serially on September 1 of each year from 2011 to 2030. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2011. Total interest requirements for these certificates of obligation, at rates ranging from 2.00% to 3.50%, are $8,237,625.

In October 2010, the City issued $16,450,000 of Public Property Finance Contractual Obligations, Series 2010. The proceeds from this issue will be used as follows: solid waste services capital equipment ($8,600,000), parking meter pay stations ($2,600,000), golf capital equipment ($1,070,000), public works transportation capital equipment ($2,505,000), wastewater utility capital equipment ($1,016,000), and water utility capital equipment ($659,000). These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2011 to 2017. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2011. Total interest requirements for these obligations, at rates ranging from 1.00% to 1.75%, are $897,315.

17 – SUBSEQUENT EVENTS, continued

b -- Public Improvement Refunding Bond Issue

In November 2010, the City issued $91,560,000 of Public Improvement Refunding Bonds, Series 2010. The net proceeds of $108,587,889 (after issue costs, discounts, and premiums) from the refunding were used to refund $41,500,000 of Public Improvement Bonds, Series 2002; $31,785,000 of Public Improvement Refunding Bonds, Series 2003; $20,010,000 of Certificates of Obligation, Series 2001 and 2002; $2,090,000 of Circle C MUD #3 and Circle C MUD #4 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1996; $4,040,000 of Davenport Ranch MUD #1 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1997 and Series 1997B; and $70,000 of Northwest Austin MUD #1Unlimited Tax Bonds, Series 2001. The refunding resulted in future interest requirements to service the debt of $40,480,158 with interest rates ranging from 4% to 5%. An economic gain of $9,426,174 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of $11,427,089.

c -- Water and Wastewater System Revenue Bond Refunding Issue

In November 2010, the City issued $76,855,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2010A. Proceeds from the bond refunding were used to refund $75,000,000 of the City's outstanding tax-exempt commercial paper issued for the water and wastewater utility system. The debt service requirements on the refunding bonds are $153,171,897, with interest rates ranging from 4% to 5.125%. Interest payments are due May 15 and November 15 of each year from 2011 to 2040. Principal payments are due November 15 of each year from 2013 to 2040. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

In November 2010, the City issued $100,970,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2010B. These bonds are Build America Bonds (BABs) and are part of the Federal American Recovery and Reinvestment Act of 2009. Proceeds from the bond refunding were used to refund $100,000,000 of the City's outstanding tax-exempt commercial paper issued for the water and wastewater utility system. The debt service requirements on the refunding bonds are $213,428,131, with interest rates ranging from 2.494% to 6.018%. Interest payments are due May 15 and November 15 of each year from 2011 to 2040. Principal payments are due November 15 of each year from 2013 to 2040. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

d -- Texas Water Development Board

As of January 28, 2011, the City has converted an additional $9,130,000 of initial bonds to definitive Water and Wastewater System Revenue Bonds, Series 2010 over six separate draw requests. With these issuances, the outstanding commitment with the TWDB is now reduced to $11,845,000.

REQUIRED SUPPLEMENTARY INFORMATION

(In thousands)

	Actual	Adjustments (1) (2)	Actual-Budget Basis	Budget Original	Budget Final	Variance (3) Positive (Negative)
REVENUES						
Taxes	$ 387,061	--	387,061	371,138	371,138	15,923
Franchise fees	34,964	--	34,964	34,082	34,082	882
Fines, forfeitures and penalties	18,692	(1)	18,691	18,999	18,999	(308)
Licenses, permits and inspections	15,716	--	15,716	18,028	18,028	(2,312)
Charges for services/goods	33,394	(84)	33,310	36,590	36,590	(3,280)
Interest and other	8,059	(1,191)	6,868	4,910	4,910	1,958
Total revenues	497,886	(1,276)	496,610	483,747	483,747	12,863
EXPENDITURES						
General government						
Municipal Court	11,768	(41)	11,727	11,954	11,954	227
Public safety						
Police	235,223	(1,403)	233,820	241,176	241,176	7,356
Fire	119,575	(831)	118,744	120,246	120,246	1,502
Emergency Medical Services	44,132	(30)	44,102	43,777	44,107	5
Transportation, planning and sustainability						
Transportation, Planning and Sustainability	363	--	363	350	350	(13)
Public health:						
Health	37,464	172	37,636	38,974	38,974	1,338
Public recreation and culture						
Parks and Recreation	35,945	(140)	35,805	36,810	36,810	1,005
Austin Public Library	24,095	9	24,104	24,543	24,543	439
Urban growth management						
Neighborhood Planning and Zoning	17,588	(74)	17,514	19,604	19,604	2,090
Development Services and Watershed Protection	(53)	53	--	--	--	--
General city responsibilities (4)	69,456	(52,630)	16,826	16,760	16,760	(66)
Total expenditures	595,556	(54,915)	540,641	554,194	554,524	13,883
Excess (deficiency) of revenues over expenditures	(97,670)	53,639	(44,031)	(70,447)	(70,777)	26,746
OTHER FINANCING SOURCES (USES)						
Transfers in	130,233	1,182	131,415	131,167	131,167	248
Transfers out	(16,014)	(56,052)	(72,066)	(68,424)	(68,424)	(3,642)
Total other financing sources (uses)	114,219	(54,870)	59,349	62,743	62,743	(3,394)
Excess (deficiency) of revenues and other sources over expenditures and other uses	16,549	(1,231)	15,318	(7,704)	(8,034)	23,352
Fund balance at beginning of year	92,161	(7,560)	84,601	49,948	46,994	37,607
Fund balance at end of year	$ 108,710	(8,791)	99,919	42,244	38,960	60,959

(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 ($340,000), accrued payroll ($2,599,000), expenditures for workers' compensation ($5,006,746), liability reserve ($1,740,000), and public safety ($2,325,759).

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	$ 16,549
Adjustments - increases (decreases) due to:	
Unbudgeted revenues	(76)
Net compensated absences accrual	30
Outstanding encumbrances established in current year	(2,442)
Payments against prior year encumbrances	1,952
Other	(695)
Excess (deficiency) of revenues and other sources over expenditures and other uses - budget basis	$ 15,318

c -- Budget Amendments

The original expenditure budget of the General Fund was amended during fiscal year 2010 primarily for increased public safety 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						
2007	$1,653,500	2,112,800	459,300	78.3%	417,451	110.0%
2008	1,481,377	2,246,903	765,526	65.9%	448,740	170.6%
2009	1,672,470	2,330,937	658,467	71.8%	442,539	148.8%
Police Officers						
2007	482,303	637,560	155,257	75.6%	111,809	138.9%
2008	464,230	693,202	228,972	67.0%	122,735	186.6%
2009	518,112	733,635	215,523	70.6%	122,928	175.3%
Fire Fighters (2)						
2005	493,567	580,054	86,487	85.1%	65,885	131.3%
2007	584,420	586,802	2,382	99.6%	76,556	3.1%
2009	589,261	664,185	74,924	88.7%	78,980	94.9%

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

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

OTHER POST EMPLOYMENT BENEFITS-TREND INFORMATION

Under GASB Statement No. 45, the City is required to have an actuarial valuation of its other post employment benefits program every other year. The Schedule of Funding Progress for other post employment benefits is as follows (in thousands):

Fiscal Year Ended Sept. 30	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
2008	October 1, 2006	$ --	1,035,766	1,035,766	0.0%	618,214	167.5%
2009	October 1, 2006	--	1,035,766	1,035,766	0.0%	629,822	164.5%
2010	October 1, 2008	--	1,134,864	1,134,864	0.0%	620,526	182.9%

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APPENDIX C

SELECTED DEFINITIONS

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SELECTED DEFINITIONS

"Additional Bonds" means bonds issued by the City pursuant to Section 19 of the Ordinance.

"Bond Fund" means the Fund referenced in Section 15 of the Ordinance for the payment of the Parity Bonds.

"Bond Year" – means the period of time that commences on the day following the interest payment date on the Bonds occurring in November of any year and ending on the interest payment date on the Bonds occurring in November of the following year.

"Business Day" means any day other than (a) a Saturday or Sunday, (b) a day on which banks located in the cities in which the designated office of the Paying Agent/Registrar is located are required or authorized by law or executive order to close, (c) a day on which the New York Stock Exchange is closed, or (d) a day on which the payment system of the Federal Reserve System is not operational.

"Convention Center/Waller Creek Venue Project" means the capital improvement project described generally of consisting of the expansions to the City's Convention Center, including the construction of tunnel improvements along Waller Creek in the vicinity of and functionally related to the convention center and related infrastructure and being a venue project within the meaning of Chapter 334 of the Local Government Code approved at an election held in the City May 2, 1998, and designated by Resolution No. 980205-61.

"Credit Agreement" has the meaning set forth in Chapter 1371, Texas Government Code, as the same may be amended from time to time.

"Debt Service Requirements" of any series of bonds for any particular Bond Year, means an amount equal to the sum of the principal of and interest and any redemption premium on the bonds then Outstanding which will become due and owing during the Bond Year; subject, however, to adjustment as provided in Section 19.

"Fiscal Year" means the City's fiscal year, which is currently October 1 to September 30.

"Fitch" means Fitch, Inc., a corporation organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

"Government Obligations" mean (i) direct noncallable obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations unconditionally guaranteed or insured by the agency or instrumentality and on the date of their acquisition or purchase by the City are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (iv) any other then authorized securities or obligations under applicable State law that may be used to defease obligations such as the Bonds..

"Guaranty Agreement" has the meaning set forth in Section 16 of the Ordinance.

"Holder" or "Owner" means, when used with respect to any Bond (or Parity Bond), the person or entity in whose name such Bond (or Parity Bond) is registered in the Security Register. Any reference to a particular percentage or proportion of the Holders or Owners shall mean the Holders or Owners at a particular time of the specified percentage or proportion in aggregate principal amount of all Bonds (or Parity Bonds) then Outstanding under the Ordinance.

"Hotel Occupancy Tax" means the tax, levied by the City pursuant to the Tax Act, on the cost of occupancy of any sleeping room furnished by any hotel located within the corporate limits of the City, in which the cost of occupancy is $2.00 or more each day, which tax is currently levied at a rate of 7% of the consideration paid by the occupant of the sleeping room to the hotel.

"Interest Rate Management Agreement" means any Credit Agreement between the City and another party entered into in connection with, or related, to the City's Variable Rate Obligations, that is in the form of an interest rate exchange agreement, pursuant to which the City pays a fixed percentage rate of a notional amount and the other party pays a variable percentage rate of the same notional amount, of which the notional amount is equal to the principal amount of the Variable Rate Obligations of the City, and of which the notional amount is reduced as the principal of the Variable Rate Obligation is paid.

"Interest Rate Management Agreement Counterparty" means any counterparty under any Interest Rate Management Agreement.

"Issue Date" means the date the Bonds are issued and delivered to the initial purchasers.

"Junior Obligations" means the payment obligations of the City under an Interest Rate Management Agreement, that are termination payments, settlement payments or other payments that are not included in clause (iii) of the definition of Parity Obligations.

"Junior Subordinate Lien Bonds" means Additional Bonds issued by the City pursuant to Section 19(c) of the Ordinance secured wholly or partly by liens on the Pledged Revenues that are junior and subordinate to the lien on Pledged Revenues securing payment of the Parity Bonds.

"Moody's" means Moody's Investors Service, Inc., a corporation organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

"Ordinance" means the Ordinance No. 20120301-060 and all exhibits, appendices, amendments and supplements.

"Outstanding", when used with reference to any Prior Lien Bonds, Parity Bonds or Junior Subordinate Lien Bonds, means, as of a particular date, all Prior Lien Bonds, Parity Bonds or Junior Subordinate Lien Bonds delivered except: (a) any such Prior Lien Bonds, Parity Bonds or Junior Subordinate Lien Bonds paid, discharged or canceled by or on behalf of the City at or before the particular date; (b) any Prior Lien Bonds, Parity Bonds and Junior Subordinate Lien Bonds defeased pursuant to the defeasance provisions of the authorizing ordinance, or otherwise defeased as permitted by applicable law; and (c) any Prior Lien Bonds, Parity Bonds or Junior Subordinate Lien Bonds in lieu, of or in substitution for, which another obligation is delivered pursuant to the ordinances authorizing the issuance of the Prior Lien Bonds, Parity Bonds or Junior Subordinate Lien Bonds.

"Parity Bonds" mean (a) with respect to the Pledged Hotel Occupancy Tax Revenues, the outstanding Previously Issued Bonds, the Bonds and Additional Bonds secured by a lien on Pledged Hotel Occupancy Tax Revenues on a parity with the Bonds and (b) with respect to the Special Hotel Occupancy Tax deposited to the credit of the Venue Project Fund, the outstanding Bonds and Additional Bonds secured by a lien on the Special Hotel Occupancy Tax Revenues on a parity with the Bonds.

"Parity Obligations" mean at any time all (i) Parity Bonds, (ii) all Reimbursement Obligations, (iii) obligations of the City to make scheduled payments under an Interest Rate Management Agreement, and (iv) any future obligation of the City under Credit Agreements or other agreements to the extent such obligations are secured by a lien on Pledged Hotel Occupancy Tax Revenues on an equal and ratable basis with the lien securing the Parity Bonds.

"Paying Agent/Registrar" means, with respect to the Bonds, the Paying Agent/Registrar to be appointed as provided in Section 4 of the Ordinance, and its successors in that capacity.

"Pledged Hotel Occupancy Tax Revenues" mean that portion of the revenues derived by the City from the Hotel Occupancy Tax which is equal to at least 4.5% of the consideration paid by occupants of sleeping rooms furnished by hotels located within the corporate limits of the City, in which the cost of occupancy is $2.00 or more each day.

"Pledged Revenues" mean, collectively, (i) the Pledged Hotel Occupancy Tax Revenues, (ii) the Special Hotel Occupancy Tax deposited to the credit of the Venue Project Fund, (iii) interest and other income realized from the investment of amounts on deposit in the funds and accounts to be maintained pursuant to the Ordinance to the extent such interest and other income are required to be transferred or credited to the Tax Fund, and (iv) any additional revenue, receipts or income hereafter pledged to the Bonds in accordance with Section 20(b) of the Ordinance.

"Previously Issued Bonds" mean the City of Austin, Texas, Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008, dated August 14, 2008, originally issued in the aggregate principal amount of $125,280,000.

"Prior Lien Bonds" mean the outstanding "City of Austin, Texas, Hotel Occupancy Tax Revenue Refunding Bonds, Series 2004," dated February 1, 2004, originally issued in the aggregate principal amount of $52,715,000.

"Rating Agency" means any nationally recognized rating agency that maintains a rating on the Bonds at the request of the City. Initially, the Rating Agencies are Moody's and Standard & Poor's.

"Rating Category" means one of the general rating categories of any Rating Agency, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

"Rating Confirmation Notice" means, with respect to an action that affects the Bonds, a writing from each Rating Agency confirming that the rating(s) issued by such Rating Agency on such series of Bonds will not be lowered or withdrawn (other than a withdrawal of a short-term rating upon a change to a long-term mode with respect to the Previously Issued Bonds) as a result of the action proposed to be taken.

"Reimbursement Obligation" mean any obligation entered into by the City in connection with any Parity Bond pursuant to which the City obligates itself to reimburse a bank, insurer, surety or other entity for amounts paid or advanced by such party pursuant to a letter of credit, line of credit, standby bond purchase agreement, credit facility, liquidity facility, insurance policy, surety bond or other similar credit agreement, guaranty or liquidity agreement to secure any portion of principal of, interest on or purchase price of any Parity Bond or reserves in connection therewith or otherwise relating to any Parity Bond. The City's obligations under a Guaranty Agreement, its obligations under a liquidity facility, and its obligations to reimburse a credit facility provider for amounts paid under a credit facility constitute Reimbursement Obligations.

"Reserve Fund" means the Fund referenced in Section 16 of the Ordinance to provide a reserve amount for the payment of Parity Bonds.

"Reserve Fund Requirement" means the least of (i) 10% of the Outstanding principal amount of the Parity Bonds or (ii) the maximum annual Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Parity Bonds at any time Outstanding, or (iii) the maximum amount in a reasonably required reserve fund that can be invested without restriction as to yield pursuant to Subsection (d) of section 148 of Code, and regulations promulgated under Subsection (d) of section 148 of the Code.

"Reserve Fund Surety Bond" means any surety bond, insurance policy, letter of credit or other guaranty issued to the City for the benefit of the Holders of the Parity Bonds to satisfy any part of the Reserve Fund Requirement as provided in Section 16 of the Ordinance.

"Security Register" means the books of registration maintained by the Paying Agent/Registrar for recording the names and addresses of and the principal amounts registered to each Holder.

"Special Hotel Occupancy Tax" means the 2% hotel occupancy tax approved at the election held May 2, 1998 to finance the Convention Center/Waller Creek Venue Project and levied by the City pursuant to Ordinance No. 980709-G, adopted by the City Council of the City on July 9, 1998, on the cost of occupancy of any sleeping room furnished by any hotel located within the corporate limits of the City, in which the cost of occupancy is $2.00 or more each day.

"Standard & Poor's" means Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC, business, organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Standard & Poor's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City after consultation with the Remarketing Agent, if any, and the Broker-Dealer, if any.

"Tax Act" means Chapter 351 of the Texas Tax Code, Vernon's Texas Codes Annotated.

"Transfer Date" means each February 14, May 14, August 14, and November 14, beginning May 14, 2012.

"Transfer Period" means the period of time beginning on any Transfer Date and ending on the day immediately preceding the next succeeding Transfer Date

"Variable Rate Obligations" mean any obligation pursuant to which the City is to pay interest at an interest rate that is not fixed for the life of the obligation and any obligation, such as an interest rate exchange agreement or other Credit Agreement, pursuant to which the City is to make payments the amounts of which are not known at the time the obligation is issued or incurred.

"Venue Project Fund" means the Fund so designated, created and established pursuant to Ordinance No. 980709-G, adopted by the City Council on July 9, 1998, providing for the levy, assessment and collection of the Special Hotel Occupancy Tax.

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APPENDIX D

FORM OF BOND COUNSEL'S OPINION

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Telephone: 214 855 8000 • Facsimile: 214 855 8200

[Closing Date]

IN REGARD to the authorization and issuance of the "City of Austin, Texas, Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2012 (Convention Center/Waller Creek Venue Project)" (the "Bonds"), dated March 1, 2012, in the principal amount of $20,185,000, we have examined into the legality and validity of the issuance thereof by the City of Austin, Texas (the "City"), which Bonds are issuable in fully registered form only and mature on November 15 in each of the years stated in the ordinance (the "Ordinance") authorizing the issuance of the Bonds adopted by the City Council of the City, unless redeemed prior to maturity in accordance with the applicable redemption provisions. The Bonds accrue interest from the dates, at the rates, and in the manner and interest is payable on the dates, all as provided in the Ordinance.

We have acted as Bond Counsel for the City solely to pass upon the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes, and none other. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data or other material relating to the financial condition or capabilities of the City or the history or prospects of the collection of hotel occupancy taxes, and have not assumed any responsibility with respect thereto. Capitalized terms used herein and not otherwise defined have the meanings assigned in the Ordinance.

Our examination into the legality and validity of the Bonds included a review of the applicable and pertinent provisions of the Constitution and laws of the State of Texas; the Charter of the City; a transcript of certified proceedings of the City relating to the authorization, issuance, sale, and delivery of the Bonds, including the Ordinance; certificates and opinions of officials of the City; other pertinent instruments authorizing and relating to the issuance of the Bonds; and an examination of the Bond executed and delivered initially by the City, which we found to be in due form and properly executed.

BASED ON OUR EXAMINATION, we are of the opinion that, under applicable law of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds have been authorized, issued and delivered in accordance with law; that the Bonds are valid, legally binding and enforceable special obligations of the City in accordance with their terms payable solely from and secured by a subordinate lien on and pledge of the Pledged Revenues in the manner provided in the Ordinance except to the extent the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally. Subject to the restrictions stated in the Ordinance, the City has reserved the right, to issue and

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incur additional revenue obligations payable from and secured by a lien on and pledge of the Pledged Revenues on a parity with, or subordinate to, the Bonds.

The Bonds have been authorized, issued and delivered in accordance with law; that the Bonds are valid, legally binding and enforceable special obligations of the City in accordance with their terms payable solely from and, together with the outstanding Previously Issued Parity Water/Wastewater Obligations, Prior Subordinate Lien Obligations, and Previously Issued Separate Lien Obligations, equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System in the manner provided in the Ordinances except to the extent the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally. Subject to the restrictions stated in the Ordinances, the City has reserved the right to issue and incur additional revenue obligations payable from and equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System in the same manner and to the same extent as the Bonds.

2. Assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance and in reliance upon representations and certifications of the City made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, interest on the Bonds for federal income tax purposes (i) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof, of the owners thereof pursuant to section 103 of such Code, existing regulations, published rulings, and court decisions thereunder, and (ii) will not be included in computing the alternative minimum taxable income of individuals or, except as hereinafter described, corporations. Interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporations, other than an S corporation, a qualified mutual fund, a real estate mortgage investment conduit, a real estate investment trust, or a financial asset securitization investment trust (FASIT). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code will be computed.

We express no opinion with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income tax credit, owners of interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

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APPENDIX E

SUMMARY OF REFUNDED OBLIGATIONS

Bond Series	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
Convention Center/Waller Creek Venue Project Bonds, Series 1999A	11/15/2012	5.15%	$ 690,000	4/24/2012	100%
	11/15/2019	5.25%	6,010,000	4/24/2012	100%
	11/15/2029	5.50%	13,475,000	4/24/2012	100%
Total Refunded Bonds			**$20,175,000**		

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APPENDIX F

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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ASSURED GUARANTY MUNICIPAL

MUNICIPAL BOND INSURANCE POLICY

ISSUER: Policy No: -N

BONDS: $ in aggregate principal amount of Effective Date:

Premium: $

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By ________________________________
Authorized Officer