OFFICIAL STATEMENT
Dated August 15, 2005

Ratings: Moody's: "Aaa/VMIG-1"
Standard & Poor's: "AAA/A-1+"
(See "BOND INSURANCE" and "OTHER RELEVANT INFORMATION – Ratings.")

NEW ISSUE – Book-Entry-Only

Delivery of the Bonds is subject to the receipt of the opinion of Fulbright & Jaworski L.L.P., Austin, Texas, Bond Counsel, to the effect that, assuming continuing compliance by the City with certain covenants contained in the Ordinance described herein and subject to the matters described under "Tax Exemption" 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 Exemption" herein, including the alternative minimum tax on corporations.

$119,290,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
Hotel Occupancy Tax
Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2005

Dated Date: Date of Original Delivery **Due: November 15, 2029**

The bonds offered hereby are the City of Austin, Texas (the "City") $119,290,000 Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2005 (the "Bonds"). The Bonds are issued pursuant to Chapters 1207, 1371 and 1504, Texas Government Code, as amended, and Chapter 334, Texas Local Government Code, as amended (the "Act"), and other applicable laws of the State of Texas, and an ordinance (the "Ordinance") adopted by the City. The Bonds are special obligations of the City that are equally and ratably payable from and secured by a lien on certain Pledged Revenues, such lien being junior and subordinate to the lien securing the payment of the Prior Lien Bonds (as defined in the Ordinance) now Outstanding. The Pledged Revenues consist primarily of a pledge, on a subordinate basis as noted above, of (i) that portion of revenues derived by the City from a hotel occupancy tax levied by the City pursuant to Chapter 351, Texas Tax Code, Vernon's Texas Codes Annotated, as amended, 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 a 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 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 A PORTION OF THE REVENUES DERIVED FROM THE HOTEL OCCUPANCY TAX AS SPECIFICALLY DESCRIBED HEREIN) NOR THE TAXING POWER OF THE STATE OF TEXAS IS PLEDGED AS SECURITY FOR THE BONDS. SEE "SECURITY FOR THE BONDS" HEREIN. The City is also incurring additional obligations in connection with the issuance of the Bonds, specifically the City's obligations related to scheduled payments under the Series 2005 Interest Rate Swap Agreements, the Liquidity Facility and the insurance policies issued by CIFG Assurance North America, Inc. related to the Bonds, the Series 2005 Interest Rate Swap Agreements, and the Reserve Fund under the Ordinance, all as more fully described herein. See "SECURITY FOR THE BONDS" and "THE SWAP AGREEMENTS".

The Bonds will initially bear interest at an initial rate to be established on or about August 16, 2005 and to be in effect during the Initial Rate Period, which shall commence on the date of the initial issuance and delivery of the Bonds and continue to (but not include) Thursday, August 25, 2005. Thereafter, the Bonds will bear interest at a Weekly Rate and the interest rate on the Bonds will be adjusted on each Wednesday (or the immediately preceding Business Day if such Wednesday is not a Business Day) of each week by Lehman Brothers, as the Remarketing Agent. The Bonds will continue to bear interest at a Weekly Rate unless, at the direction of the City and subject to the satisfaction of certain conditions precedent included in the Ordinance, the interest rate on the Bonds is changed to another type of interest rate. **This Official Statement describes terms and provisions applicable to the Bonds only while they are in the Weekly Mode and Daily Mode. In the event of a conversion to another Mode, the Bonds will be subject to mandatory tender and potential purchasers of the converted Bonds will be provided with separate offering materials containing descriptions of the terms of the Bonds applicable to the Mode to which the Bonds are being converted.** The Bonds are subject to optional, special and mandatory redemption prior to maturity and to optional and mandatory tender, all as described herein. See "DESCRIPTION OF THE BONDS" herein.

CIFG
IXIS FINANCIAL GUARANTY

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond guaranty insurance policy to be issued by CIFG Assurance North America, Inc. concurrently with the delivery of the Bonds. See "BOND INSURANCE" herein.

The Bonds are issuable only in fully registered form in the denomination of $100,000 or any integral multiple of $5,000 in excess of $100,000, and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act initially as Securities Depository of the Bonds, and individual purchases of the Bonds will be made in book-entry form only. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar named herein to the registered owners of the Bonds (as long as the book-entry only system is in effect and DTC is the Securities Depository, Cede & Co.). Subsequent disbursements of such principal and interest will be made to the individual purchasers of beneficial interests in the Bonds. Interest on the Bonds during the Initial Rate Period will be payable on September 15, 2005 and thereafter in the Weekly Mode will be payable on the fifteenth day of each month (or the next succeeding Business Day) commencing October 17, 2005. Principal at maturity or upon redemption will be payable upon presentation and surrender at the designated payment/transfer office of the Paying Agent/Registrar, which is Deutsche Bank Trust Company Americas, New York, New York (the "Designated Payment/Transfer Office"). The purchase price of the Bonds upon optional or mandatory tender for purchase will be payable by the Tender Agent upon presentation and surrender of the Bonds at the designated tender office of the Tender Agent (the "Tender Agent"), initially Deutsche Bank Trust Company Americas in New York, New York, (the "Tender Office") which shall be established and maintained in accordance with the Ordinance. Notwithstanding the foregoing, during any period in which the beneficial ownership of the Bonds is in the book-entry system at a securities depository, the requirements in the Ordinance for holding, registering, delivering exchanging or transferring the Bonds are deemed modified to conform to the arrangements between the City and the Securities Depository.

Bondholders will (a) have the option to tender their Bonds for purchase at a price equal to the principal amount thereof, plus accrued interest, while in a Weekly Rate Period on seven days prior notice to the Tender Agent and at such other times and subject to the conditions described herein, (b) be required to tender their Bonds for purchase upon conversion of the interest rate on the Bonds to any other interest rate Mode that is not a Weekly Mode or a Daily Mode, (c) be required to tender their Bonds for purchase upon the expiration or replacement of the Credit Facility or Liquidity Facility (described herein), and (d) be required to tender their Bonds for purchase under other circumstances described herein. All tenders are required to be made to the Tender Agent. Tendered Bonds may be remarketed and remain Outstanding. Bonds tendered for purchase will be paid, first from the proceeds of remarketing, if any, and second, from money furnished pursuant to a Standby Bond Purchase Agreement (the "Liquidity Facility") between the City and Dexia Crédit Local, acting through its New York Branch (the "Standby Purchaser"). **The Liquidity Facility does not constitute security or credit enhancement for the Bonds, but serves as a source of liquidity to pay the purchase price of Tendered Bonds. Under certain circumstances, the obligation of the Standby Purchaser to purchase Bonds may be terminated without notice in which case the Bonds will no longer be subject to tender for purchase. The City has no obligation to purchase tendered Bonds.** (See "STANDBY BOND PURCHASE AGREEMENT – Events of Default Permitting Immediate Suspension or Termination.")

In connection with the issuance of the Bonds, the City has entered into interest rate swap agreements with Lehman Brothers Derivative Products Inc. and Lehman Brothers Special Financing Inc. to enable the City to substantially fix its interest obligation on the debt represented by Bonds (see "THE SWAP AGREEMENTS").

Price: 100%

The Bonds are offered for delivery when, as, and if issued and subject, among other things, to the opinion of the Attorney General of the State of Texas and Fulbright & Jaworski L.L.P., Bond Counsel for the City, as to the validity of the issuance of the Bonds under the Constitution and laws of the State of Texas. 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 Underwriter by Andrews Kurth LLP, Counsel to the Underwriter, and for the Standby Purchaser by Andrews Kurth LLP, counsel to the Standby Purchaser.

It is expected that the Bonds will be delivered through the facilities of DTC on or about August 17, 2005.

Lehman Brothers

CITY OF AUSTIN

Elected Officials

		Term Expires June 15
Will Wynn	Mayor	2006
Lee Leffingwell	Councilmember Place 1	2008
Raul Alvarez	Councilmember Place 2	2006
Jennifer Kim	Councilmember Place 3	2008
Betty Dunkerley	Councilmember Place 4	2008
Brewster McCracken	Councilmember Place 5	2006
Danny Thomas, Mayor Pro Tem	Councilmember Place 6	2006

Appointed Officials

Toby Hammett Futrell	City Manager
Joe Canales	Deputy City Manager
Rudy Garza	Acting Assistant City Manager
John Stephens, CPA	Chief Financial Officer
Laura Huffman	Assistant City Manager
Vickie Schubert, CPA	Deputy Chief Financial Officer
Leslie Browder, CPA	Deputy Chief Financial Officer
David Allan Smith	City Attorney
Shirley A. Brown	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
Austin, Texas

AUDITORS
KPMG LLP and Richard Mendoza, CPA
Austin, Texas

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No dealer, salesman or any other person has been authorized by the City or by the Underwriter 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 Underwriter. 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 Underwriter. 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 Underwriter 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 Underwriter 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 AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THESE SECURITIES HAVE BEEN REGISTERED OR EXEMPTED FROM REGISTRATION SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

Neither the City, the Financial Advisor nor the Underwriter 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. This Official Statement contains "forward – looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements to be different from the future results, performance and achievements expressed or implied by such forward-looking statements. **Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements.** See "OTHER RELEVANT INFORMATION – Forward-Looking Statements."

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OFFICIAL STATEMENT

$119,290,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
Hotel Occupancy Tax
Subordinate Lien Variable Rate Revenue Refunding Bonds
Series 2005

INTRODUCTION

This Official Statement, which includes the cover page and the appendixes hereto, sets forth information in connection with the issuance and sale by the City of Austin, Texas (the "City") of its Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2005, in the original aggregate principal amount of $119,290,000 (the "Bonds").

The Bonds are being issued pursuant to Vernon's Texas Codes Annotated ("V.T.C.A."), Government Code, Chapters 1207, 1371 and 1504, as amended, and Chapter 334, Texas Local Government Code, as amended (the "Act"), and an Ordinance of the City Council (the "Ordinance") adopted on June 23, 2005. 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 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, 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 of Austin in which the cost of occupancy is $2.00 or more a 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 GENERAL OBLIGATION DEBT OF THE CITY, AND NEITHER THE TAXING POWER OF THE CITY (EXCEPT WITH RESPECT TO A PORTION OF THE PLEDGED REVENUES) NOR THE TAXING POWER OF THE STATE OF TEXAS IS PLEDGED AS SECURITY FOR THE BONDS.

The Ordinance permits the issuance of additional bonds (the "Additional Bonds") which rank on a parity with, or subordinate to, the Bonds. See "SECURITY FOR THE BONDS – Additional Bonds" herein.

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 CIFG Assurance North America, Inc. simultaneously with the delivery of the Bonds. See 'BOND INSURANCE" herein. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document.

PLAN OF FINANCING

Authorization and Purpose

The Bonds are being issued to refund the outstanding maturities of the City's outstanding Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 1999, in the aggregate principal amount identified in APPENDIX F (the "Refunded Bonds"). The refunding will result in debt service savings to the City. Proceeds of the Bonds will also be used to pay costs of issuance. The Bonds are to be issued pursuant to the Ordinance. The City is also incurring additional obligations in connection with the issuance of the Bonds, specifically the City's obligations related to payments under the Series 2005 Interest Rate Swap Agreements, the Liquidity Facility and the insurance policies issued by CIFG Assurance North America, Inc. related to the Bonds, the Series 2005 Interest Rate Swap Agreements, and the Reserve Fund under the Ordinance, all as more fully described herein.

Refunded Bonds

The Refunded Bonds, and interest due thereon, are to be paid on the scheduled interest payment dates and the maturity or redemption dates of such Refunded Bonds from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the City and Deutsche Bank Trust Company Americas, New York, New York (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 Bonds. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase direct obligations of the United States of America (the "Federal Securities") to be held in the Escrow Fund. Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

The Arbitrage Group, Inc., a nationally recognized accounting firm, will verify at the time of delivery of the Bonds to the Underwriter the mathematical accuracy of the schedules that demonstrate that the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. Such maturing principal of and interest on the Federal Securities, and other uninvested funds in the Escrow Fund, will not be available to pay the Bonds.

By the deposit of the Federal Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of the Refunded Bonds pursuant to the terms of Chapter 1207, Texas Government Code, as amended, and the ordinance authorizing the issuance of the Refunded Bonds. As a result of such defeasance, the Refunded Bonds will no longer be payable from or secured by the Pledged Revenues but will be payable solely from the principal of and interest on the Federal Securities and cash held for such purpose by the Escrow Agent, and that the Refunded Bonds 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 or for any other purpose.

The City has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund from lawfully available funds of the City, or any additional amounts required to pay the principal of and interest on the Refunded Bonds, 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 are as follows.

Sources:	
Par Amount of Bonds	$119,290,000.00
Total	$119,290,000.00
Uses:	
Deposit to Escrow Fund	$117,737,803.56
Underwriter's Discount	358,146.31
Cost of Issuance, including Insurance Premiums and Standby Purchaser Fees	1,194,050.13
Total	$119,290,00.00

THE CONVENTION CENTER

The Facilities

The Convention Center is located at 500 East First Street, Austin, Texas 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 811,400 square feet of enclosed space. In addition, the Convention Center has two complete kitchen facilities and support space. 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 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.

Operations and Management

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. The current director of the Austin Convention Center Department, Robert Hodge, has been the Director of the City's Convention Center Department since January 1994. Prior to coming to Austin, Mr. Hodge was the director of the Grand Center in Grand Rapids, Michigan for over ten years.

SECURITY FOR THE BONDS

Pledge

The Bonds and any Additional Parity Bonds (collectively, "Parity Bonds") hereafter issued are special limited obligations of the City that are, together with other Parity Obligations, equally and ratably secured by a lien on the "Pledged Revenues" (as hereinafter described) such lien being junior and subordinate to the lien securing the payment of the Prior Lien Bonds now Outstanding. No bonds or other obligations may be issued in the future that are secured by a lien on Pledged Revenues senior to the lien securing the Bonds. The Pledged Revenues consist primarily of 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 furnished by hotels located within the corporate limits of the City in which the cost of occupancy is $2.00 or more a day (the "4.5% HOT") and the Special Hotel Occupancy Tax levied pursuant to the Act, which equals 2% (the "2% HOT") 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 per day (the "Qualified Hotel Rooms"), 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 of any of the physical properties of the City or a security interest in the revenues of the Convention Center.

The City covenants and represents in the Ordinance that the Pledged Revenues are not and will not be made subject to any other lien, pledge or encumbrance to secure the payment of any debt or obligation of the City other than to the payment of the Prior Lien Bonds, the Bonds, and Parity Obligations authorized to be issued pursuant to the Ordinance, Refunding Bonds, Additional Bonds if certain tests set forth in the Ordinance are met, and obligations related to the foregoing. See "SECURITY FOR THE BONDS – Additional Bonds" below.

The City, pursuant to the Ordinance, grants a first lien on the Bond Fund and the Reserve Fund to secure the payment of principal of, premium, if any, and interest on the Bonds and any Additional Parity Bonds and, and in the case of the Bond Fund, to secure payment of amount due on any Parity Obligations. The City does not grant any lien on or security interest in, or any mortgage of any of the physical properties or revenues of the City other than the Pledged Revenues. See "SECURITY FOR THE BONDS – Funds and Flow of Funds" herein.

THE BONDS AND OTHER PARITY OBLIGATIONS DO NOT CONSTITUTE GENERAL OBLIGATION DEBT OF THE CITY, AND NEITHER THE TAXING POWER OF THE CITY (EXCEPT WITH RESPECT TO THE PLEDGED REVENUES) NOR THE TAXING POWER OF THE STATE OF TEXAS IS PLEDGED AS SECURITY FOR THE BONDS.

Excluding the Refunded Bonds, there are three series of Prior Lien Bonds Outstanding in the aggregate principal amount of $1,140,000, $24,115,000 and $52,715,000 and having final maturity dates of November 15, 2005, November 15, 2029 and November 15, 2019, respectively. See "DEBT SERVICE REQUIREMENTS."

Levy of Hotel Occupancy Tax

The City has levied, and while any Bonds remain Outstanding the City shall continue to levy, a hotel occupancy tax (the "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 a 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. In addition, the City has levied, and while any Bonds remain Outstanding the City shall continue to levy, a special hotel occupancy tax (the "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 a day, at a rate of at least 2% of the consideration paid by the occupant of the sleeping room to the hotel, all as authorized by Subchapter H of Chapter 334, Texas Local Government Code, and an election held in the City on May 2, 1998. A hotel is a building where members of the public obtain sleeping accommodations for consideration, such as a hotel, motel, tourist home, tourist house, tourist court, lodging house, inn, rooming house, or bed or breakfast in the City. A hotel does not include a hospital, sanitarium, nursing home, or dormitory or other housing facility owned or leased and operated by a public, private or independent institution of higher education used for the purpose of providing sleeping accommodations for students enrolled or others attending educational programs or other activities at such institution of higher education. The City further covenants in the Ordinance to enforce the provisions of the Ordinance, or any other ordinance levying a hotel occupancy tax, concerning the collection, remittance and payment of the Hotel Occupancy Tax and the Special Hotel Occupancy Tax. As described above, the City, pursuant to the Ordinance, has pledged the Pledged Revenues to the payment of the Bonds.

A number of factors, many of which may be beyond the control of the City, could have an adverse impact on hotel occupancy levels in the Austin market generally, including adverse changes in the national economy and levels of corporate travel and tourism, competition from hotels in other markets, energy costs, governmental rules and policies, potential environmental and other liabilities, and interest rate levels. Corporate travel and tourism are highly dependent upon gasoline and other fuel prices, airline fares, and the national economy. The hotel occupancy tax revenues largely depend on the occupancy and average daily rates at hotels located within the City. Key factors that may adversely affect the amount of hotel occupancy tax rate revenues generated from the rental of hotel rooms include: market support; general levels of convention business; levels of tourism; seasonality; and competition from other markets. Events such as terrorist attacks have had and in the future could have an adverse impact on hotel occupancy levels in the City.

Historical Hotel Occupancy Tax Receipts

Pursuant to state law and an implementing ordinance, the City has levied a tax upon the cost of occupancy of any Qualified Hotel Room since 1971. The City ordinance authorizing this tax also provides rules and regulations for collection, describes violations, requires reports and provides penalties for violations. In the Ordinance the City has pledged a portion of its Hotel Occupancy Tax revenues (equal to at least $.045 per dollar of consideration paid by occupants of Qualified Hotel Rooms) and the Special Hotel Occupancy Tax revenues (equal to $0.02 per dollar of consideration paid by occupants of Qualified Hotel Rooms). The Ordinance affirms that, subject to the prior lien on the Pledged Revenues securing the Prior Lien Bonds, at least $0.045 per dollar (from the total Hotel Occupancy Tax currently levied at $0.07 per dollar of consideration paid by occupants of Qualified Hotel Rooms) and all of the proceeds of the Special Hotel Occupancy Tax deposited to the Venue Project Fund are to be allocated to provide for the payment of the Parity Bonds and the Parity Obligations, all in the manner and with such priority of payment as described herein and in the Ordinance. Historically such revenues have generated debt service coverage in the range of 1.30x – 1.90x for obligations payable therefrom, including the Refunded Bonds. Coverage can be affected by several factors beyond the control of the City. See "Levy of Hotel Occupancy Tax" herein.

The following table reflects the City's hotel occupancy tax collections for the past twelve years. Hotel occupancy tax collections are affected by the number of rooms available, the level of occupancy and the average room rate charged. The Austin Convention and Visitor's Bureau reports that city-wide occupancy for 2005 through June 30, 2005 was 67.3% with an average room rate of $81.64. There are approximately 25,427 rooms available city-wide, including 800 rooms made available with the opening of the Hilton Hotel adjacent to the Austin Convention Center. 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 this hotel.

Historical Hotel Occupancy Tax Collections (1)

Table 1

Fiscal Year Ended September 30	(In thousands) 1st Quarter October -December	2nd Quarter January - March	3rd Quarter April - June	4th Quarter July - September	Total	Pledged Hotel Tax Revenue	Total Annual Increase/ (Decrease)
1993	$2,463	$2,260	$2,779	$3,011	$10,513	$ 6,759	15.30%
1994	2,727	2,409	2,897	3,444	11,477	7,378	9.20%
1995	3,115	2,870	3,501	3,654	13,140	8,447	14.50%
1996	3,494	3,203	3,763	3,800	14,260	9,167	8.50%
1997	3,537	3,353	3,860	4,468	15,218	9,783	6.70%
1998 (1)	4,539	4,284	4,936	5,061	18,820	12,107	23.70%
1999	5,612	5,552	6,375	7,073	24,612	12,598	30.80%
2000	6,637	6,264	7,573	8,284	28,758	14,399	16.80%
2001 (2)	7,595	7,671	8,043	7,836	31,145	15,580	8.30%
2002	5,832	5,355	6,350	7,222	24,759	12,380	(20.50%)
2003	5,766	5,874	7,045	6,823	25,508	12,754	3.00%
2004	6,136	5,413	6,537	7,292	25,378	12,689	(0.51%)
2005	6,847	6,393	N/A	N/A	N/A	N/A	N/A

(1) Includes Special Hotel Occupancy Tax. Tax levy increased to 9% effective August 1, 1998. Ordinance No. 980709-G 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 pledged to (i) the City's Outstanding Convention Center/Waller Creek Venue Project Bonds, Series 1999A and (ii) subject to such pledge, the Parity Obligations (including 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.

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Top Twenty Hotel Occupancy Taxpayers through June 30, 2005, end of third quarter for Fiscal Year 2004/2005

Name	Total Collections	Percent of Total Collections
Austin Hilton Convention Hotel	$1,844,013	8.72%
Four Seasons Hotel	1,139,769	5.39%
Stouffer Renaissance Austin Hotel	1,036,126	4.90%
Hyatt Regency Austin	851,366	4.03%
Omni Austin Hotel	807,410	3.82%
Austin at the Capitol Marriott	775,431	3.67%
Radisson Hotel Town Lake	633,851	3.00%
Driskill Hotel	579,932	2.74%
Embassy Suites - Town Lake #510	540,902	2.56%
Intercontinental Hotel	486,761	2.30%
Doubletree Guest Suites Austin	392,645	1.86%
Embassy Suites of Austin #6350	391,593	1.85%
Hampton Inn and Suites	380,517	1.80%
Doubletree Hotel Austin	372,732	1.76%
Omni Austin Southpark	356,121	1.68%
THI Austin LP - Crowne Plaza	320,388	1.52%
Hilton - Austin Airport	313,912	1.48%
Embassy Suites	306,856	1.45%
Marriott - Austin South	290,092	1.37%
Courtyard by Marriott	218,029	1.03%

Source: City of Austin, Texas.

Historical Hotel Occupancy Data

Fiscal Year Ended September 30	Average Occupancy	Number of Rooms	Average Room Rate
1997	69.60%	17,875	$74.87
1998	67.40%	19,052	$78.36
1999	73.20%	20,518	$84.25
2000	74.90%	21,445	$90.34
2001	62.10%	23,952	$81.98
2002	56.80%	25,373	$78.28
2003	56.30%	25,373	$76.66
2004	62.20%	25,386	$79.40

Source: Smith Travel Research Data.

Funds and Flow of Funds

Hotel Occupancy Tax Special Funds. In accordance with the ordinances authorizing the issuance of the Prior Lien Bonds secured by a lien on and pledge of the Pledged Revenues, the following special funds and accounts have been created, established and shall be maintained while any of the Previously Issued Prior Lien Bonds remain Outstanding:

(1) Convention Center Hotel Occupancy Tax Fund ("Tax Fund");
(2) Convention Center Hotel Occupancy Tax Bond Debt Service Fund ("Senior Debt Service Fund"); and
(3) Subordinate Lien Hotel Occupancy Debt Service Fund ("Original Subordinate Debt Service Fund," and together with the Senior Debt Service Fund, the "Debt Service Fund");
(4) Convention Center Hotel Occupancy Tax Bond Debt Service Reserve Fund ("Senior Debt Service Reserve Fund"); and
(5) Subordinate Lien Hotel Occupancy Tax Debt Service Reserve Fund ("Original Subordinate Debt Service Reserve Fund," and together with the Senior Debt Service Reserve Fund, the "Debt Service Reserve Fund").

Such funds and accounts may also include any additional accounts or subaccounts as may from time to time be designated by the City, including specifically rebate accounts or subaccounts for accumulating rebatable arbitrage payable to the federal government, provided such accounts or subaccounts are not inconsistent with the ordinances authorizing the issuance of the Prior Lien Bonds and the Ordinance.

Special Hotel Occupancy Tax Special Funds. In accordance with the ordinances authorizing the issuance of the Special Venue Project Bonds (which also constitute Prior Lien Bonds), the City confirms the establishment of the Venue Project Fund maintained at an official depository of the City for the Convention Center/Waller Creek Venue Project in accordance with Section 334.042 of the Venue Act and the ordinances authorizing the issuance of such Prior Lien Bonds and the establishment of the following sub-accounts within such Venue Project Fund on the books of the City for the benefit of such Prior Lien Bonds:

(1) Convention Center/Waller Creek Venue Project Special Hotel Occupancy Tax Account ("Tax Account");
(2) Convention Center/Waller Creek Venue Project Bond Debt Service Account ("Debt Service Account"); and
(3) Convention Center/Waller Creek Venue Project Bond Reserve Account ("Debt Service Reserve Account").

Such funds and accounts may also include any additional accounts or subaccounts as may from time to time be designated by the City, including specifically rebate accounts or subaccounts for accumulating rebatable arbitrage payable to the federal government, provided such accounts or subaccounts are not inconsistent with the ordinance authorizing the issuance of the Special Venue Project Bonds and the Ordinance.

Special Funds for Parity Obligations. For the benefit of the Holders of the Parity Bonds and the beneficiaries of the other Parity Obligations, the City agrees and covenants to establish and maintain the following special funds or accounts:

(1) 2005 Subordinate Lien Hotel Occupancy Tax Debt Service Fund (the "Bond Fund") for the payment of the Parity Obligations when and as the same shall become due and payable, and
(2) 2005 Subordinate Lien Hotel Occupancy Tax Reserve Fund (the "Reserve Fund") to provide a reserve to pay the principal of and interest on the Parity Bonds when funds in the Bond Fund are insufficient.

The Bond Fund and Reserve Fund may also include any additional accounts or subaccounts as may from time to time be designated by the City, including specifically rebate accounts or subaccounts for accumulating rebatable arbitrage payable to the federal government, provided such accounts or subaccounts are not inconsistent with the provisions of the Ordinance.

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:

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

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

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

<u>Fourth</u>, to transfer to the Reserve Fund the amounts required as described under the heading "SECURITY FOR THE BONDS – Funds and Flow of Funds – Reserve Fund."

<u>Fifth</u>, for any lawful purpose under the Tax Act.

Flow of Funds regarding Special Hotel Occupancy Tax Revenues. The City covenants and agrees that all receipts and revenue 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 remain Outstanding, money from time to time credited to the Tax Account shall be applied as follows in the following order of priority:

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

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

<u>Third</u>, to transfer to the Bond Fund all amounts necessary to provide for the payment of the Bonds and Parity

Obligations related to the Bonds in the manner and to the extent required by the Ordinance.

Fourth, to transfer to the Reserve Fund the amounts required as described under the heading "SECURITY FOR THE BONDS – Funds and Flow of Funds – Reserve Fund."

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

Bond Fund

In addition (and subject) to the deposits to the Bond Fund for the payment of the Prior Lien Bonds, the City covenants and agrees that prior to each interest payment date, stated maturity date and mandatory redemption date for the Parity Bonds (and prior to the dates payments are due on other Parity Obligations) there shall be deposited into the Bond Fund 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 are required to be made in substantially equal quarterly installments (based on the total annual Debt Service Requirements to be paid on the Bonds divided by the number of Transfer Dates (i.e. February 14, May 14, August 14, and November 14) to occur during the period covered by such calculation) on or before each Transfer Date, beginning November 14, 2005.

In addition, on each Transfer Date, the City covenants and agrees to 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 by the Paying Agent/Registrar and any Remarketing Agent, Tender Agent, and for trustee 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 described herein) 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 above. On or before each payment due date for the Parity Obligations, the City shall transfer from the Bond Fund to the appropriate paying agent/registrar amounts due on the Parity Obligations on such date.

Reserve Fund

The City shall establish and maintain as hereinafter provided a balance in the Reserve Fund equal to the Reserve Fund Requirement. The Reserve Fund Requirement is an amount equal to 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 the Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder. By reason of the issuance of the Bonds the Reserve Fund Requirement will be $8,220,355.68 and immediately following the delivery of the Bonds, the City shall cause to be deposited to the credit of the Reserve Fund a Reserve Fund Surety Bond issued by CIFG Assurance North America, Inc. in an amount equal to $8,220,355.68.

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 is required to be transferred into the Reserve Fund from the available Pledged Revenues on each Transfer Date such amounts as are 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 issuer of a Reserve Fund Surety Bond 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 shall 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 obligation arises, transfers to the Reserve Fund shall be resumed and continued in the manner provided above to restore the Reserve Fund Requirement and to pay such reimbursement obligations.

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 be used to make the final payments for the retirement or defeasance of Parity Bonds.

If it is determined to be in the best interest of the City, the Reserve Fund Requirement may be funded in whole or in part by a Reserve Fund Surety Bond. 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 issuers of Reserve Fund Surety Bonds.

Deficiencies in Funds or Accounts

Subject to satisfying the required payments for the benefit of the Prior Lien Bonds in accordance with the ordinances authorizing their issuance, if on any Transfer Date there shall not be transferred into any fund or account maintained pursuant to the Ordinance the full amounts required therein, amounts equivalent to such deficiency shall be set apart and transferred to such fund or account from the first available and unallocated Pledged Revenues, and such transfer shall be in addition to the amounts otherwise required to be transferred to such fund or account on any succeeding Transfer Date or Transfer Dates.

Investment of Funds; Transfer of Investment Income

Money in all funds required to be maintained by the Ordinance will, at the option of the City, be invested in the manner provided by Texas law; provided that 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 their 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 deemed to be a loss of the segregation of such money or funds provided that 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 Reserve Fund shall remain a part of the fund from which such investment was made and such investment 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 Reserve Fund has on deposit an amount in excess of the Reserve Fund Requirement, all investment interest and income received on any investment of funds in such fund shall be deposited to the credit of the Bond Fund.

Notwithstanding anything to the contrary contained in the Ordinance, any interest and income derived from deposits and investments of any amounts credited to any fund or account may be (i) transferred into any rebate account or subaccount and (ii) 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 an order, resolution or ordinance to prevent interest on any Parity Obligations from being includable within the gross income of the owners thereof for federal income tax purposes.

Additional Bonds

(a) No Additional Prior Lien Bonds. The City has covenanted 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 has expressly reserved the right to issue refunding bonds to refund all or a portion of the Bonds or refunding bonds previously issued to refund Bonds. Such refunding bonds may be secured by a lien on Pledged Revenues on a parity with or subordinate to the lien securing the Bonds.

(c) Other Additional Obligations.

(A) In regard to the Pledged Revenues, the City has reserved and retained the right to issue or incur additional obligations secured in whole or in part by a parity lien on 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 may be issued unless the following conditions are satisfied:

(i) the City's Director of Finance and Administrative Services (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"), (x) the Pledged 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 (y) the "Net Pledged Revenues" for the Coverage Period (i.e., the Pledged Revenues after deducting an amount equal to the maximum annual Debt Service Requirement applied in satisfying the coverage requirement in clause (x) above), together with any other revenues pledged in whole or in part 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 (x) above shall be reduced to 125% and the coverage requirement of clause (y) 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.

(B) The City is authorized to issue or incur Credit Agreements pursuant to the provisions described in this Section. The City may enter into a Credit Agreement payable from and secured in whole or in part by a lien on Pledged Revenues if it obtains either (i) the consent from any Credit Provider issuing a Credit Facility 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. 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.

(C) 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 Obligation shall be deemed to bear interest at one of the following rates: (x) an interest rate equal to the average rate borne by such obligations (or by comparable debt in the event that such obligations have not been outstanding during the preceding 24 months) for any 24 month period ending within 30 days prior to the date of calculation; (y) if the City has entered into a related Credit Agreement in the nature of a Matched Interest Rate Exchange Agreement, the rate payable by the City under such Credit Agreement; or (z) 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 prior to 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 y of paragraph (C)(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 x of paragraph (C)(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.

(D) 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.

(E) In determining the Pledged Hotel Occupancy Tax Revenues available to satisfy the coverage requirements of condition (a) 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.

(F) 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.

The Outstanding principal balance on all Prior Lien Bonds as of July 1, 2005 is $53,855,000 with a final maturity payment November 15, 2029.

BOND INSURANCE

The information contained or referred to in this Official Statement relating to CIFG Assurance North America, Inc. (the "Insurer" or "CIFG NA") has been provided by such insurer. Reference is made to Appendix E for a specimen of the Insurer's policy.

CIFG ASSURANCE NORTH AMERICA, INC. ("CIFG NA") is a monoline financial guaranty insurance company incorporated under the laws of the State of New York, with its principal place of business in New York City.

The claims-paying ability (also referred to as its financial strength) of CIFG NA is rated "AAA" by Fitch, "Aaa" by Moody's, and "AAA" by Standard and Poor's, the highest rating assigned by each such Rating Agency. Each rating of CIFG NA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of CIFG NA and its ability to pay claims on its policies of insurance based upon, among other factors, the adequacy of the net worth maintenance and reinsurance agreements provided by CIFG described below under "Capitalization". Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the Rating Agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. CIFG NA does not guarantee the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

CIFG NA is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York, its state of domicile, and is licensed to do business in over 40 jurisdictions. CIFG NA is subject to Article 69 of the New York Insurance Law which, among other things, limits the business of such insurers to financial guaranty insurance and related lines, requires that each such insurer maintain a minimum surplus to policyholders, establishes contingency, loss and unearned premium reserve requirements for each such insurer, and limits the size of individual transactions ("single risks") and the volume of transactions ("aggregate risks") that may be underwritten by such insurers. Other provisions of the New York Insurance Law applicable to non-life insurance companies such as CIFG NA regulate, among other things, permitted investments, payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings. CIFG NA is required to file quarterly and annual statutory financial statements with the New York State Insurance Department ("NYSID"), and is subject to statutory restrictions concerning the types and quality of its investments and the filing and use of policy forms and premium rates. Additionally, CIFG NA's accounts and operations are subject to periodic examination by the NYSID.

THE INSURANCE PROVIDED BY THE FINANCIAL GUARANTY INSURANCE POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED BY THE INSURANCE LAWS OF THE STATE OF NEW YORK.

Capitalization

In addition to its capital and surplus as set forth below, CIFG NA is supported by a net worth maintenance agreement from its indirect parent, CIFG Guaranty, a French reinsurance corporation ("CIFG"). The net worth maintenance agreement provides that CIFG will maintain CIFG NA's U.S. statutory capital and surplus at no less than $80 million. In addition, through a facultative reinsurance agreement, CIFG NA may cede up to 90% of its exposure on each transaction to CIFG; however, the facultative reinsurance agreement does not require that CIFG reinsure its exposure under any transaction. CIFG's claims paying ability is rated "Aaa" by Moody's, "AAA" by Standard & Poor's and "AAA" by Fitch, the highest rating assigned by each such rating agency. Notwithstanding these net worth maintenance and reinsurance agreements, the holders of the Bonds will have direct recourse against CIFG NA only, and neither CIFG nor any other affiliate of CIFG NA will be directly liable to the holders of the Bonds.

The following table sets forth the capitalization of CIFG NA as of March 31, 2005, on the basis of accounting principles prescribed or permitted by the NYSID (in thousands):

Common capital stock	$ 19,700
Gross paid in and contributed surplus	120,925
Unassigned funds (retained deficit)	(29,160)
Surplus as regards policyholders	$111,465

There has been no material adverse change in the capitalization of CIFG NA from March 31, 2005 to the date of this Official Statement.

Audited financial statements of CIFG NA as of December 31, 2004, prepared in accordance with statutory accounting principles applicable to insurance companies, may be obtained by writing to CIFG NA at 825 Third Avenue, 6th Floor, New York, New York 10022, Attention: Finance Department. The toll-free telephone number of CIFG NA is (866) CIFG 212.

The Financial Guaranty Insurance Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. CIFG NA makes no representation regarding the Bonds or the advisability of investing in the Bonds. CIFG NA makes no representation regarding this Official Statement, nor has it participated in the preparation thereof, except that CIFG NA has provided to the Issuer the information presented under this caption for inclusion in this Official Statement.

Alternate Credit Facility

Although it is not expected that the City would replace the initial Credit Facility, the Ordinance permits the City to do so in certain circumstances provided that a mandatory tender first occurs and other conditions specified in the Ordinance are met.

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DEBT SERVICE REQUIREMENTS*

Date	Outstanding Series 2004 Debt Service	Series 1999 Taxable Refunding Debt Service	Total Prior Lien 4.5 Cent HOT Debt Service	$25,000,000 Series 1999A Waller Creek Debt Service	The Bonds (1)	Total Debt Service Payable From 4.5 & 2.0 Cent Revenues
9/30/2005	$ -	$ -	$ -	$ -	$ 315,521	$ 315,521
9/30/2006	2,343,075	1,179,045	3,522,120	1,755,890	4,056,695	9,334,705
9/30/2007	2,343,075	-	2,343,075	1,757,490	4,056,695	8,157,260
9/30/2008	4,431,975	-	4,431,975	1,757,385	4,056,695	10,246,055
9/30/2009	5,574,438	-	5,574,438	1,760,400	4,056,695	11,391,533
9/30/2010	5,571,250	-	5,571,250	1,761,650	7,015,402	14,348,302
9/30/2011	5,572,000	-	5,572,000	1,761,245	7,980,678	15,313,923
9/30/2012	5,573,375	-	5,573,375	1,763,888	7,980,610	15,317,872
9/30/2013	5,571,500	-	5,571,500	1,764,418	7,980,469	15,316,386
9/30/2014	5,570,125	-	5,570,125	1,767,488	7,970,369	15,307,981
9/30/2015	5,568,750	-	5,568,750	1,768,113	7,955,337	15,292,200
9/30/2016	5,576,625	-	5,576,625	1,766,638	7,949,950	15,293,212
9/30/2017	5,573,250	-	5,573,250	1,767,931	7,934,263	15,275,444
9/30/2018	5,573,250	-	5,573,250	1,766,863	7,918,163	15,258,276
9/30/2019	5,571,000	-	5,571,000	1,763,431	7,925,773	15,260,204
9/30/2020	5,570,875	-	5,570,875	1,767,375	7,926,920	15,265,170
9/30/2021	-	-	-	1,762,250	7,931,323	9,693,573
9/30/2022	-	-	-	1,762,850	7,933,783	9,696,633
9/30/2023	-	-	-	1,760,150	7,890,406	9,650,556
9/30/2024	-	-	-	1,754,150	7,904,575	9,658,725
9/30/2025	-	-	-	1,754,575	7,915,780	9,670,355
9/30/2026	-	-	-	1,751,150	7,933,569	9,684,719
9/30/2027				1,743,875	7,947,714	9,691,589
9/30/2028				1,742,475	7,962,905	9,705,380
9/30/2029				1,736,675	7,978,800	9,715,475
9/30/2030				1,731,338	7,995,059	9,726,397

*As of July 1, 2005.

(1) Calculated using synthetic fixed rate of 3.4007% to be paid by the City pursuant to the Series 2005 Interest Rate Swap Agreements. See "THE SWAP AGREEMENTS".

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Convention Center Fund

Schedule of Revenues, Expenses and Net Income/Change in Net Assets
Year Ended September 30, 2004
With Comparative Totals for Years Ended September 30, 2003, 2002, 2001 and 2000
(In thousands)

	2000	2001	2002	2003	2004
OPERATING REVENUES					
User fees and rentals	$ 9,649	$11,072	$10,376	$15,040	$10,404
Total Operating Revenues	$ 9,649	$11,072	$10,376	$15,040	$10,404
OPERATING EXPENSES					
Operating Expenses Before Depreciation	$12,527	$15,646	$18,927	$21,778	$18,192
Depreciation and Amortization	2,443	2,500	5,643	5,270	6,444
Total Operating Expenses	$14,970	$18,146	$24,570	$27,048	$24,636
Operating Income (Loss)	$ (5,321)	$ (7,074)	$(14,194)	$(12,008)	$(14,232)
NONOPERATING REVENUES (EXPENSES)					
Interest and Other Revenues	$10,639	$10,041	$ 3,277	$ 893	$ 35
Interest on Revenue Bonds and Other Debt	(13,445)	(14,458)	(14,693)	(14,517)	(13,772)
Interest Capitalized During Construction	1,853	3,090	2,930	1,052	1,390
Amortization of Bond Issue Cost	(167)	(168)	(168)	(168)	(175)
Other Nonoperating Expense	(1,201)	(356)	(74)	60	(15,291)
Total Nonoperating Revenues (Expenses)	$ (2,321)	$ (1,851)	$ (8,728)	$(12,680)	$(27,813)
Income (Loss) Before Contributions and Transfers	$ (7,642)	$ (8,925)	$(22,922)	$(24,688)	$(42,045)
Transfers In	$22,469	$33,198	$23,833	$22,895	$22,712
Transfers Out	(70)	(75)	(75)	(75)	(75)
Net Income (Loss)	$14,757	$24,198	N/A	N/A	N/A
Change in Net Assets (1)	N/A	N/A	$ 836	$ (1,868)	$(19,408)

(1) The City of Austin implemented GASB 34 effective Fiscal Year End 2002.

The revenues reflected in this table do not constitute a portion of the Pledged Revenues securing the Bonds.

DESCRIPTION OF THE BONDS

The Bonds will be issued in the aggregate amount of $119,290,000 and will mature on November 15, 2029 (the "Maturity Date"), subject to prior redemption. The Bonds shall bear interest as described below.

General

Authorized Denominations. Initially, the Bonds will be issued in denominations of $100,000 and integral multiples of $5,000 in excess thereof. The authorized denominations are subject to change if the Interest Rate Mode is converted to other than the Weekly Mode or the Daily Mode.

Calculation of Interest. Interest on the Bonds in the Weekly Mode or the Daily Mode will be calculated on the basis of a 365-day or 366-day year, as applicable, for the actual number of days elapsed at the applicable Weekly Rate or Daily Rate. Initially the Bonds are issued at the Weekly Rate; provided, that from the date of issuance of the Bonds to, but not including August 25, 2005, the Bonds will bear interest at a per annum rate to be established on or about August 16, 2005. The interest rate for the Bonds in the Daily Mode or Weekly Mode is to be the rate of interest per annum determined by the Remarketing Agent on and as of the applicable Rate Determination Date as the minimum rate of interest which, in the opinion of the Remarketing Agent under then-existing market conditions, would result in the sale of the Bonds in the Daily Rate Period or Weekly Rate Period, as applicable, at a price equal to the principal amount thereof, plus interest, if any accrued through the Rate Determination Date during the then current Interest Accrual Period. Initially, the Rate Determination Date for Bonds in the Weekly Mode is each Wednesday, or if Wednesday is not a Business Day, the next succeeding day, or if such day is not a Business Day, then the Business Day next preceding such Wednesday. If the Bonds are converted from a Weekly Mode to a Daily Mode, each Business Day will be a Rate Determination Date.

The Remarketing Agent is required to establish each Weekly Rate by 4:00 p.m., New York City time, and each Daily Rate by 10:00 a.m., New York City time, on the applicable Rate Determination Date, and to make the new rate available by telephone to any Holder or Notice Party requesting such rate and, by Electronic Means to the Paying Agent/Registrar not later than the second Business Day immediately succeeding the Rate Determination Date. If the Remarketing Agent fails for any reason to determine the Weekly Rate or the Daily Rate, then such Bonds shall bear interest during each subsequent Interest Period at the Alternate Rate in effect on the first day of such Interest Period.

In no circumstances, may interest on the Bonds (other than Bonds held by the Standby Purchaser or its assignees) exceed the lesser of (a) 10% per annum or (b) the maximum "net effective interest rate" allowed under Texas law (currently 15% under the provisions of Chapter 1204, Texas Government Code).

Interest Payment Method. Other than as provided in the Ordinance with respect to the Bonds held in the Book-Entry System, interest on the Bonds shall be paid to the Holders whose names appear in the Security Register at the close of business on the Record Date and shall be paid by the Paying Agent/Registrar (i) by check sent by United States Mail, first class postage prepaid, to the address of the Holder recorded in the Security Register or (ii) by such other method acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of the Holder.

Record Date for Interest Payment. The regular record date ("Record Date") for the interest payable on any interest payment date on Bonds bearing interest at a Weekly Rate, means the Business Day immediately preceding the interest payment date, and for Bonds bearing interest at a Daily Rate, the 14th day of each month (whether or not a Business Day).

Interest Payment Dates. Interest on the Bonds in the Weekly Mode or the Daily Mode is to be paid on the fifteenth day of each month commencing September 15, 2005, in an amount equal to the interest accrued during the Interest Accrual Period preceding the applicable Interest Payment Date. If such date is not a Business Day, such interest will be paid on the next Business Day.

Paying Agent/Registrar. Deutsche Bank Trust Company Americas will serve as Paying Agent/Registrar and may resign at any time and may be replaced in accordance with the Ordinance; provided, however, that any such resignation shall not take effect until a successor is appointed. The address of Deutsche Bank Trust Company Americas for purposes of its duties as Paying Agent/Registrar is 60 Wall Street, 27th Floor, New York, New York 10005.

Tender Agent. Deutsche Bank Trust Company Americas will serve as initial Tender Agent for the Bonds and may resign at any time and may be replaced in accordance with the Ordinance; provided, however, that any such resignation shall not take effect until a successor is appointed. All notices and Bonds required to be delivered to the Tender Agent shall be delivered by mail delivery/overnight mail to: Deutsche Bank Trust Company Americas (the "Tender Agent"), 60 Wall Street, 27th Floor, New York, New York 10005.

Remarketing Agent. Lehman Brothers has been appointed to serve as the initial remarking agent (the "Remarketing Agent") for the Bonds. Lehman Brothers may resign or be removed as Remarketing Agent and a successor may be appointed in accordance with the Ordinance. The office of Lehman Brothers for purposes of its duties as Remarketing Agent is 745 Seventh Avenue, New York, New York 10019.

Interest Rate Modes; Conversion

The Ordinance permits the City, by complying with certain conditions, to convert the interest rate on the Bonds from a Weekly Rate to another interest rate, including a Daily Rate, a Commercial Paper Rate, SAVRS Rate, a Term Rate, or a rate that is fixed to the maturity of the Bonds. If Bonds are converted from a Weekly Mode to a Daily Mode or from a Daily Mode to a Weekly Mode, Holders will receive notice of such conversion at least 30 days prior to the Mode Change Date. Holders of Bonds are not required to tender their Bonds in connection with a change between a Weekly Mode and a Daily Mode. During each Weekly Mode and Daily Mode, Holders retain their rights, subject to the conditions described herein under the caption "TENDER PROVISIONS – Optional Tender" to tender their Bonds for purchase at a price of the principal amount thereof plus unpaid accrued interest to the tender date.

Upon conversion of the Bonds to any Mode other than a Daily Mode or Weekly Mode, Holders will be required to tender their Bonds for purchase of the principal amount thereof plus unpaid accrued interest to the tender date, as described under the caption "TENDER PROVISIONS – Mandatory Tenders." Holders will not have the option to retain Bonds that are required to be tendered due to such a Mode change.

This Official Statement describes terms and provisions applicable to the Bonds only while they are in the Weekly Mode and Daily Mode. In the event of a conversion to another Mode, the Bonds will be subject to mandatory tender. The converted Bonds would be remarketed and potential purchasers of those converted Bonds may be provided with separate offering materials containing descriptions of the terms of the Bonds applicable to the Bonds in the Mode to which the Bonds are being converted.

Tender Provisions

In order to provide for the payment of the purchase price of tendered Bonds, the City has entered into a Standby Bond Purchase Agreement (the "Liquidity Facility"), with Dexia Crédit Local, acting through its New York Branch (the "Standby Purchaser"). Subject to the conditions set forth in the Liquidity Facility, during the term of the Liquidity Facility the Standby Purchaser has agreed to purchase Bonds which are tendered to the Tender Agent pursuant to the Ordinance, but not remarketed by the Remarketing Agent, at a purchase price equal to 100% of the principal amount plus interest accrued thereon to the date of tender (the "Purchase Price"). See "STANDBY BOND PURCHASE AGREEMENT." The Bonds are not subject to optional or mandatory tender for purchase if the Standby Purchaser is not obligated to purchase Bonds under the Liquidity Facility.

THE OBLIGATION OF THE STANDBY PURCHASER TO PURCHASE TENDERED BONDS MAY BE TERMINATED WITHOUT NOTICE. SEE "STANDBY BOND PURCHASE AGREEMENT – Events of Default Permitting Immediate Suspension or Termination."

Optional Tender. While the Standby Purchaser is obligated to purchase Bonds pursuant to the Liquidity Facility and the Bonds bear interest at a Weekly Rate or Daily Rate, the Holders of the Bonds may tender their Bonds to the Tender Agent for purchase at the Purchase Price as summarized below in the table under the caption "Summary of Certain Provisions of the Bonds."

Payment of the Purchase Price of Bonds to be purchased upon optional tender as described herein will be made by the Tender Agent at its designated office or by bank wire transfer in immediately available funds, but solely from and to the extent of the funds described below under "Remarketing and Purchase."

Interest on any Bond that the registered owner thereof has elected to tender for purchase and that is not tendered on the tender date, but for which there has been irrevocably deposited with the Tender Agent an amount sufficient to pay the Purchase Price thereof, will cease to accrue on the tender date. The Holder of such untendered Bond will not be entitled to any payment other than the Purchase Price for such Bond, and such untendered Bond will no longer be Outstanding or entitled to the benefits of the Ordinance, except for payment of the Purchase Price from money held by the Tender Agent for such payment. On the optional tender date, the Tender Agent is required to authenticate and deliver substitute Bonds in lieu of such untendered Bonds.

Mandatory Tender. While in a Weekly Mode or Daily Mode, the Bonds are required to be tendered to the Tender Agent for purchase at the Purchase Price, without the right of retention, on each of the following dates, but only if the Standby Purchaser is then obligated to advance funds under the Liquidity Facility (each a "Mandatory Tender Date"):

- each Mode Change Date to a Mode other than a change between Daily Mode and Weekly Mode,
- any date on which an alternate Credit Facility is substituted for the existing Credit Facility
- any date on which an alternate Liquidity Facility is substituted for the existing Liquidity Facility,
- the seventh Business Day prior to any expiration or termination of the Liquidity Facility (but there will be no separate mandatory tender in respect of such an expiration or termination if notice has been given to the Holders of a mandatory tender that will occur prior to such expiration or termination date and the Bonds are not to be subsequently remarketed under the expiring or terminating Liquidity Facility),
- the Business Day specified by the Paying Agent/Registrar as the tenth day after any default on the payment of any interest upon any Bond when such interest becomes due and payable or after any default on the payment of any Purchase Price when due or any principal of (or premium, if any, on) any Bond at its maturity, but only if either (a) CIFG NA so directs the Paying Agent/Registrar in writing, or (b) CIFG NA is in payment default

under the Bond Policy, and

- each date established by the City for mandatory tender as permitted by the Ordinance.

The Paying Agent/Registrar is required to mail notice of mandatory tender to the Holders of the Bonds. If notice is so given, the failure of any Holder to receive such notice for any reason shall not affect the requirement that such Bonds be mandatorily tendered on the mandatory tender date at the price stated in tender notice and shall not be deemed to be Outstanding for any purpose other than to receive the tender price for such Bonds from the Tender Agent. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by any Holder. See "Summary of Certain Provisions of the Bonds."

PURSUANT TO THE TERMS OF THE LIQUIDITY FACILITY, UPON THE OCCURRENCE AND CONTINUATION OF CERTAIN "EVENTS OF DEFAULT" UNDER THE LIQUIDITY FACILITY, THE OBLIGATION OF THE STANDBY PURCHASER TO PURCHASE TENDERED BONDS SHALL AUTOMATICALLY TERMINATE WITHOUT NOTICE, AND HOLDERS SHALL NOT THEREAFTER HAVE THE RIGHT TO TENDER BONDS FOR PURCHASE BY THE TENDER AGENT. See "STANDBY BOND PURCHASE AGREEMENT – Events of Default Permitting Immediate Suspension or Termination," herein. Also see "CONTINUING DISCLOSURE OF INFORMATION."

Payment of the Purchase Price of Bonds to be purchased upon a mandatory tender as described herein will be made by the Tender Agent at its designated office or by bank wire transfer in immediately available funds, but solely from and to the extent of the funds described below under "Remarketing and Purchase."

Interest on any Bond that is not tendered on a mandatory tender date, but for which there has been irrevocably deposited with the Tender Agent an amount sufficient to pay the Purchase Price thereof, will cease to accrue on the mandatory tender date. Thereafter, the Holder of such Bond will not be entitled to any payment other than the Purchase Price for such Bond from money held by the Paying Agent/Registrar for such payment, and such payment, and such Bond will not otherwise be Outstanding or entitled to the benefits of the Ordinance. On the mandatory tender date, the Paying Agent/Registrar will authenticate and deliver substitute Bonds in lieu of such untendered Bonds.

Remarketing and Purchase. In the event a Holder exercises its option to tender Bonds, or if any Bonds become subject to mandatory tender, the Remarketing Agent is required to use its best efforts to sell such Bonds at a price equal to 100% of the principal amount thereof plus accrued interest, if any, on the forthcoming optional or mandatory tender date, subject to certain conditions specified in a Remarketing Agreement with the City.

The Purchase Price of Bonds tendered for purchase is required to be paid by the Tender Agent solely from and to the extent of the following sources in the order of priority indicated: (a) first, from money derived from the remarketing of such Bonds by the Remarketing Agent; and (b) second, from money derived under the Liquidity Facility. If sufficient funds from these two sources are not available for the purchase of all tendered Bonds, no purchase will be consummated. **The City is not obligated to purchase tendered Bonds.**

Summary of Certain Provisions of the Bonds

The table below summarizes the following information with respect to Bonds bearing interest at a Weekly Rate or Daily Rate:

(a) the dates on which interest will be paid (the "Interest Payment Dates");
(b) the date each interest rate will be determined (the "Rate Determination Date");
(c) the date each interest rate will become effective (the "Effective Date of Rate");
(d) the period of time each interest rate will be in effect (the "Rate Period");
(e) the dates on which Registered Holders may, at their option, tender their Bonds for purchase to the Tender Agent and the notice requirements therefor (the "Optional Tender Dates; Holder's Notice of Optional Tender");
(f) the requirements for physical delivery of tendered Bonds and payment provision therefor ("Physical Delivery of and Payment for Bonds Subject to Optional Tender and Mandatory Tender"), which are not applicable while the Bonds are in book-entry only form;
(g) the notice requirements in order to change from one interest rate Mode to a different interest rate Mode ("Written Notice of Rate Mode Change"); and
(h) the notice requirements for any mandatory tender of the Bonds ("Notice of Mandatory Tender").

All times shown are New York City time. A "Business Day" is defined in the Ordinance to be, while the Bonds are in a Weekly Mode or Daily Mode, any business day other than (i) a Saturday or Sunday or (ii) a day on which the designated office of the Tender Agent, Paying Agent/Registrar, Remarketing Agent, CIFG NA, or Standby Purchaser are required or authorized by law or executive order to be closed or (iii) a day on which The New York Stock Exchange is closed or (iv) a day on which the payment system of the Federal Reserve System is not operational.

	Weekly Rate	**Daily Rate**
Interest Payment Dates	15th day of each month, or if such day is not a Business Day, the next succeeding Business Day.	15th day of each month, or if such day is not a Business Day, the next succeeding Business Day.
Rate Determination Date	By 4:00 p.m. Wednesday, or if Wednesday is not a Business Day, the immediately succeeding day, or if such day is not a Business Day, then the Business Day next preceding such Wednesday.	By 10:00 a.m. on each Business Day.
Effective Date of Rate; Rate Period	Each Thursday; Weekly Rate effective through Wednesday of next week.	Commences on Rate Determination Date, continues to, but not including, the next Rate Determination Date.
Optional Tender Dates; Holder's Notice of Optional Tender	Any Effective Date of Rate or, if not a Business Day, the next Business Day; Written notice to Tender Agent by owner at or prior to 3:00 p.m. on any Business Day not less than 7 calendar days prior to optional tender date.	Any Business Day; Written notice to Tender Agent by owner at or prior to 11:00 a.m. on the same Business Day.
Physical Delivery* of and Payment for Bonds Subject to Optional Tender and Mandatory Tender *Subject to DTC Procedures	To Tender Agent by 12:00 noon on the designated purchase date; payment by 3:00 p.m. on designated purchase date.	To Tender Agent by 12:00 noon on the designated purchase date; payment by 3:00 p.m. on designated purchase date.
Written Notice of Rate Mode Change	Not later than 30 days prior to Mode Change Date.	Not later than 30 days prior to Mode Change Date.
Notice of Mandatory Tender	No less than 15 days prior to designated purchase date, except for certain credit or default related mandatory tenders for which no less than 5 days' notice will be provided.	No less than 15 days prior to designated purchase date, except for certain credit or default related mandatory tenders for which no less than 5 days' notice will be provided.

Optional Redemption

During any Weekly Mode or Daily Mode, the Bonds are subject to redemption at the option of the City on any Interest Payment Date, in whole or in part, in authorized denominations at a redemption price equal to the principal amount thereof, plus accrued unpaid interest to the redemption date.

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Mandatory Redemption

Mandatory Sinking Fund Redemption. The Bonds are subject to mandatory redemption from money on deposit in the Bond Fund, at a price of par plus accrued interest to the date fixed for redemption, on the dates and in the amounts set out below ("Mandatory Sinking Fund Redemption").

Maturity Date	Amount	Maturity Date	Amount
11/15/2009	$3,045,000	11/15/2020	$5,785,000
11/15/2010	4,145,000	11/15/2021	5,990,000
11/15/2011	4,290,000	11/15/2022	6,155,000
11/15/2012	4,440,000	11/15/2023	6,385,000
11/15/2013	4,585,000	11/15/2024	6,620,000
11/15/2014	4,730,000	11/15/2025	6,870,000
11/15/2015	4,890,000	11/15/2026	7,125,000
11/15/2016	5,045,000	11/15/2027	7,390,000
11/15/2017	5,205,000	11/15/2028	7,665,000
11/15/2018	5,395,000	11/15/2029*	7,950,000
11/15/2019	5,585,000		

*Scheduled Final Maturity Date.

Special Mandatory Redemption

Pursuant to the Ordinance, Liquidity Provider Bonds that remain Liquidity Provider Bonds for more than sixty (60) consecutive days shall be subject to mandatory redemption by the City in equal semi-annual installments, the first such installment being the 15th day of November or May, whichever first occurs at least six months after the date such Bond becomes a Liquidity Provider Bond, and on each such date thereafter so that such Liquidity Provider Bond is paid in full by the earlier of (i) the Stated Maturity of such Bond, and (ii) the seventh anniversary of the date that is six months following the date such Bond becomes a Liquidity Provider Bond.

Notice of Redemption

The Paying Agent/Registrar is required to cause notice of any redemption of Bonds to be mailed to each Holder of Bonds to be redeemed at the respective addresses appearing in the Security Register for the Bonds. Notice of redemption is required to be mailed not less than 30 days prior to the redemption date with respect to Bonds in the Weekly or Daily Mode. If notice of redemption is given as described above and if due provision for the payment of the redemption price is made, then the Bonds that are to be redeemed thereby will automatically be deemed to have been redeemed prior to their scheduled maturities, and will not bear interest after the redemption date, nor will they be regarded as being Outstanding except for the right of the registered owner thereof to receive the redemption price from the Paying Agent/Registrar.

Defeasance

If the City pays or causes to be paid, or there shall otherwise be paid to the Holders, the principal of, premium, if any, and interest on the Bonds, at the times and in the manner described herein, then the pledge of the Pledged Revenues under the Ordinance and all other obligations of the City to the Holders will thereupon cease, terminate, and become void and be discharged and satisfied.

Bonds or any principal amount(s) thereof shall be deemed to have been paid within the meaning and with the effect described above when (i) 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 (ii) Government Obligations shall have been irrevocably deposited in trust with the Paying Agent/Registrar, or an authorized escrow agent, which Government Obligations have been certified by an independent 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, together with any moneys deposited therewith, if any, to pay when due the principal of and interest on such Bonds, or the principal amount(s) thereof, on and prior to the Stated Maturity thereof or (if notice of redemption has been duly given or waived or if irrevocable arrangements therefor acceptable to the Paying Agent/Registrar have been made) the redemption date thereof. The City has covenanted that no deposit of moneys or Government Obligations will be made as described herein and no use made of any such deposit which would cause the Bonds to be treated as "arbitrage bonds" within the meaning of Section 148 of the Code, or the Regulations.

Any money so deposited with the Paying Agent/Registrar, or an authorized escrow agent, and all income from Government Obligations held in trust by the Paying Agent/Registrar or an authorized escrow agent, described herein which is not required for the payment of the Bonds, or any principal amount(s) thereof, or interest thereon with respect to which such moneys have been so deposited shall be remitted to the City or deposited as directed by the City. Furthermore, any money held by the Paying Agent/Registrar for the payment of the principal of and interest on the Bonds and remaining unclaimed for a period of three (3) years after the Stated Maturity, or applicable redemption date, of the Bonds such moneys were deposited and are held in trust to pay shall, upon the request of the City, be remitted to the City against a written receipt therefor. Notwithstanding the foregoing, any remittance of funds from the Paying Agent/Registrar to the City shall be subject to any applicable unclaimed property laws of the State of Texas.

Amendment of Ordinance with the Consent of the Bondholders

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 "Amendment of the Ordinance Without the Consent of Bondholders" below, only with the consent of the Holders of not less than 51% of the aggregate unpaid principal amount of the Parity Bonds then Outstanding and affected by such amendment, modification, addition, or elimination; provided, however, that nothing described herein shall permit (a) an extension of the maturity of the principal of or interest on any Bond issued hereunder, 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.

If and to the extent required by a Credit Facility, Liquidity Facility, a Swap Agreement, another Credit Agreement or other provision of this Ordinance, the City is required to first obtain the consent of the Credit Provider, any Liquidity Provider and the Swap Counterparty to any such amendment.

Any consent described in the preceding two paragraphs will be deemed given:

(a) By all Holders of Outstanding Bonds if a Credit Facility is in effect, the Credit Provider is not in default thereunder and the Credit Provider has given its written consent to the amendments in writing,

(b) By any Holder in any number of concurrent writings of similar tenor, signed by such Holder or his duly authorized attorney in the manner set forth in the Ordinance; and

(c) Under such other circumstances described in the Ordinance, none of which may occur prior to a mandatory tender of all Bonds.

Amendment of Ordinance without the Consent of the Bondholders

The City may, without the consent of or notice to any of the Holders of the Bonds, amend the Ordinance for any one or more of the following purposes:

(a) 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 Holders of the Bonds;

(b) 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 owners thereof for federal income tax purposes;

(c) to grant to or confer upon the Holders of the Bonds any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Holders of the Bonds;

(d) 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 in the Ordinance;

(e) to amend any provisions of the Ordinance relating to the issuance of Additional Bonds provided that the City first obtains a Rating Confirmation with respect to such amendment; and

(f) 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, a Swap Agreement, another Credit Agreement or other provision of this Ordinance, the City is required to first obtain the consent of the Credit Provider, any Liquidity Provider and the Swap Counterparty to any such amendment described under this Section.

Transfer, Exchange and Registration

In the event the Book-Entry-Only System should be discontinued, any Bond may, in accordance with its terms and the terms of the Ordinance, be transferred or exchanged for Bonds of other Authorized Denominations upon the Security Register by the Holder, in person or by his duly authorized agent, upon surrender of such Bond to the Paying Agent/Registrar for cancellation, accompanied by a written instrument of transfer or request for exchange duly executed by the Holder or by his duly authorized agent, in form satisfactory to the Paying Agent/Registrar.

Upon surrender for transfer of any Bond at the Designated Payment/Transfer Office of the Paying Agent/Registrar, the Paying Agent/Registrar shall register and deliver, in the name of the designated transferee or transferees, one or more new Bonds, executed on behalf of, and furnished by, the City of Authorized Denominations and having the same Stated Maturity and of a like aggregate principal amount as the Bond or Bonds surrendered for transfer.

At the option of the Holder, Bonds may be exchanged for other Bonds of authorized denominations and having the same Stated Maturity, bearing the same rate of interest and of like aggregate principal amount as the Bonds surrendered for exchange, upon surrender of the Bonds to be exchanged at the Designated Payment/Transfer Office of the Paying Agent/Registrar. Whenever any Bonds are surrendered for exchange, the Paying Agent/Registrar shall register and deliver new Bonds, executed on behalf of, and furnished by, the City, to the Holder requesting the exchange.

All Bonds issued upon any transfer or exchange of Bonds shall be delivered at the Designated Payment/Transfer Office of the Paying Agent/Registrar, or sent by United States Mail, first class postage prepaid, to the Holder and, upon the delivery thereof, the same shall be valid obligations of the City, evidencing the same obligation to pay, and entitled to the same benefits under the Ordinance, as the Bonds surrendered in such transfer or exchange.

All transfers or exchanges of Bonds pursuant to this Section shall be made without expense or service charge to the Holder, except as otherwise herein provided, and except that the Paying Agent/Registrar shall require payment by the Holder requesting such transfer or exchange of any tax or other governmental charges required to be paid with respect to such transfer or exchange.

Neither the City nor the Paying Agent/Registrar shall be required to issue or transfer to an assignee of a Holder any Bond called for redemption, in whole or in part, within 45 days of the date fixed for the redemption of such Bond; provided, however, such limitation on transferability shall not be applicable to an exchange by the Holder of the unredeemed balance of a Bond called for redemption in part.

While the Bonds are in a Daily Mode or a Weekly Mode, new Bonds registered and delivered in an exchange or transfer shall be in denominations of $100,000 and any integral multiple of $5,000 in excess thereof for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" below for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Bondholders Remedies

The Ordinance does not establish specific events of default with respect to the Bonds. If the City defaults in payment of the principal of or interest on any of the Bonds when due, or defaults in the observance or performance of any of the covenants, conditions, or obligations set forth in the Ordinance, any Holder of a Bond is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observance and perform such covenant, obligation, or condition. Under state law there is no right to the acceleration of maturity of the Bonds upon failure of the City to observe any covenant under the Ordinance. Although a Holder of Bonds could presumably obtain a judgment against the City if default occurred in the payment of principal of or interest on any such Bond, such judgment could not be satisfied by execution against any property of the City. The enforcement of any such remedy may be difficult and time consuming and a Holder could be required to enforce such remedy on a periodic basis. The Ordinance does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, Chapter 9 includes an automatic stay provision that would prohibit, without Bankruptcy court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from its creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

THE SWAP AGREEMENTS

In connection with the issuance of the Bonds, the City has entered into two interest rate swap transactions under agreements (the "Series 2005 Interest Rate Swap Agreements") with Lehman Brothers Derivative Products Inc. ("LBDP Inc.") and Lehman Brothers Special Financing Inc. ("LBSF Inc.") to enable the City to substantially fix its interest obligation on the debt represented by Bonds. Under the Series 2005 Interest Rate Swap Agreements, from (1) August 17, 2005 (which coincides with the date of delivery of the Bonds) until November 15, 2009 (which is the scheduled redemption date of the Refunded Bonds), the City is obligated to make payments to LBSF Inc. calculated on a notional amount equal to the scheduled Outstanding principal amount of the Bonds and a variable rate based on 0.0525% above the USD-BMA Municipal Swap Index and LBSF Inc. is obligated to make reciprocal payments to the City calculated on a notional amount equal to the scheduled Outstanding principal amount of the Bonds and a variable rate equal to, with certain exceptions, the actual interest rate payable on the Bonds and (2) August 17, 2005 until the scheduled maturity date of the Bonds, the City is obligated to make payments to LBDP Inc. calculated on a notional amount equal to the scheduled Outstanding principal amount of the Bonds and a fixed rate of 3.4007% per annum, and LBDP Inc. is obligated to make reciprocal payments to the City calculated on a notional amount equal to the scheduled Outstanding principal amount of the Bonds and the variable rate described in the Series 2005 Interest Rate Swap Agreement. Prior to November 15, 2009, such variable rate is to be based on 0.0525% above the USD-BMA Municipal Swap Index. Thereafter, such variable rate is to equal 67% of the one-month London Interbank Borrowing Rate (LIBOR) for U.S. deposits. Payments under each Series 2005 Interest Rate Swap Agreement will be made on a net basis (as to that agreement only) on the 15th day of each month, commencing in September 2005 and ending in November 2009 (with respect to LBSF Inc.) and in November 2029 (with respect to LBDP Inc.).

Arrangements made in respect of the Series 2005 Interest Rate Swap Agreements do not alter the City's obligation to pay principal of and interest on the Bonds. The Series 2005 Interest Rate Swap Agreements do not provide a source of security or other credit for the Bonds. The City's obligations under the Series 2005 Interest Rate Swap Agreements to make scheduled payments are payable on a parity with the City's obligation to pay principal of and interest on the Bonds. The City's obligations to make scheduled payments under the Series 2005 Interest Rate Swap Agreements are insured by financial guaranty policies issued by the Insurer.

If any party to the Series 2005 Interest Rate Swap Agreements commits an event of default, suffers a reduction in credit worthiness, or merges with a materially weaker entity, or in certain other circumstances, the affected Series 2005 Interest Rate Swap Agreement may, with certain exceptions, be terminated at the option of the other party. Accordingly, no assurance can be given that the Series 2005 Interest Rate Swap Agreements will continue to be in existence. If one or both of the Series 2005 Interest Rate Swap Agreements is terminated under certain market conditions, the City may owe a termination payment to LBDP Inc. or LBSF Inc. or the City may receive a termination payment from LBDP Inc. or LBSF Inc. Such termination payment generally would be based on the market value of the affected Series 2005 Interest Rate Swap Agreement on the date of termination and could be substantial. In addition, a partial termination of one or both of the Series 2005 Interest Rate Swap Agreements could occur to the extent that any Bonds are redeemed pursuant to an optional redemption. If such optional redemption occurs, termination payments related to the portion of the Series 2005 Interest Rate Swap Agreement to be terminated will be owed by either the City, LBDP Inc. or LBSF Inc., depending on market conditions. The obligation of the City to pay a termination payment to LBDP Inc. or LBSF Inc. could result in the City issuing Parity Bonds or Junior Subordinate Lien Bonds to make a termination payment.

STANDBY BOND PURCHASE AGREEMENT

The City covenants in the Ordinance to maintain a standby bond purchase agreement or other similar agreement at all times that the Bonds remain Outstanding in the Daily Mode or Weekly Mode. Pursuant to such covenant the City is to enter into the Liquidity Facility with the Standby Purchaser. See "APPENDIX G – THE STANDBY PURCHASER" to this Official Statement for certain information concerning the Standby Purchaser.

Description of Purchase Commitment

In accordance with the terms of the Liquidity Facility, the Standby Purchaser agrees, at the request from time to time of the Tender Agent on behalf of the City, to purchase Eligible Bonds tendered for purchase in accordance with the Ordinance with respect to which the Tender Agent does not, on the date any such tendered Bonds are required to be purchased pursuant to the Ordinance, have sufficient funds to make such purchase as a result of the remarketing of the tendered Bonds. The obligation of the Standby Purchaser to purchase any Bond on a Purchase Date is subject to: (a) receipt by the Standby Purchaser of a notice of purchase from the Tender Agent given in accordance with the Liquidity Facility; and (b) the condition that the Standby Purchaser's obligation to purchase Eligible Bonds pursuant to the Liquidity Facility has not been suspended or terminated.

"Eligible Bonds" means any Bonds Outstanding under and entitled to the benefits of the Ordinance which bear interest at the Daily Rate or the Weekly Rate and that are tendered or deemed tendered for optional or mandatory purchase pursuant to the terms of the Ordinance other than any such Bond which (a) is a Bond that has been previously purchased with amounts advanced under the Liquidity Facility and continues to be owned by or for the benefit of the Standby Purchaser or its assignee or transferee or (b) is owned by or on behalf of or is held for the account or for the benefit of the City or any affiliate of the City or by the Insurer.

The Standby Purchaser's obligation to purchase Bonds will terminate on August 16, 2017 or, if such day is not a Business Day, on the next preceding Business Day, unless terminated earlier. The Standby Purchaser's obligation will be terminated if an alternate liquidity facility has been delivered to the Tender Agent and certain other conditions specified in the Ordinance are satisfied. Under certain circumstances the obligation of the Standby Purchaser to purchase Bonds will be immediately and automatically suspended or terminated without notice to the Holders of Bonds, and without providing the Holders a right to tender their Bonds pursuant to optional or mandatory tender. These circumstances are described below under "Events of Default Permitting Immediate Suspension or Termination." In addition, upon giving written notice to the City, the Tender Agent and Remarketing Agent stating that the Liquidity Facility will terminate 15 days after receipt of such notice, the Standby Purchaser may terminate its commitment following either of the Events of Default described in clauses (a)(i) or (i) under the heading "Events of Default Not Permitting Immediate Termination" below. Such termination will subject the Bonds to mandatory tender prior to such termination. See "DESCRIPTION OF THE BONDS" – "Tender Provisions" – "Mandatory Tender" herein.

In no event, however, will the Standby Purchaser be obligated to make funds available to the Tender Agent, or otherwise advance funds to purchase Bonds, in an amount in excess of the Standby Purchaser's Available Commitment. "Available Commitment" as of any day means the sum of the Available Principal Commitment and the Available Interest Commitment, in each case as of such day. "Available Principal Commitment" initially means $119,290,000 and thereafter means such initial amount adjusted from time to time as follows: (a) downward by the amount of any reduction of the Available Principal Commitment due to a redemption or repayment of all or any portion of the principal amount of the Bonds or a conversion of the interest rate Mode applicable to any of the Bonds to a Mode other than the Daily Mode or the Weekly Mode; (b) downward by the principal amount of any Bonds purchased by the Standby Purchaser pursuant to the terms of the Liquidity Facility; and (c) upward by the principal amount of any Bonds purchased by the Standby Purchaser pursuant to the terms of the Liquidity Facility, which are sold or deemed sold by the Standby Purchaser (regardless of the purchase price received for such Bonds) or which the Standby Purchaser elects to retain, pursuant to the terms of the Liquidity Facility. "Available Interest Commitment" initially means $1,159,764 and, upon any change in the amount of the Available Principal Commitment hereunder, means an amount equal to not less than 35 days of accrued interest at 10% per annum on the Available Principal Commitment then in effect computed on the basis of a 360 day year of twelve 30-day months.

Events of Default Not Permitting Immediate Termination

The occurrence of any of the following "Events of Default" does not permit immediate termination of the Standby Purchaser's obligation to purchase tendered Bonds:

(a) The City shall fail to pay when due (i) any installment of the Facility Fee payable under the Liquidity Facility and such failure shall continue for a period of ten Business Days after written notice is provided to CIFG NA of such failure, or (ii) any other any amounts owed by the City to the Standby Purchaser pursuant to the Liquidity Facility.

(b) Any representation or warranty made by or on behalf of the City in the Liquidity Facility or in the Related Documents shall prove to have been incorrect or untrue in any material respect when made or deemed to have been made.

(c) The City shall fail to perform or observe any term covenant, or agreement (other than those otherwise described in this Section) in the Liquidity Facility or Related Documents which failure continues for thirty days or more.

(d) An "Event of Default" under the Ordinance or an "Event of Default" under any ordinance pursuant to which any other Bonds secured by Pledged Revenues has been issued.

(e) Any provision of the Liquidity Facility, the Bonds or any of the Related Documents shall cease to be valid and binding on the City, or the City shall contest any such provision, or the City or any agent or trustee on behalf of any of them, shall deny that it has any further liability under any provision of the Liquidity Facility, the Bonds or any of the Related Documents.

(f) Entry of filing of any judgment, writ or warrant of attachment or of any similar process against the City payable from Pledged Revenues in an amount greater than $5,000,000 and failure of the affected entity to vacate, bond, stay or contest in good faith such judgment, writ, warrant of attachment or other process for a period of 30 days or failure to pay or satisfy such judgment within 60 days or as otherwise required by such judgment, writ or warrant of attachment.

(g) Any event of default under any of the Related Documents shall occur.

(h) The occurrence of one or more of the following events with respect to the City: (i) the issuance, under the laws of the United States of America, of an order of rehabilitation, liquidation or dissolution of the City; (ii) the commencement by or against the City of a case or other proceeding seeking liquidation, reorganization or other relief with respect to the City or its debts under any bankruptcy, insolvency or other similar state or federal law now or hereafter in effect, including, without limitation, the appointment of a trustee, receiver, liquidator, custodian or other similar official for the City or any substantial part of its property; (iii) the making of an assignment for the benefit of creditors by the City; (iv) the failure of the City to generally pay its debts as they become due; (v) the declaration of a moratorium with respect to the payment of the debts of the City; (vi) the City shall admit in writing its inability to pay its debts when due; or (vii) the initiation of any actions to authorize any of the foregoing by or on behalf of the City.

(i) The financial strength rating assigned to CIFG NA by the Rating Agencies is withdrawn, suspended or falls below each of "AA-" by S&P, "AA-" by Fitch and "Aa3" by Moody's, respectively for a period of 30 consecutive days.

Events of Default Permitting Immediate Suspension or Termination

The occurrence of any of the following "Events of Default" <u>does</u> permit immediate suspension or termination of the Standby Purchaser's obligation to purchase tendered Bonds with no opportunity to tender Bonds before suspension or termination:

(1) CIFG NA shall (i) file any petition or commence any case or proceeding under any provision or chapter of the United States Bankruptcy Code or any other similar federal or state law relating to insolvency, bankruptcy, rehabilitation, liquidation or reorganization, (ii) make a general assignment for the benefit of its creditors or fail to generally pay its debts as they become due, or (iii) have an order for relief entered against it under the United States Bankruptcy Code or any other similar federal or state law relating to insolvency, bankruptcy, rehabilitation, liquidation or reorganization which is final and nonappealable.

(2) The commencement of any proceeding in a court of competent jurisdiction or by the New York Department of Insurance or other competent regulatory authority (i) seeking the appointment of a custodian, trustee, agent or receiver for the Insurer or for all or any material portion of its property, (ii) seeking the liquidation, dissolution, reorganization or rehabilitation of the Insurer or (iii) authorizing the taking of possession by a custodian, trustee, agent or receiver of the Insurer or the taking of possession of all or any material portion of the property of the Insurer and, in the case of any proceeding described in this clause (b), such proceeding is not dismissed within ninety days.

(3) Any principal or interest due on the Bonds (including the Bank Bonds) is not paid by the City when due and such principal or interest is not paid by CIFG NA when, as, and in the amounts required to be paid pursuant to the terms of the Bond Insurance Policy.

(4) (i) Any provision of the Bond Insurance Policy affecting the Insurer's obligation to pay thereunder at any time for any reason ceases to be valid and binding on CIFG NA in accordance with the terms of the Bond Insurance Policy or is declared to be null and void in each case by a final non-appealable order of a court or other governmental agency of appropriate jurisdiction, or (ii) the validity or enforceability thereof is contested by CIFG NA, the New York Department of Insurance, or other competent regulatory authority, in writing or (iii) CIFG NA denies in writing that it has any or further liability or obligation under the Bond Insurance Policy.

(5) CIFG NA shall fail to make any payment (other than payments which are subject to good faith dispute) required under any municipal bond insurance policy (other than the Bond Insurance Policy) issued by it insuring obligations publicly rated by Moody's, Fitch or S&P when due and such payment default shall continue for a period of seven (7) days.

(6) The financial strength rating assigned to CIFG NA by all of the Rating Agencies shall be withdrawn, suspended or reduced below Baa3 by Moody's, BBB- by Fitch, or BBB- by S&P, respectively.

(7) Without the prior written consent of the Standby Purchaser, the Bond Insurance Policy is canceled or terminated, or amended or modified in any respect which materially and adversely affects the rights of the Standby Purchaser.

Upon the occurrence of an Event of Default hereunder, the Standby Purchaser may take one or more of the following actions:

(i) In the case of any Event of Default specified in clauses (1) through (7), under "Events of Default Permitting Immediate Suspension or Termination" above, the Available Commitment and the obligation of the Standby Purchaser to purchase Eligible Bonds shall immediately and automatically terminate without notice or demand, and thereafter the Standby Purchaser shall be under no obligation to purchase Eligible Bonds. Upon such Event of Default, the Standby Purchaser shall promptly give written notice of the same to the Tender Agent, the City and the Remarketing Agent; provided, that the Standby Purchaser shall incur no liability of any kind by reason of its failure to give such notice, and such failure shall in no way affect the termination of the Available Commitment and of the obligation of the Standby Purchaser to purchase Bonds pursuant to the Liquidity Facility. The Tender Agent shall immediately notify the Paying Agent/Registrar who shall notify all Bondholders of the termination of the Available Commitment and the obligation of the Standby Purchaser to purchase the Eligible Bonds.

(ii) In the case of any Default under clauses (1) and (2) of the section "Events of Default Permitting Suspension or Termination" and prior to the expiration of the 90 day period referenced therein and, in the case of clause (5) of such section and prior to the expiration of the 7 day period referenced therein, the Standby Purchaser's obligations to purchase Bonds will be automatically and immediately suspended without notice or demand and thereafter the Standby Purchaser will be under no obligation to purchase Bonds until the Available Commitment is reinstated as described in this clause. Promptly upon the Standby Purchaser obtaining knowledge of any such Default, the Standby Purchaser will give written notice of the same to the City, the Tender Agent, the Remarketing Agent and CIFG NA of such suspension; provided, that the Standby Purchaser will incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the suspension of the Standby Purchaser's obligations to purchase Eligible Bonds. In the case of a Default under clause (1) or (2), if such insolvency proceedings are dismissed within the 90 day period referenced in clause (2) then the Standby Purchaser's obligation to purchase Bonds under the Liquidity Facility shall be reinstated unless otherwise terminated under the Liquidity Facility. If such proceedings are not dismissed within such 90 day period then the obligation of the Standby Purchaser to purchase Bonds shall terminate pursuant to clause (i) above. In the case of a Default under clause (5), if the payment default by the Insurer triggering such event is cured within such 7 day period the obligation of the Standby Purchaser to purchase Bonds under the Liquidity Facility shall be reinstated, unless otherwise terminated under the Liquidity Facility. If such payment default by CIFG NA which has caused the Default under clause (5) is not cured within such 7 day period the obligation of the Standby Purchaser to purchase Eligible Bonds shall terminate pursuant to clause (i) above.

(iii) In the case of any Event of Default as specified in clause (a)(i) or (i) under "Events of Default Not Permitting Immediate Termination," the Standby Purchaser may give written notice of such Event of Default to the City, the Tender Agent and Remarketing Agent stating that the Liquidity Facility shall terminate fifteen (15) days after such notice is received by the Tender Agent and directing that the Bonds be called for mandatory tender pursuant to the Ordinance. The obligation of the Standby Purchaser to purchase Eligible Bonds shall terminate fifteen (15) days after such notice is received by the Tender Agent, and on such date the Available Commitment shall terminate and the Standby Purchaser shall be under no obligation pursuant to the Liquidity Facility to purchase Eligible Bonds.

(iv) Upon the occurrence of any Event of Default under clause (a)(i) "Events of Default Not Permitting Immediate Termination," and (1) through (7) under "Events of Default Permitting Immediate Suspension or Termination," all amounts owed to the Standby Purchaser under the Liquidity Facility and under any Liquidity Provider Bonds shall bear interest at the Default Rate and the Standby Purchaser shall have all remedies provided at law or equity, including, without limitation, to accelerate all amounts due under the Liquidity Facility and under the Liquidity Provider Bonds (provided, however in the case of an Event of Default under clauses (a) through (i) under "Events of Defaults not Permitting Immediate Termination" amounts owed under the Liquidity Facility and with respect to Liquidity Provider Bonds shall not be subject to acceleration and, except as described in clauses (i), (ii) and (iii) above, the Standby Purchaser shall not have the right to terminate the Purchase Period or cause a mandatory tender of Bonds) and specific performance. The Standby Purchaser shall promptly provide written notice to the Tender Agent and the City of any acceleration of the amounts due under the Liquidity Facility.

(v) In addition to the rights and remedies set forth in (i), (ii), (iii) and (iv) above, upon the occurrence of any Event of Default specified in the sections entitled "Events of Default Not Permitting Immediate Termination" and "Events of Default Permitting Immediate Suspension or Termination," (i) the Standby Purchaser may demand that all amounts payable hereunder (excluding principal and interest on the Bonds) shall, upon notice to the City, become immediately due and payable without further presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the City; and/or (ii) the Standby Purchaser may exercise all the rights and remedies available to it under this Liquidity Facility, the Related Documents, or otherwise pursuant to law or equity; provided, however, that the Standby Purchaser shall not have the right to terminate its obligation to purchase Eligible Bonds or to declare any amount due hereunder due and payable except as expressly provided herein, or to accelerate the maturity date of any Bonds except as provided in the Ordinance.

(vi) In the case of any Event of Default under the Liquidity Facility the Standby Purchaser shall have the right, but not the obligation, to cure any such Event of Default (in which case the City shall reimburse the Standby Purchaser therefor pursuant to the Liquidity Facility).

Alternate Liquidity Facility

In the Ordinance, the City covenants that while the Bonds are in the Daily or Weekly Mode, the City will maintain in effect a Liquidity Facility meeting the requirements set forth therein. The City is required to obtain an Alternate Liquidity Facility to replace the Liquidity Facility or cause the Bonds to be converted to an interest rate mode other than the Daily Mode or the Weekly Mode in the event that (i) the City terminates the Liquidity Facility pursuant to the terms thereof, (ii) the Standby Purchaser furnishes a termination notice to the Tender Agent or (iii) CIFG NA shall be downgraded below "Aa3," "AA-" or "AA-" by either Moody's, S&P or Fitch, respectively, and the City does not replace CIFG NA with an insurer reasonably acceptable to the Standby Purchaser.

Any Alternate Liquidity Facility must require, as a condition to the effectiveness of the Alternate Liquidity Facility, that the Alternate Liquidity Facility will provide funds to the extent necessary, in addition to other funds available, on the date the Alternate Liquidity Facility becomes effective, for the purchase of all Standby Purchaser Bonds at par plus interest (at the Bank Rate) through the date purchased. On such date any and all amounts owed to the Standby Purchaser shall be payable in full to the Standby Purchaser.

An Alternate Liquidity Facility may not become effective with respect to less than all of the Bonds without the prior written consent of the Standby Purchaser.

If, at any time, the City provides for an Alternate Liquidity Facility by delivering to the Paying Agent/Registrar or Tender Agent (1) an Alternate Liquidity Facility in substitution for the Liquidity Facility then in effect, (2) written Opinion of Counsel specifying that such change will not adversely affect the excludability of interest on the Bonds subject to the change from the gross incomes of the owners thereof for federal income tax purposes and specifying that the City is authorized to execute the Alternate Liquidity Facility under Texas law, (3) a written Opinion of Counsel for the provider of the Alternate Liquidity Facility to the effect that such Alternate Liquidity Facility is a valid, legal and binding obligation of the provider thereof, (4) the written consent of CIFG NA (unless a Credit Facility Failure exists) to the Alternate Liquidity Provider and to the Alternate Liquidity Facility, and (5) unless waived by such entity, written evidence satisfactory to CIFG NA and the Standby Purchaser of the provision for purchase from the Standby Purchaser of all Liquidity Provider Bonds, at a price equal to the principal amount thereof plus accrued and unpaid interest, and payment of all amounts due to the Standby Purchaser under the Ordinance and any applicable Credit Reimbursement Agreement on or before the effective date of such Alternate Liquidity Facility, then the Paying Agent/Registrar or Tender Agent, as applicable, is required to accept such Alternate Liquidity Facility and surrender the Liquidity Facility then in effect to the Standby Purchaser on the Substitution Date, but only if all draws in connection with the mandatory tender occurring on such Substitution Date have been honored in full.

The City will provide notice of such proposed substitution by United States mail, first-class postage prepaid, to the Holders of the Bonds no less than thirty (30) days prior to the proposed Substitution Date.

Without the prior written consent of the CIFG NA, the City may not substitute an Alternate Liquidity Facility in substitution for the Liquidity Facility then in effect, unless the Liquidity Provider is rated at least "A-1" by S&P or "VMIG-1" or "P1" by Moody's.

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

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

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

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

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

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

INVESTMENTS

The City invests its available funds in investments authorized by Texas Law and in accordance with investment policies approved by the City Council. Both State law and the City's investment policies are subject to change.

Legal Investments

Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit issued by a state or national bank domiciled in the State of Texas, a savings bank domiciled in the State of Texas, or a state or federal credit union domiciled in the State of Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share; (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and (13) local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Act) as amended, whose assets consist exclusively of the obligations that are described above. A public funds investment pool must be continuously ranked no lower than AAA, AAA-m or at an equivalent rating by at least one nationally recognized rating service. The City may also invest bond proceeds in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

Effective September 1, 2003, a political subdivision such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

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

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

Investment Policies

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

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

Additional Provisions

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

Current Investments

As of June 30, 2005, the City's investable funds were invested in the following categories.

Type of Investment	Percentage
U. S. Treasuries	10.3
U. S. Agencies	61.9
Money Market Funds	0.5
Local Government Investment Pools	26.1
Commercial Paper	1.2

The dollar weighted average maturity for the combined City investment portfolios is 1.08 years. The City prices the portfolios weekly utilizing a market pricing service.

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. A form of Bond Counsel's opinion is attached here to as APPENDIX D.

Interest on all tax-exempt obligations, including 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 would cause interest on the Bonds to be includable in the gross income of the owners thereof from date of the issuance of the Bonds.

Bond Counsel's opinion will note that no opinion is being expressed on excludability from gross income for federal income tax purposes of any action taken under the Ordinance, which action requires that the City receive an opinion of Bond Counsel to the effect that such action will not adversely affect excludability of the interest on the Bonds from the gross income of the owner thereof federal income tax purposes. Such actions that require an opinion of Bond Counsel include, but are not limited to, converting the interest rate on 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 (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the issuer as the "taxpayer," and the owners 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 either series of the Bonds, the City may have different or conflicting interests from the owners. 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.

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

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

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

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

Material Event Notices

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

Availability of Information from NRMSIRs and SID

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

The Municipal Advisory Council of Texas (the "MAC") has been designated by the State of Texas and approved by the SEC staff as a qualified SID. The address of the MAC is 600 West 8th Street, Post Office Box 2177, Austin, Texas 78768-2177, its telephone number is 512/476-6947, and its website address is www.mactexas.com. The MAC has also received SEC approval to operate, and has begun to operate, a "central post office" for information filings made by municipal issuers, such as the District. A municipal issuer may submit its information filings with the central post office, which then transmits such information to the NRMSIRs and the appropriate SID for filing. This central post office can be accessed and utilized at www.DisclosureUSA.org ("DisclosureUSA"). The District may utilize DisclosureUSA for the filing of information relating to the Bonds.

Limitations and Amendments

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

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

Compliance with Prior Undertakings

During the last five (5) years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

OTHER RELEVANT INFORMATION

Ratings

The Bonds have received unenhanced ratings of "A3" by Moody's Investors Service, Inc. ("Moody's") and "BBB+" by Standard & Poor's Rating Group ("S&P"). The Bonds will be rated "Aaa" by Moody's and "AAA" by S&P as a result of the financial guaranty insurance policy issued by the Insurer (see "BOND INSURANCE"). Moody's and S&P will also assign the Bonds short-term ratings of "VMIG-1" and "A-1+" based on the obligation of the Standby Purchaser to purchase Bonds pursuant to the Liquidity Facility. See "THE STANDBY BOND PURCHASE AGREEMENT". An explanation of the significance of such ratings may be obtained from the organization furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by one or all of such rating companies, if in the judgment of one or more companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. Neither the City nor the Financial Advisor will undertake any responsibility to notify bondholders of any such revisions or withdrawals of rating.

Registration and Qualification of Bonds

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

Legal Investments and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of "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.

Verification of 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 the Financial Advisor relating to the sufficiency of the anticipated receipts from the Federal Securities and cash deposited into the Escrow Fund to pay the Refunded Bonds and the yield on the Bonds.

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. The report of the Verification Agent will be relied upon by Bond Counsel in rendering their opinion with respect to the exclusion of interest on the Bonds for federal income tax purposes and with respect to the defeasance of the Refunded Bonds.

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 and secured by a lien on and pledge of the Pledged Revenues in the manner provided in the Ordinances 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 – Refunded Bonds," "SECURITY FOR THE BONDS," "DESCRIPTION OF THE BONDS," "STANDBY BOND PURCHASE AGREEMENT – Alternate Liquidity Facility," "THE SWAP AGREEMENTS," "TAX EXEMPTION," "CONTINUING DISCLOSURE OF INFORMATION," "OTHER RELEVANT INFORMATION – Registration and Qualification of Bonds," 'OTHER RELEVANT INFORMATION – Legal Investments and Eligibility to Secure Public Funds in Texas," "APPENDIX C" and "APPENDIX D" to verify that the information relating to the Bonds and the Ordinance contained under such captions and in APPENDICES C and D in all respects accurately and fairly reflects the provisions thereof and, insofar as such information relates to matters of law, is true and accurate. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the Closing occurring. The opinion of Bond Counsel will accompany the global certificate deposited with DTC in connection with the use of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by their counsel, Andrews Kurth LLP.

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

Financial Advisor

Public Financial Management ("PFM"), Austin, Texas is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The 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.

Underwriting

Lehman Brothers has agreed, subject to certain customary conditions to delivery, to purchase the Bonds from the City at a price equal to the par amount of the Bonds, less an underwriting discount of $358,146.31. The Underwriter will be obligated to purchase all the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does 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 obligations to update any such forward-looking statements. It is important to note that the City's actual results could differ materially from those in such forward-looking statements.

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

Miscellaneous Information

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

The Ordinance will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the offering of the Bonds by the Underwriter.

/s/Will Wynn
Mayor
City of Austin, Texas

ATTEST:

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

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

The following information has been presented for informational purposes only.

AUSTIN'S GOVERNMENT, ECONOMY AND OUTLOOK

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

Austin, the capital of Texas, is the fourth largest city in the State (behind Houston, Dallas, and San Antonio), with a population of 683,551 in 2004. Over the past ten years, Austin's population has increased by approximately 160,000 residents, an increase of 30.6 percent. Geographically, Austin consists of approximately 290 square miles. According to the 2000 Census, Austin has a median household income of $42,689 and a per capita income of $24,163.

Austin is frequently recognized as a great place to live and/or work, with one of the most recent commendations in *Forbes Magazine*, which listed Austin as one of its "top ten places for business". In October 2004, *Fortune Magazine* recognized Austin as one of its "five dream retirement towns". *MovieMaker* magazine ranks Austin number one in its "top ten cities for moviemakers to live and make movies" in 2004, moving Austin up from number four in its 2003 ranking. In the latest data from the FBI "2003 Crime in the U.S." report, Austin is ranked the third safest city among cities with a population of 500,000 or more with respect to violent crime.

Austin has long attracted a variety of people, and the reasons that draw people to the City are varied. The area has a natural beauty and a first-rate parks department that administers a number of public outdoor recreational facilities, including neighborhood parks, greenbelts, athletic fields, golf courses, tennis courts, a veloway for bicyclists and in-line skaters, miles of hike and bike trails and striped bike lanes, a youth entertainment complex and swimming pools. In October 2004, the Parks and Recreation Department received the National Recreation and Parks Association's 2004 Gold Medal Award as the best parks and recreation system in the nation.

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

The educational opportunities in Austin have long drawn people to the city. Among U.S. cities with a population over 250,000, Austin is one of the most highly educated cities, with approximately 40.6 percent of adults holding a bachelor's or advanced degree. With its seven institutions of higher learning and more than 113,000 students, education is a significant aspect of life in the Austin area. The University of Texas at Austin (UT), the largest public university in the nation, is known as a world-class center of education and research.

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

The Austin area economy is beginning to see a sustained improvement over conditions from the previous years. The unemployment rate for the Austin MSA has improved from 4.8 percent in December 2003 to 4.0 percent in December 2004. The average annual unemployment rate has also improved from 5.7 percent in 2003 to 4.5 percent in 2004. The statewide average unemployment rate for Texas was 6.8 percent in 2003 and 5.9 percent in 2004.

Sales tax revenue has shown a steady improvement from the previous year. Sales tax growth for fiscal year 2004 averaged a 6.6 percent increase over fiscal year 2003, with 11 months of positive growth as compared to only two months in the previous year. The growth rate is the second highest among major Texas cities. As a sign of sustained improvement, initial sales tax revenue for fiscal year 2005 has increased from comparative periods in fiscal year 2004.

Single family residential building permits increased by approximately 600 permits from fiscal year 2003, which represents an approximate 20 percent increase over the previous year. Property tax revenue increased by approximately $7.4 million from the previous year, although assessed valuation within the City decreased approximately $1.8 billion, or 3.5% from the prior year. Property taxes for 2004 and subsequent years may be negatively impacted by lawsuits filed against the appraisal district; the suits challenge the appraisal district's property valuations for many businesses. If the challenges are successful, they could result in decreased tax revenue in future years for the local taxing jurisdictions, including the City. These financial statements include the impact of estimated refunds for the pending lawsuits.

Total passenger traffic for the City's airport increased by 8% in calendar year 2004 as compared to the previous year. Total air cargo also increased 1% for the same time period. Overall collections from the hotel occupancy and vehicle rental taxes declined slightly in the current year, but avoided the significant decreases that occurred in fiscal year 2002, which reflected the effect of the 9/11 tragedy. The first quarter collections for fiscal year 2005 indicate a significant increase from comparative periods in fiscal year 2004, with an increase of 11.7 percent in hotel occupancy taxes and an increase of 13.5 percent in vehicle rental taxes.

City management implemented cost savings efforts beginning in 2002 and throughout the 2003 and 2004 budget years. During the 2004 budget process, a structurally balanced budget was achieved. As part of this process, an emphasis was placed on permanent reductions rather than one-time reductions that would have to be re-addressed in the future. Overall, 519 job positions were eliminated, with 344 of such positions being funded from the General Fund. Of those 519 positions 206 were filled, and ultimately 91 of these positions were subject to lay off. Other budgetary accomplishments include maintaining the effective tax rate, ensuring that no public facilities closed, maintaining utility transfer rates in accordance with covenants associated with the City's revenue debt and placing no reliance on "one-time" funds to be utilized as revenue funding sources.

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

MAJOR INITIATIVES AND ACHIEVEMENTS

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

Economic Growth and Development

A renewed effort has begun to attract new businesses and jobs to the Austin area. The City has developed and adopted a formal Economic Development Policy to guide Austin's economic recovery, including making significant changes to the Land Development Code to assist small business owners with redevelopment and expansion. In addition, the City has streamlined the development process for development review, permitting and inspections through the implementation of the One Stop Development Shop. The City was recognized for the progress made in this area at the 21st Annual Perryman Economic Outlook Conference.

The redevelopment of Robert Mueller Municipal Airport is underway. The City has recently completed and approved the Master Development Agreement (MDA), with a master developer to convert the old airport site into a vibrant mixed-use community. The MDA calls for the development of a full range of land use in order to promote a viable transit-oriented community for residents and employers. The first major project, a new Children's Hospital, has already begun. The City has established goals in order to achieve community-based values in a number of areas including affordable housing, green building and publicly accessible greenways and parks.

The annexation of Robinson Ranch protects the ability to plan the last major growth corridor north of Austin, as well as preserving a significant amount of future tax base. The agreement sets out future development rights and environmental protections for almost 6,000 acres. The present value of the 25-year all funds analysis of tax revenue from this area exceeds $160 million.

The City's Street Smart Team re-engineered the process for major urban road reconstruction projects. The revised process has allowed completion of reconstruction projects for both Lamar Blvd. and Cesar Chavez in significantly less time than typical projects of this nature. As a result, traffic impacts on citizens and financial impacts on surrounding businesses were reduced.

Austin's new City Hall and public plaza, built on 1.75 acres at the previous site of the Municipal Annex, was opened in December 2004. City Hall is approximately 115,000 square feet and houses offices, meeting facilities and a state-of-the-art City Council Chamber. The new City Hall has received awards including the Texas Construction Best of 2004 Award for Best Public Building Project in the State of Texas and the Austin Business Journal's 2005 best overall award for commercial real estate.

Public Health and Housing

In May 2004, voters of Travis County elected to create the Travis County Hospital District. As required under State law, title to City-owned Brackenridge Hospital and the Austin Women's Hospital effectively passes from the City with the formation of the District. Title to the clinic facilities that operate under the Federally Qualified Health Center (FQHC) designation will not transfer to the District until the District receives federal approval for the transfer.

The creation of the District creates a more equitable property tax structure within Travis County. It also allows the possibility of future expansion of the tax base to surrounding counties in order to support regional trauma and indigent health care. The City of Austin reduced the fiscal year 2005 property tax rate in proportion to the amount of services that were transferred to the District. Under applicable State law, the property tax rate of the District cannot exceed $0.25 per $100 assessed valuation per State legislation.

The District has assumed the City's lease agreement with the Daughters of Charity to operate Brackenridge Hospital, as well as the City's agreement with the University of Texas Medical Branch at Galveston to operate the Austin Women's Hospital. The City will continue to operate the FQHC clinic facilities through an interlocal agreement approved by the District. In order to ensure the future financial viability of the newly created district, the City contributed $10.7 million toward the establishment of the District's financial reserves.

The City's SMART™ Housing Program is being recognized nationally as an innovative best practice for increasing the supply of affordable, adaptable and accessible housing units. In fiscal year 2004, approximately 4,834 units were certified and 1,612 units were completed. Of these units completed, 82% were reasonably priced and all units met Green Building, accessibility, visitability and transit-oriented standards. Recently, the City's Neighborhood and Community Development Department was awarded a National Award of Excellence for their affordable housing project, Lyons Gardens. The award was given on behalf of the National Community Development Association (NCDA).

Utility Projects

Austin Energy, the City's electric utility, continues to prepare for possible deregulation. Deregulation allows Texas residents and businesses served by utilities participating in deregulation to choose the supplier from which they purchase their electricity. The local electric utility continues to deliver the electricity. Deregulation began in Texas on January 1, 2002 for all private electric utilities. These utilities, owned by stockholders, are called investor-owned utilities (IOUs). Electric cooperatives (Co-ops) and city-owned electric utilities (called municipally owned utilities or MOUs) such as Austin Energy can participate, or "opt-in," by a vote of their board or City Council. Once the City Council votes to participate in deregulation, it cannot later withdraw. The City has not "opted-in", but does continue to prepare for that possibility.

Standard & Poor's raised its ratings on the following utility revenue bonds:

Type	Previous	Revised
Combined Utility System:		
Prior First Lien	A	A+
Prior Subordinate Lien	A-	A
Electric:		
Separate Lien	A-	A
Water and Wastewater:		
Separate Lien	A-	A

The upgrade was based on a demonstrated trend of financial performance and risk management, while reducing indebtedness and managing a large capital plan.

Austin Energy's Strategic Plan was adopted by Council in December 2003 and sets a national standard for renewable energy and energy efficiency. Among Austin Energy's numerous awards for leadership in this area is the 2004 Green Power Program of the Year given by the Environmental Protection Agency and the Department of Energy. In addition, Austin Energy received the U.S. Green Building Public Sector Leadership Award given by the U.S. Green Building Council in November 2003.

In January 2005, Austin Energy announced it was doubling the capacity of its renowned clean power program, GreenChoice. With the additional capacity, Austin Energy is on track to achieve its goal of generating 20 percent of Austin's electricity needs from renewables by the year 2020. The Austin Independent School District subscribes to 45-million kWh annually, the largest green power subscription by any public school system in the nation.

Austin Water Utility has launched the Austin Clean Water Program. The Program is the result of a mandate from the U.S. Environmental Protection Agency to eliminate overflows from the City's wastewater collection system by the end of 2007. The cost to complete this program is estimated to be $150 million. The Water Utility remains on schedule to complete the necessary requirements.

Status of City Services

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

Austin residents assign a very high level of importance to public safety services, including 9-1-1, EMS, Fire, and Police. Generally, satisfaction with most public safety services is high, although neighborhood policing and traffic enforcement rank very low as compared to other public safety services. The City's parks program has seen a significant increase in the number of participants in 2004; residents are generally satisfied with the services of the Parks and Recreation Department. Overall, the City had a significant improvement in the level of satisfaction with all customer services provided by City staff. Two areas of continuing dissatisfaction are traffic and the repair of City streets.

The top issues of importance to Austin residents are:

- Traffic issues (congestion, flow, planning, etc.)
- Tax related issues (too high, too many, etc.)
- Growth management (speed, planning, zoning, etc.)
- Economic issues (protection, conservation, control, balance, etc.)
- Roadway development (planning, maintenance, inconvenience, etc.)

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

Employment by Industry in the Austin Metropolitan Area (a)

Employment Characteristics

Industrial Classification	1990	% of Total	2000	% of Total	2003	% of Total	2004	% of Total	May 31, 2005	% of Total
Manufacturing	49,300	12.9%	84,662	12.9%	60,483	9.1%	57,000	8.7%	57,500	8.4%
Government	110,400	28.8%	137,171	20.9%	148,433	22.3%	144,900	22.0%	150,800	22.0%
Trade, transportation & utilities	90,500	23.6%	171,771	26.2%	113,183	17.0%	114,200	17.3%	138,100	20.2%
Services and miscellaneous	97,200	25.3%	190,048	28.9%	265,342	40.0%	263,800	40.0%	258,500	37.8%
Finance, insurance and real estate	23,400	6.1%	32,031	4.9%	37,850	5.7%	40,900	6.2%	40,300	5.9%
Natural resources, mining & construction	12,700	3.3%	40,487	6.2%	38,784	5.9%	38,700	5.8%	39,300	5.7%
Total	383,500	100.0%	656,170	100.0%	664,075	100.0%	659,500	100.0%	649,800	100.0%

(a) Austin-San Marcos MSA includes Travis, Bastrop, Caldwell, Hays and Williamson Counties. Information is updated periodically, data contained herein is the latest provided. Numbers for 2005 are an estimate based on Texas Workforce Commission, Bureau of Labor Statistics and U.S. Department of Labor data as of May 31, 2005.

Source: 2004 Comprehensive Annual Financial Report, Texas Workforce Commission.

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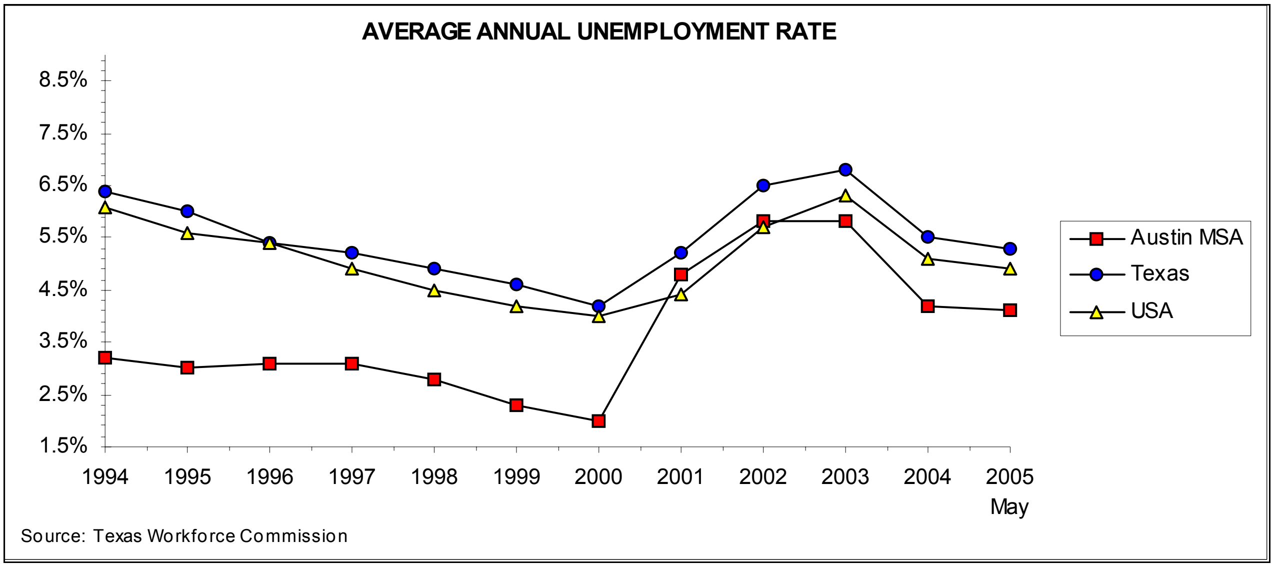
Average Annual Unemployment Rate



	Austin MSA	Texas	U.S.
1994	3.2%	6.4%	6.1%
1995	3.0%	6.0%	5.6%
1996	3.1%	5.4%	5.4%
1997	3.1%	5.2%	4.9%
1998	2.8%	4.9%	4.5%
1999	2.3%	4.6%	4.2%
2000	2.0%	4.2%	4.0%
2001	4.8%	5.2%	4.4%
2002	5.8%	6.5%	5.7%
2003	5.8%	6.8%	6.3%
2004	4.2%	5.5%	5.1%
2005 May	4.1%	5.3%	4.9%

Note: Information is updated periodically, data contained herein is latest provided.
Source: 2004 Comprehensive Annual Financial Report, Texas Workforce Commission.

City Sales Tax Collections (In Millions)

Period	Amount	Period	Amount	Period	Amount	Period	Amount	Period	Amount
1-1-01	$ 9.298	1-1-02	$ 8.723	1-1-03	$ 8.249	1-1-04	$ 8.883	1-1-05	$ 9.076
2-1-01	13.733	2-1-02	13.405	2-1-03	11.463	2-1-04	12.382	2-1-05	13.171
3-1-01	9.169	3-1-02	8.345	3-1-03	8.218	3-1-04	8.693	3-1-05	9.049
4-1-01	9.243	4-1-02	8.322	4-1-03	7.981	4-1-04	8.534	4-1-05	8.660
5-1-01	12.091	5-1-02	10.746	5-1-03	10.644	5-1-04	10.867	5-1-05	11.795
6-1-01	9.199	6-1-02	9.253	6-1-03	8.519	6-1-04	9.384	6-1-05	9.718
7-1-01	9.605	7-1-02	9.287	7-1-03	7.908	7-1-04	8.980	7-1-05	8.936
8-1-01	11.456	8-1-02	10.289	8-1-03	10.414	8-1-04	11.474		
9-1-01	9.279	9-1-02	8.695	9-1-03	8.510	9-1-04	9.157		
10-1-01	8.974	10-1-02	8.884	10-1-03	8.832	10-1-04	9.214		
11-1-01	10.260	11-1-02	10.157	11-1-03	10.686	11-1-04	11.340		
12-1-01	9.142	12-1-02	8.859	12-1-03	8.817	12-1-04	9.354		

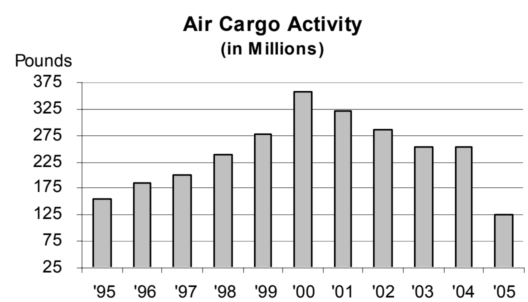
Source: City of Austin, Budget Office.

Ten Largest Employers (As of September 30, 2004)

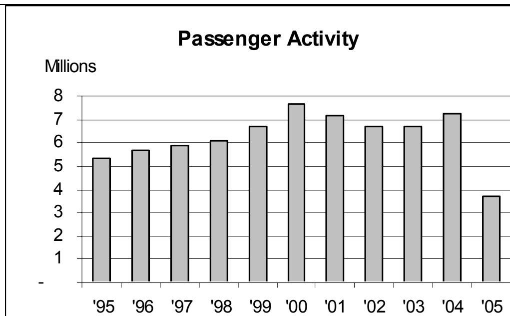
Employer	Product or Service	Employees
The University of Texas at Austin	Education and Research	21,000
Dell Computer Corporation	Computers	16,500
Austin Independent School District	Education	10,714
City of Austin	City Government	10,617
Federal Government	Federal agency	10,200
Freescale Semiconductor, Inc.	Electronic Components	6,500
Seton Healthcare Network	Hospital	6,393
IBM Corporation	Office Machines	6,200
Texas State University – San Marcos	Education and Research	5,103
St. David's Healthcare Partnership	Hospital	5,000

Source: 2004 Comprehensive Annual Financial Report.

Transportation



Source: COA Aviation Department. 2005 activity through June. Calender year basis.



Source: COA Aviation Department. 2005 Activity through June. Calender year basis.

Austin-Bergstrom International Airport

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

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

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

The City of Austin's Austin-Bergstrom International Airport, which opened for passenger service on May 23, 1999, is served by eight major and six regional airlines with scheduled air service: American, America West (includes Mesa Airlines), Continental (includes Express Jet), Delta (includes SkyWest and Atlantic Southeast Airlines), Frontier (includes Frontier Express), Northwest (includes Pinnacle Air), Southwest, and United (includes SkyWest and Mesa,) Non-stop service is available to 33 U.S. destinations and 1 international destination.

Growth Indicators

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

Population

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

(1) All years are estimates from the City's Neighborhood Planning and Zoning Department based on full purpose area as of December 31. Census years are modified to conform to U.S. Bureau of the Census data.
(2) U.S. Bureau of the Census official estimates as of July 31.

Connections and Permits

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

Source: 2004 Comprehensive Annual Financial Report.

Wealth and Income Indicators

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

Effective Buying Income and Retail Sales

	Median		% of Households by EBI Group*				Per Capita
Area	Household EBI	Per Capita EBI	A	B	C	D	Retail Sales
City of Austin	$39,227	$21,487	21.2%	23.1%	18.7%	37.0%	$34,778
Austin-Round Rock MSA	45,171	21,873	17.2%	20.1%	18.7%	44.0%	24,864
Texas	37,554	17,796	23.4%	23.2%	18.3%	35.1%	14,246
USA	38,201	18,662	22.4%	23.3%	19.0%	35.4%	13,336

*Group A, $0 - $19,999   Group B, $20,000 - 34,999   Group C, $35,000 - 49,999   Group D, $50,000 and over
Source: 2004 Survey of Buying Power, Sales and Marketing Management.

Housing Units

The average two-bedroom apartment in the Austin MSA was $811 per month, with an occupancy rate of 92.7% for the second quarter 2005.

Residential Sales Data

Year	Number of Sales	Total Volume	Average Price
1992	8,503	$ 887,249,588	$104,345
1993	9,926	1,139,100,456	114,759
1994	10,571	1,272,585,426	120,385
1995	11,459	1,439,915,043	125,658
1996	12,597	1,672,441,903	132,765
1997	12,439	1,762,198,574	141,667
1998	15,583	2,334,200,698	149,791
1999	18,135	2,963,915,274	163,436
2000	18,621	3,561,039,919	191,238
2001	18,392	3,556,546,121	193,375
2002	18,716	3,695,947,381	197,475
2003	19,793	3,899,018,519	196,990
2004	22,481	4,472,756,853	198,957
2005 May	9,613	1,973,088,492	205,252

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

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City-Wide Austin Office Occupancy Rate

Year	Occupancy Rate
1992	82.6%
1993	86.3%
1994	87.9%
1995	88.4%
1996	92.2%
1997	94.7%
1998	93.4%
1999	92.8%
2000	96.0%
2001	81.2%
2002	77.0%
2003	76.7%
2004 (4th Quarter)	80.8%

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

Education

The Austin Independent School District had an enrollment of 78,892 for the fourth six-weeks of the 2005 school year. This reflects an increase of 2.0% in enrollment from the end of the 2004 school year. The District includes 107 campus buildings.

School Year	Average Daily Membership	Average Daily Attendance
1989/90	63,887	60,835
1990/91	65,952	62,632
1991/92	67,063	63,267
1992/93	68,712	63,817
1993/94	70,665	66,086
1994/95	72,298	67,706
1995/96	73,795	68,953
1996/97	74,315	70,361
1997/98	75,693	71,241
1998/99	75,915	71,491
1999/00	76,268	71,583
2000/01	76,447	71,518
2001/02	76,347	71,638
2002/03	77,009	72,494
2003/04	77,313	73,085
2004/05 (1)	78,892	73,842

(1) Fourth Six Weeks.
Source: Austin Independent School District.

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

The University of Texas at Austin had an enrollment of 50,377 for the fall semester of 2004 and is a major research university with many nationally ranked academic programs at the graduate level. It is also known for its library collections and research resources. The present site has expanded more than 300 acres since classes began on the original 40 acres near downtown Austin. Additionally, University-owned property located in other areas of Austin includes the Pickle Research Center and the Brackenridge Tract, partially used for married student housing. The McDonald Observatory on Mount Locke in West Texas, the Marine Science Institute at Port Aransas and the Institute for Geophysics (Galveston) on the Gulf Coast operate as specialized research units of The University of Texas at Austin.

Tourism

The impact of tourism on the Austin economy is significant. Total travel expenditures in the Austin-Round Rock MSA were $2.750 billion in 2003. There are more than 23,000 hotel rooms available within the Austin Metropolitan Area, as of September 2003. The substantial increase in supply of rooms contributed to decreasing occupancy rates in the last three years. Through the first three quarters of 2003 the citywide occupancy rate for the Austin area was 57.5 percent, with an average room rate of $83.75.

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

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APPENDIX B

EXCERPTS FROM THE ANNUAL FINANCIAL REPORT

KPMG

111 Congress Avenue
Suite 1100
Austin, TX 78701

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Austin, Texas ("City"), as of and for the year ended September 30, 2004, which collectively comprise the City's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 23, 2005 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

As described in note 1e, the City has implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures,* as of September 30, 2004.

The Management's Discussion and Analysis on pages 3 through 14 and the General Fund Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Budget Basis on pages 100 through 101 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

R. Mendoza & Company, P.C.

Austin, Texas
February 23, 2005

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The Management's Discussion and Analysis (MD&A) section of the City of Austin's (the City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

The financial statements are presented in conformance with the Governmental Accounting Standards Board Statement No. 1 through Statement No. 41. During the current fiscal year, the City implemented GASB Statement No. 40, *"Deposit and Investment Risk Disclosures"*. GASB Statement No. 40 addresses disclosure of certain deposit and investment risks, including credit risk, interest risk and foreign currency risk.

FINANCIAL HIGHLIGHTS

Government-wide financial statements

The assets of the City exceeded its liabilities at the end of the fiscal year 2004, resulting in $3.7 billion of net assets. Net assets associated with governmental activities are approximately $1.4 billion, or 39% of the total net assets of the City. Net assets associated with business-type activities are approximately $2.2 billion, or 61% of the total net assets of the City. The largest portion of net assets consists of investment in capital assets, net of related debt, which is $2.9 billion, or 79% of total net assets.

Unrestricted net assets, which may be used to meet the City's future obligations, consist of $528 million, or 14% of the City's total net assets. Unrestricted net assets for governmental activities are approximately $51 million, or 4% of total net assets for governmental activities; unrestricted net assets for business activities are approximately $477 million, or 21% of total net assets for business-type activities.

Total net assets for the City of Austin increased $36.7 million, or 1% during fiscal year 2004. Of this amount, governmental activities increased $90.4 million, or 6.7% from the previous year and business-type activities decreased $53.7 million, or 2.3% from the previous year.

Total revenues for the City decreased $104.2 million; revenues for governmental activities decreased $584 thousand; revenues for business-type activities decreased $103.7 million. Total expenses for the City increased $89.8 million; expenses for governmental activities decreased $25.6 million; expenses for business-type activities increased $115.4 million.

In fiscal year 2004, the ending fund balance for the General Fund increased $13 million, or 14%. Unreserved fund balance increased $12.7 million, or 14.4%.

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 of the City include electric utility, water, wastewater, airport, convention and others.

The government-wide financial statements include the City as well as blended component units: the Austin Housing Finance Corporation (AHFC) and the Austin Industrial Development Corporation (AIDC). The operations of AHFC and AIDC are included within the governmental activities of the government-wide financial statements. 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 which are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following three categories: governmental, proprietary and fiduciary funds. Within the governmental and proprietary categories, the emphasis is on the major funds.

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

The City's General Fund is considered a major fund and information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures and changes in fund balances. In addition, the City maintains 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 are provided in the form of combining statements in the supplementary section of this report.

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

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

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, Employee Benefits, Fleet Maintenance, Information Systems, Liability Reserve, Support Services, Wireless Communication and Workers' Compensation. Because these services benefit governmental operations more than business-type functions, they have been included in governmental activities in the government-wide financial statements.

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

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. 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
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
Assets previously reported in General Fixed Asset Group	Governmental	Excluded
Infrastructure assets	Governmental	Excluded
Liabilities previously reported in General Long-Term Debt Group	Governmental	Excluded
Electric	Business-type	Proprietary
Water and wastewater	Business-type	Proprietary
Airport	Business-type	Proprietary
Other enterprise funds	Business-type	Proprietary - Nonmajor
Fiduciary funds	Excluded	Fiduciary

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

c -- Notes to the Financial Statements

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

d -- Other Information

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

a -- Net Assets

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

Net Assets
as of September 30
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**
Current assets	$ 498,993	529,203	934,090	1,073,730	1,433,083	1,602,933
Capital assets	2,032,289	1,868,710	5,174,870	4,965,869	7,207,159	6,834,579
Other noncurrent assets	3,233	3,138	624,169	701,942	627,402	705,080
Total assets	2,534,515	2,401,051	6,733,129	6,741,541	9,267,644	9,142,592
Current liabilities	207,830	198,161	416,793	384,841	624,623	583,002
Noncurrent liabilities	888,181	854,763	4,072,592	4,059,289	4,960,773	4,914,052
Total liabilities	1,096,011	1,052,924	4,489,385	4,444,130	5,585,396	5,497,054
Net assets:						
Invested in capital assets, net of related debt	1,333,779	1,204,877	1,569,489	1,505,479	2,903,268	2,710,356
Restricted	53,481	100,469	197,174	216,459	250,655	316,928
Unrestricted	51,244	42,781	477,081	575,473	528,325	618,254
Total net assets	$ 1,438,504	1,348,127	2,243,744	2,297,411	3,682,248	3,645,538

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by $3.7 billion at the end of the current fiscal year. However, the largest portion of the City's net assets are invested in capital assets, net of related debt (e.g. land, building, and equipment), which are $2.9 billion, or 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, $251 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, $528 million of unrestricted net assets, may be used to meet the government's future obligations.

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

b -- Changes in Net Assets

Total net assets of the City increased by $36.7 million in the current year. Governmental net assets increased $90.4 million. The increase is attributable to total revenues exceeding program expenses by $58.8 million, transfers from other funds of $39.3 million and a payment in the amount of $7.7 million to the Travis County Hospital District. Business-type net assets decreased by $53.7 million, due to program expenses exceeding revenues by $11.4 million, a payment to the Travis County Hospital District in the amount of $3 million and transfers to other funds of $39.3 million.

Changes in Net Assets
September 30
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Program revenues:						
Charges for services	$ 74,661	75,469	1,279,565	1,368,616	1,354,226	1,444,085
Operating grants and contributions	52,068	55,122	--	--	52,068	55,122
Capital grants and contributions	2,546	3,956	47,570	48,325	50,116	52,281
General revenues:						
Property tax	240,536	233,130	--	--	240,536	233,130
Sales tax	117,725	110,454	--	--	117,725	110,454
Franchise fees and gross receipts tax	63,509	63,049	--	--	63,509	63,049
Grants and contributions not restricted to specific programs	81,937	94,210	--	--	81,937	94,210
Interest and other	26,799	24,975	16,582	30,430	43,381	55,405
Total revenues	659,781	660,365	1,343,717	1,447,371	2,003,498	2,107,736
Program expenses:						
General government	46,607	43,405	--	--	46,607	43,405
Public safety	292,678	292,411	--	--	292,678	292,411
Transportation, planning and sustainability	15,879	17,119	--	--	15,879	17,119
Public health	48,733	80,808	--	--	48,733	80,808
Public recreation and culture	56,408	58,199	--	--	56,408	58,199
Urban growth management	64,631	59,949	--	--	64,631	59,949
Unallocated depreciation expense - infrastructure	35,833	35,414	--	--	35,833	35,414
Interest on debt	40,199	39,296	--	--	40,199	39,296
Electric	--	--	774,702	754,393	774,702	754,393
Water	--	--	155,472	130,119	155,472	130,119
Wastewater	--	--	137,227	115,284	137,227	115,284
Airport	--	--	77,541	79,558	77,541	79,558
Convention	--	--	52,336	40,621	52,336	40,621
Other	--	--	157,842	119,763	157,842	119,763
Total expenses	600,968	626,601	1,355,120	1,239,738	1,956,088	1,866,339
Excess before special items and transfers	58,813	33,764	(11,403)	207,633	47,410	241,397
Special items - hospital district reserve	(7,700)	--	(3,000)	--	(10,700)	--
Transfers	39,264	66,926	(39,264)	(66,926)	--	--
Increase (decrease) in net assets	90,377	100,690	(53,667)	140,707	36,710	241,397
Beginning net assets	1,348,127	1,247,437	2,297,411	2,156,704	3,645,538	3,404,141
Ending net assets	$ 1,438,504	1,348,127	2,243,744	2,297,411	3,682,248	3,645,538

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

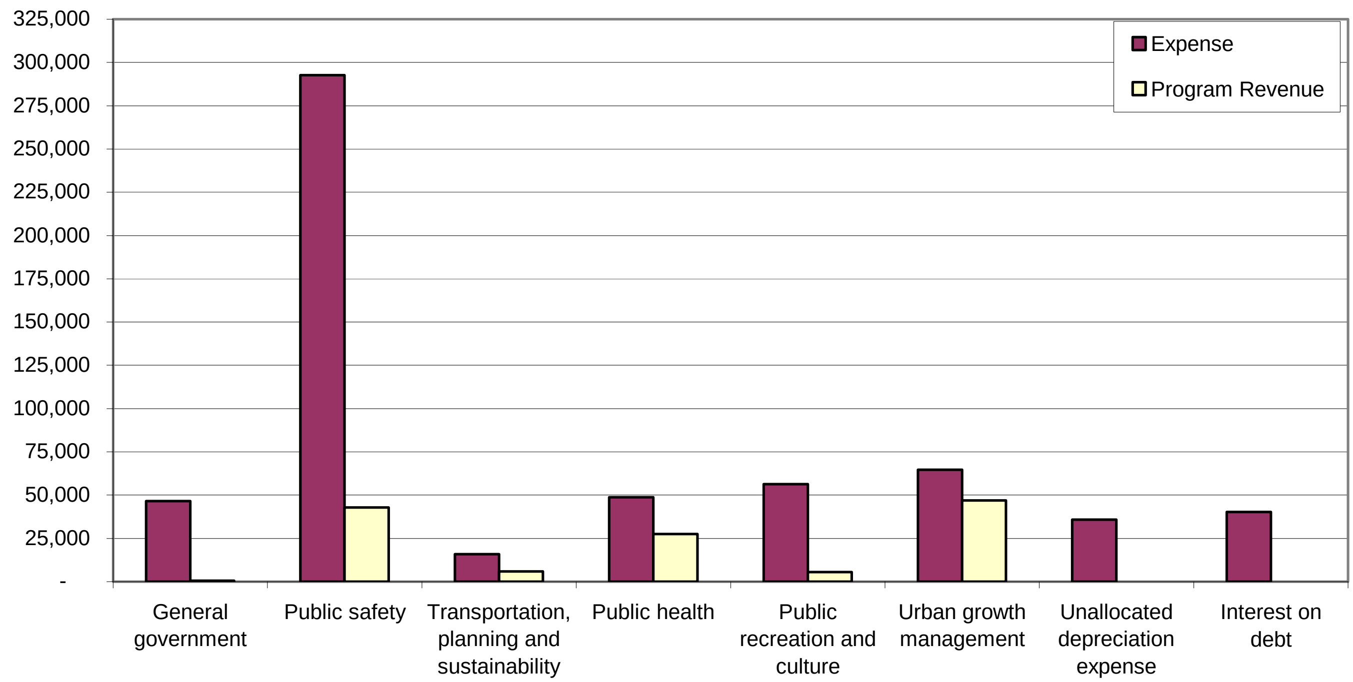
c -- Program Revenues and Expenses -- Governmental Activities

Governmental activities increased the City's net assets by $90.4 million in fiscal year 2004, a 6.7% increase of governmental net assets from the previous year. Key factors of this increase are as follows:

- The City's property tax revenue increased by $7.4 million from the previous year, as a result of an increase in the City's tax rate from 45.97 cents to 49.28 cents per $100 valuation. The total assessed valuation of real and personal property in the City had a negative growth rate of 3.5%.
- Sales tax revenue increased $7.3 million from the previous year, an increase of 6.6%.
- Grants and contributions not restricted to specific programs decreased by $12 million, primarily as a result of lower intergovernmental revenues. Grants and contributions restricted to specific programs decreased $4.5 million.
- Governmental expenses decreased $25.6 million, largely due to the transfer of the certain indigent health care costs from the Public Health program in governmental activities to the Primary Care Fund, which is a business-type activity. However, the reduction in expenses was offset by an increase of transfers to other funds in order to provide the funding source for these services.

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

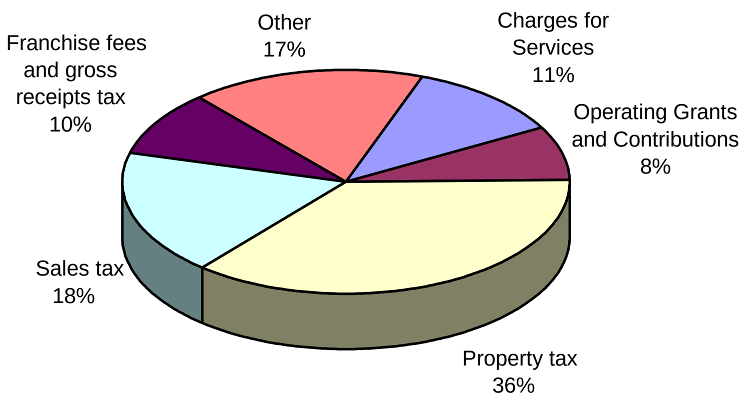
Government-wide Program Expenses and Revenues – Governmental Activities
(in thousands)



FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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

Government-wide Revenues by Source -- Governmental Activities



d -- Program Revenues and Expenses -- Business-type activities

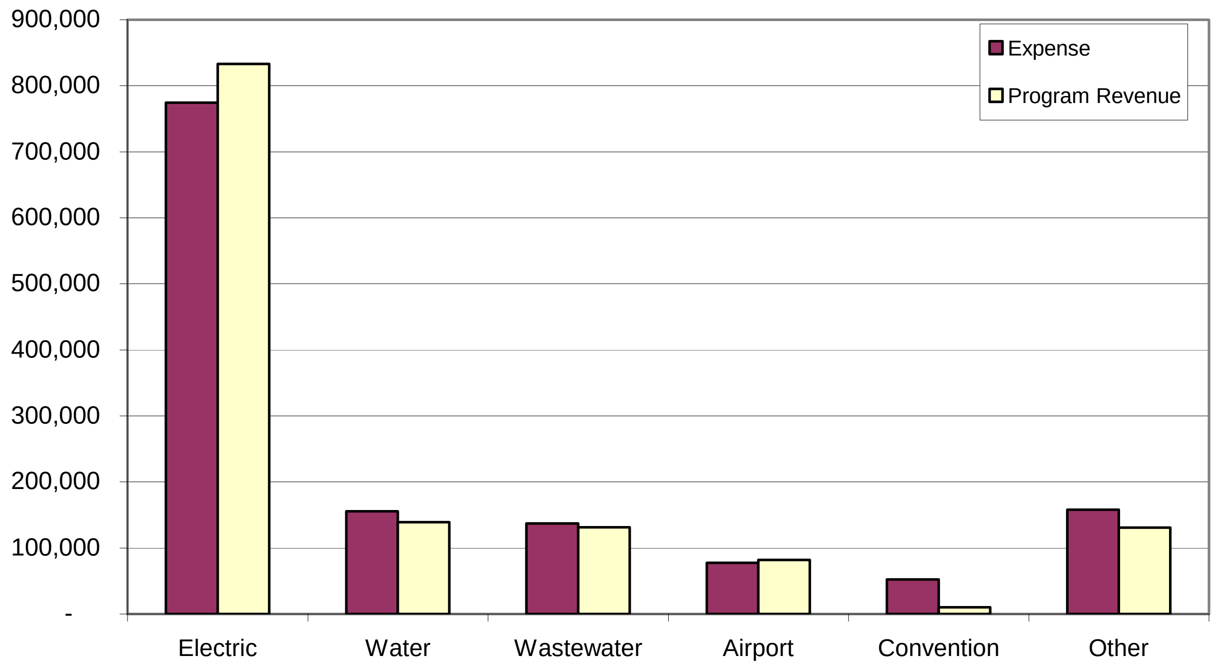
Business-type activities decreased the City's net assets by $53.7 million, accounting for a 1.5% decrease in the City's total net assets and a 2.3% decrease in business-type net assets. Key factors include:

- Electric net assets decreased $6 million. The decrease is due primarily to the recognition of $66 million previously reported as deferred depreciation. The expense recognition was required as a result of a bond defeasance and the resulting principal payment associated with the defeasance. Revenue decreased approximately 10% from the previous year due to mild weather conditions and lower fuel cost; expenses decreased by 7% from the previous year due to lower fuel costs.
- Water and Wastewater net assets decreased $43 million. The decrease is due primarily to the recognition of $38 million previously reported as deferred depreciation. The expense recognition was required as a result of a bond defeasance and the resulting principal payment associated with the defeasance. Water revenue decreased by $11.2 million from the previous year due to wetter than normal weather and reduced industrial demand.
- Airport net assets increased $6 million. Revenues increased due to an increase in passenger traffic, which was 8% higher than the previous calendar year. Expenses decreased as a result of cost containment.
- Convention net assets decreased $19 million. Revenues were 31% less than the previous year due to reduced business activity for convention space and event cancellations. Expenses increased $12 million from the previous year due to the recognition of economic development costs.
- Other business-type net assets increased by $8 million, primarily as a result of increased revenues in the Drainage Fund.

As shown in the following chart, the Electric utility, with expenses of $775 million, is the City's largest business-type activity, followed by Water ($155 million), Wastewater ($137 million), Airport ($78 million) and Convention ($52 million). For fiscal year 2004, operating revenues exceeded operating expenses for all business-type activities, except Water, Wastewater, Convention and other business-type activities. Within other business-type activities, only Hospital and Primary Care operating expenses exceeded operating revenues.

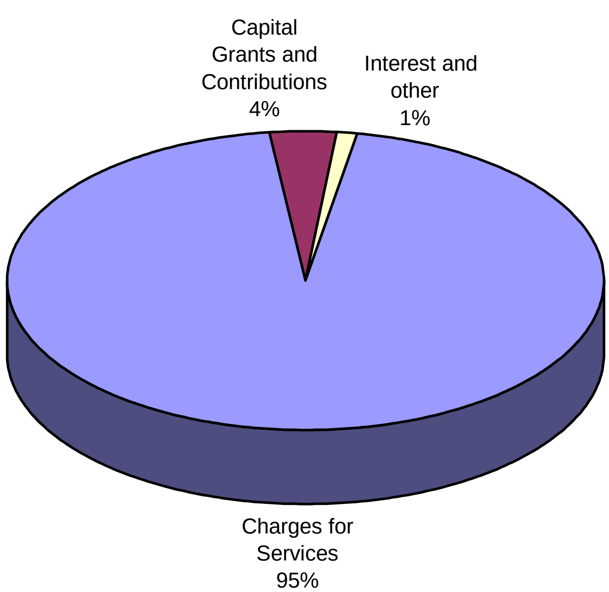
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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



For all business-type activities, charges for services provide the largest percentage of revenues (95%), followed by capital grants and contributions (4%) 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 project funds and permanent funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows and available resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available at the end of the fiscal year.

At the end of the year, the City of Austin's governmental funds reported combined ending fund balances of $309 million, a decrease of $36 million from the previous year. Approximately $206 million represents unreserved ending balance, which is available for future use. The remainder of fund balance is reserved and only available for commitments for the purchase of goods and services, receivables, property held for resale and certain debt service amounts. Reserved fund balance decreased $24.3 million in comparison to the prior year, primarily due to a decrease in the reservation for encumbrances of $26.7 million.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was $100.8 million, while total fund balance was $106 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 25% of total General Fund expenditures of $405 million, and total fund balance represents 26% of expenditures. The unreserved and undesignated fund balance of the General Fund is $48 million, which may be designated by City Council for specified uses for the future.

The General Fund fund balance increased by $13 million during the fiscal year; undesignated fund balance increased by $12.7 million. Significant differences from the previous year include:

- $17 million increase in revenues, primarily from property taxes, sales tax and rental income.
- Decrease of $28 million in expenditures, due primarily to the transfer of certain indigent health care costs to the Primary Care Fund, a nonmajor enterprise fund.
- $28 million increase in transfers out, to fund the indigent health care costs mentioned above.

b -- Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Overall, net assets of the City's enterprise funds, including consolidation of the internal service funds activities, decreased by $53.7 million.

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

OTHER INFORMATION

a -- General Fund budgetary highlights

The original budget of the General Fund was amended twice during fiscal year 2004 by $1.3 million for increased public safety costs offset by a decrease to transfers out to other funds and a decrease in expenditures for Municipal Court.

During the year, revenues were $12.6 million more than budgeted. An increase in sales tax collections and rental income was the primary cause of the difference.

Expenditures were $8.7 million less than budgeted. Public safety accounted for approximately $6.9 million of the difference, with Police consisting of $5 million of this amount. Transfers out were approximately $1.8 million less than budgeted. The budget was not formally amended to reflect any cost containment actions. The total fund balance at year-end amounted to $52.5 million, which was $27.3 million higher than budgeted.

b -- Capital Assets

The City's capital assets for governmental and business-type activities as of September 30, 2004, total $7.2 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, equipment, vehicles, infrastructure, assets not classified, construction work in progress, nuclear fuel and plant held for future use. The total increase in the City's capital assets for the current fiscal year was $372 million (5 percent), with an increase of almost 9 percent for governmental activities and an increase of 4 percent for business-type activities. Additional information on capital assets can be found in Note 7. Capital asset balances are as follows:

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

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land and improvements	$ 233	195	280	270	513	465
Other assets not depreciated	18	18	1	1	19	19
Building and improvements	260	226	1,402	1,355	1,662	1,581
Equipment	33	26	2,546	2,270	2,579	2,296
Vehicles	32	36	37	36	69	72
Infrastructure	1,009	919	--	--	1,009	919
Completed assets not classified	120	95	180	320	300	415
Construction work in progress	327	354	680	661	1,007	1,015
Nuclear fuel, net of amortization	--	--	18	22	18	22
Plant held for future use	--	--	31	31	31	31
Total net assets	$ 2,032	1,869	5,175	4,966	7,207	6,835

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

- Governmental capital assets increased $163 million. Included in this increase were $90 million in infrastructure additions, $27 million in Parkland purchases and improvements, $6 million for the St. John's Joint Use Facility and $6 million for the City's investment in the Combined Emergency Center.
- Business-type activities purchased or completed construction on capital assets of $357 million. The Electric Fund added $291 million in plant and equipment expansions or improvements to existing facilities, including the Sandhill combined cycle plant competed for $169 million. The Water and Wastewater Fund increased capital assets by $46 million, including approximately $28 million of costs associated with the Austin Clean Water Program.

OTHER INFORMATION, continued

c -- Debt Administration
At the end of the current fiscal year, the City reported $4.3 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	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**
General obligation bonds and other tax supported debt, net	$ 863	830	104	79	967	909
Commercial paper notes	--	--	316	128	316	128
Revenue notes	--	--	28	28	28	28
Revenue bonds, net	--	--	2,983	3,218	2,983	3,218
Capital lease obligations	1	1	13	15	14	16
Total	$ 864	831	3,444	3,468	4,308	4,299

During fiscal year 2004, the City's total outstanding debt increased by $9 million. The City issued new debt and refinanced portions of existing debt to take advantage of lower borrowing costs. Debt issues include the following:

- Bond debt for governmental activities increased $33 million, and will be used primarily for street improvements, right of way acquisition and utility relocation, parks and recreation facilities, emergency centers and a court settlement agreement.
- Outstanding debt for business-type functions decreased $24 million due to the payment of existing debt. In 2004, new debt was issued primarily for the Convention Center garage; closed landfill remediation; communications technology upgrades; and capital equipment and vehicles. The City issued Water and Wastewater separate lien refunding bonds to refund commercial paper; Airport prior lien revenue refunding bonds were issued to refund revenue bonds; and Convention Center hotel occupancy tax revenue refunding bonds were issued to refund revenue bonds. In addition Electric, Water and Wastewater reduced both utilities' long-term debt through a defeasance of combined utility system revenue bonds.

The general obligation bond ratings remained unchanged while the revenue bond ratings were upgraded during the year. Ratings at September 30, 2004 of the City's obligations for various debt instruments are as follows:

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

(1) No underlying rating

OTHER INFORMATION, continued

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

The local economy appears to have turned the corner, with job growth and local sales tax revenues increasing after a long decline. The forecast for the upcoming year indicates the City is poised to continue its trend of economic improvement, as consumer spending, tourism and job growth are predicted to show continuing increases over the next several years. Nationwide, the U.S. economy continues to grow with a steady increase in the Gross Domestic Product occurring for each quarter during 2004. Predictions indicate that the U.S. economy will continue to improve.

Due to the economic downturn in 2002 and 2003, the City has emerged as a smaller organization than the previous year. New service models were developed during the budget reduction years to maintain current service levels with reduced resources. Examples include the One Stop Shop and 311 Call Center. Structural soundness was achieved in the General Fund in fiscal year 2004, due to revenues exceeding expenditures; i.e., more resources came in than were spent. This was due to a continued policy of cost containment, better than expected revenue and City management's continuing initiative of managing current and future cost drivers.

For the upcoming 2005 budget, the City will continue to leverage and develop efficiencies in the manner it delivers services to citizens. It will be a continual challenge to maintain the level of service citizens are accustomed to receiving, in addition to managing the demand and expectations of service enhancements as economic conditions begin to improve. Although indications are favorable that the Austin area economy will continue to improve, several key factors could have a significant impact to the economic climate. A downturn in the U.S. economy, including higher-than anticipated inflation or fast-rising oil and fuel prices, could have a significant negative impact to the local economy. The City will continue to monitor the State legislative budget process to assess the impact of any enacted legislative laws that could adversely affect the City. City management will continue to view the economic recovery in a conservative manner and will be prepared to take any corrective actions to help mitigate unfavorable economic events.

The assessed valuation within the City increased by 2% for fiscal year 2005. The property tax rate for fiscal year 2005 is 44.3 cents per $100 valuation, which is the effective tax rate of 50.65 cents reduced by 6.35 cents for the services transferred from the City to the Travis County Hospital District. The tax rate consists of 27.47 cents for the General Fund, 16.83 cents for debt service. Each 1 cent of the property tax rate is equivalent to $4,994,185 of tax levy, as compared to $4,896,428 for the previous year. Rate increases for the Water and Wastewater Fund are: 9.2% for Water, 14.7% for Wastewater, for a combined increase of 11.8%.

e -- Requests for Information

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

(In thousands)

	Governmental Activities	Business-type Activities	2004 Total (†)
ASSETS			
Current assets:			
Cash	$ 111	55	166
Pooled investments and cash	373,013	88,354	461,367
Pooled investments and cash - designated	--	27,591	27,591
Pooled investments and cash - restricted	--	275,255	275,255
Total pooled investments and cash	373,013	391,200	764,213
Investments, at fair value - designated	13,477	105,135	118,612
Investments, at fair value - restricted	--	158,725	158,725
Cash held by trustee	3,781	--	3,781
Cash held by trustee - restricted	--	8,259	8,259
Working capital advances	--	3,456	3,456
Property taxes receivable	11,331	--	11,331
Less allowance for uncollectible taxes	(1,482)	--	(1,482)
Net property taxes receivable	9,849	--	9,849
Accounts and other taxes receivable	158,171	183,979	342,150
Less allowance for doubtful accounts	(84,063)	(8,264)	(92,327)
Net accounts receivable	74,108	175,715	249,823
Receivables from other governments	10,274	1,349	11,623
Receivables from other governments - restricted	--	944	944
Notes receivable, net of allowance	9,890	--	9,890
Internal balances	(3,458)	3,458	--
Internal balances - restricted	(2,907)	2,907	--
Inventories, at cost	2,358	55,441	57,799
Real property held for resale	6,598	--	6,598
Prepaid items	628	3,119	3,747
Other assets	1,271	24,158	25,429
Other receivables - restricted	--	169	169
Total current assets	498,993	934,090	1,433,083
Noncurrent assets:			
Investments, at fair value	--	65,000	65,000
Investments held by trustee - restricted	--	99,372	99,372
Interest receivable - restricted	--	911	911
Capital assets			
Land and other nondepreciable assets	250,649	281,736	532,385
Property, plant and equipment in service	2,061,643	6,470,604	8,532,247
Less accumulated depreciation	(607,422)	(2,305,707)	(2,913,129)
Net property, plant and equipment in service	1,454,221	4,164,897	5,619,118
Construction in progress	327,419	679,559	1,006,978
Nuclear fuel, net of amortization	--	17,933	17,933
Plant held for future use	--	30,745	30,745
Total capital assets	2,032,289	5,174,870	7,207,159
Intangible assets, net of amortization	--	87,602	87,602
Other long-term assets	--	1,354	1,354
Deferred costs and expenses, net of amortization	3,233	369,930	373,163
Total noncurrent assets	2,035,522	5,799,039	7,834,561
Total assets	$ 2,534,515	6,733,129	9,267,644

(†) 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	2004 Total (†)
LIABILITIES			
Current liabilities:			
Accounts payable	$ 22,855	59,452	82,307
Accounts and retainage payable from restricted assets	--	58,732	58,732
Accrued payroll	14,611	7,157	21,768
Accrued compensated absences	30,719	15,422	46,141
Due to other governments	7,700	3,000	10,700
Claims payable	18,595	--	18,595
Accrued interest payable from restricted assets	--	58,125	58,125
Interest payable on other debt	3,615	1,139	4,754
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	52,666	3,936	56,602
General obligation bonds payable and other tax supported debt payable from restricted assets, net of discount and inclusive of premium	--	5,751	5,751
Revenue bonds payable	--	2,035	2,035
Revenue bonds payable payable from restricted assets	--	141,915	141,915
Capital lease obligations payable	475	3,422	3,897
Customer and escrow deposits payable from restricted assets	--	13,030	13,030
Nuclear fuel expense payable from restricted assets	--	33,403	33,403
Deferred credits and other liabilities	56,594	10,274	66,868
Total current liabilities	207,830	416,793	624,623
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	39,737	4,688	44,425
Claims payable	8,845	--	8,845
Capital appreciation bond interest payable	--	166,868	166,868
Commercial paper notes payable, net of discount	--	315,616	315,616
Revenue notes payable	--	28,000	28,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	810,858	94,113	904,971
Revenue bonds payable, net of discount and inclusive of premium	--	2,839,548	2,839,548
Pension obligation payable	3,102	2,804	5,906
Capital lease obligations payable	338	9,331	9,669
Accrued landfill closure and postclosure costs	--	7,612	7,612
Decommissioning expense payable from restricted assets	--	100,019	100,019
Deferred credits and other liabilities	25,293	498,986	524,279
Other liabilities payable from restricted assets	8	5,007	5,015
Total noncurrent liabilities	888,181	4,072,592	4,960,773
Total liabilities	1,096,011	4,489,385	5,585,396
NET ASSETS			
Invested in capital assets, net of related debt	1,333,779	1,569,489	2,903,268
Restricted for:			
Debt service	12,351	108,112	120,463
Capital projects	39,720	66,687	106,407
Renewal and replacement	--	11,415	11,415
Passenger facility charges	--	8,537	8,537
Convention Center operating reserve	--	2,423	2,423
Perpetual Care:			
Expendable	370	--	370
Nonexpendable	1,040	--	1,040
Unrestricted	51,244	477,081	528,325
Total net assets	$ 1,438,504	2,243,744	3,682,248

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

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

(In thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**2004 Total**
Governmental activities							
General government	$ 46,607	210	376	--	(46,021)	--	(46,021)
Public safety	292,678	37,071	5,776	--	(249,831)	--	(249,831)
Transportation, planning and sustainability	15,879	5,027	362	439	(10,051)	--	(10,051)
Public health	48,733	7,617	17,720	2,107	(21,289)	--	(21,289)
Public recreation and culture	56,408	2,716	2,904	--	(50,788)	--	(50,788)
Urban growth management	64,631	22,020	24,930	--	(17,681)	--	(17,681)
Unallocated depreciation expense	35,833	--	--	--	(35,833)	--	(35,833)
Interest on debt	40,199	--	--	--	(40,199)	--	(40,199)
Total governmental activities	600,968	74,661	52,068	2,546	(471,693)	--	(471,693)
Business-type activities							
Electric	774,702	829,018	--	4,284	--	58,600	58,600
Water	155,472	119,254	--	19,902	--	(16,316)	(16,316)
Wastewater	137,227	114,710	--	16,593	--	(5,924)	(5,924)
Airport	77,541	75,916	--	6,117	--	4,492	4,492
Convention	52,336	10,404	--	--	--	(41,932)	(41,932)
Other	157,842	130,263	--	674	--	(26,905)	(26,905)
Total business-type activities	1,355,120	1,279,565	--	47,570	--	(27,985)	(27,985)
Total	$ 1,956,088	1,354,226	52,068	50,116	(471,693)	(27,985)	(499,678)

	Governmental Activities	Business-type Activities	2004 Total
General revenues:			
Property tax	240,536	--	240,536
Sales tax	117,725	--	117,725
Franchise fees and gross receipts tax	63,509	--	63,509
Grants and contributions not restricted to specific programs	81,937	--	81,937
Interest and other	26,799	16,582	43,381
Special items - hospital district reserve payment	(7,700)	(3,000)	(10,700)
Transfers	39,264	(39,264)	--
Total general revenues and transfers	562,070	(25,682)	536,388
Change in net assets	90,377	(53,667)	36,710
Beginning net assets	1,348,127	2,297,411	3,645,538
Ending net assets	$ 1,438,504	2,243,744	3,682,248

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

(In thousands)

	2004		
	General Fund	**Nonmajor Governmental Funds**	**Total Governmental Funds**
ASSETS			
Cash	$ 89	5	94
Pooled investments and cash	97,002	187,228	284,230
Investments, at fair value	--	13,477	13,477
Cash held by trustee	--	3,064	3,064
Property taxes receivable	6,936	4,395	11,331
Less allowance for uncollectible taxes	(909)	(573)	(1,482)
Net property taxes receivable	6,027	3,822	9,849
Accounts and other taxes receivable	133,678	22,354	156,032
Less allowance for doubtful accounts	(94,463)	(378)	(94,841)
Net accounts receivable	39,215	21,976	61,191
Receivables from other governments	--	10,274	10,274
Notes receivable, net of allowance	--	9,890	9,890
Due from other funds	--	28,828	28,828
Advances to other funds	--	6,159	6,159
Inventories, at cost	601	--	601
Real property held for resale	--	6,598	6,598
Prepaid items	275	--	275
Other assets	--	1,271	1,271
Total assets	143,209	292,592	435,801
LIABILITIES AND FUND BALANCES			
Accounts payable	3,606	13,679	17,285
Accrued payroll	11,818	61	11,879
Accrued compensated absences	479	4	483
Due to other funds	626	30,005	30,631
Due to other governments	7,700	--	7,700
Deferred revenue	5,762	6,730	12,492
Advances from other funds	1,851	346	2,197
Deposits and other liabilities	5,080	38,863	43,943
Total liabilities	36,922	89,688	126,610
Fund balances			
Reserved:			
Encumbrances	4,658	61,517	66,175
Inventories and prepaid items	876	--	876
Notes receivable	--	9,890	9,890
Advances receivable	--	6,159	6,159
Real property held for resale	--	6,598	6,598
Debt service	--	12,168	12,168
Permanent funds	--	1,040	1,040
Unreserved, designated:			
Emergencies	15,000	--	15,000
Contingencies	4,358	--	4,358
Future use	509	--	509
Budget stabilization	33,000	--	33,000
Special revenue	--	26,010	26,010
Unreserved, undesignated:			
General Fund	47,886	--	47,886
Capital projects	--	79,152	79,152
Permanent funds	--	370	370
Total fund balances	106,287	202,904	309,191
Total liabilities and fund balances	$ 143,209	292,592	435,801

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

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2004
(In thousands)

Total fund balances - Governmental funds	$ 309,191
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.	1,991,765
Other long-term assets are not available as current-period resources and are not reported in the funds.	15,026
Long-term liabilities are not payable in the current period and are not reported in the funds.	(930,484)
Internal service funds are used by management to charge the costs of capital project management, employee benefits, fleet maintenance, information systems, liability reserve, support services, wireless communication, and workers' compensation to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	53,006
Total net assets - Governmental activities	$ 1,438,504

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

Governmental Funds — **City of Austin, Texas**
Statement of Revenues, Expenditures and Changes in Fund Balances — **Exhibit B-2**
For the year ended September 30, 2004
(In thousands)

	2004		
	General Fund	**Nonmajor Governmental Funds**	**Total Governmental Funds**
REVENUES			
Property taxes	$ 160,049	83,321	243,370
Sales taxes	117,725	--	117,725
Franchise fees and other taxes	32,964	30,545	63,509
Fines, forfeitures and penalties	16,976	4,798	21,774
Licenses, permits and inspections	15,317	--	15,317
Charges for services/goods	15,565	26,714	42,279
Intergovernmental	--	73,428	73,428
Property owners' participation and contributions	--	3,798	3,798
Interest and other	19,168	7,376	26,544
Total revenues	377,764	229,980	607,744
EXPENDITURES			
Current:			
General government	39,605	1,806	41,411
Public safety	273,259	14,893	288,152
Transportation, planning and sustainability	9,690	3,518	13,208
Public health	25,890	23,786	49,676
Public recreation and culture	45,235	5,332	50,567
Urban growth management	11,066	52,515	63,581
Debt service:			
Principal	--	48,862	48,862
Interest	--	40,109	40,109
Fees and commissions	--	14	14
Capital outlay	--	151,768	151,768
Total expenditures	404,745	342,603	747,348
Excess (deficiency) of revenues over expenditures	(26,981)	(112,623)	(139,604)
OTHER FINANCING SOURCES (USES)			
Issuance of tax supported debt	--	70,040	70,040
Bond premiums	--	28	28
Capital leases	634	12	646
Transfers in	95,894	32,980	128,874
Transfers out	(48,766)	(39,782)	(88,548)
Total other financing sources (uses)	47,762	63,278	111,040
Net change in fund balances	20,781	(49,345)	(28,564)
Special items - hospital district reserve payment	(7,700)	--	(7,700)
Net change in fund balances	13,081	(49,345)	(36,264)
Fund balances at beginning of year	93,206	252,249	345,455
Fund balances at end of year	$ 106,287	202,904	309,191

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, 2004
(In thousands)

Net change in fund balances - Governmental funds	$	(36,264)
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.		94,356
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		53,488
Revenues in the governmental funds are recognized when measurable and available, but are deferred in the statement of activities until earned, regardless of when collected.		(12,728)
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.		(21,202)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.		1,377
The net revenue of certain activities of internal service funds is reported with governmental activities.		11,350
Change in net assets - Governmental activities	$	90,377

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

Proprietary Funds
Statement of Net Assets
September 30, 2004
(In thousands)

	Electric	Water and Wastewater	Airport
ASSETS			
Current assets:			
Cash	$ 18	11	6
Pooled investments and cash	43,224	8,341	--
Pooled investments and cash - designated	12,350	--	--
Pooled investments and cash - restricted	58,227	42,672	88,286
Total pooled investments and cash	113,801	51,013	88,286
Investments, at fair value - designated	105,135	--	--
Investments, at fair value - restricted	84,855	40,830	27,301
Cash held by trustee	--	--	--
Cash held by trustee - restricted	2,677	5,582	--
Working capital advances	3,332	--	--
Accounts receivable	125,131	38,687	4,759
Less allowance for doubtful accounts	(2,953)	(852)	(150)
Net accounts receivable	122,178	37,835	4,609
Receivables from other governments	--	--	--
Receivables from other governments - restricted	--	--	944
Due from other funds	21	--	--
Due from other funds - restricted	--	33	617
Inventories, at cost	53,858	938	--
Prepaid expenses	2,759	139	73
Other assets	24,158	--	--
Other receivables - restricted	66	99	--
Total current assets	512,858	136,480	121,836
Noncurrent assets:			
Advances to other funds	2,998	--	--
Advances to other funds - restricted	--	161	2,081
Investments, at fair value	65,000	--	--
Investments held by trustee - restricted	99,372	--	--
Interest receivable - restricted	911	--	--
Capital assets			
Land and other nondepreciable assets	37,612	136,737	59,445
Property, plant and equipment in service	3,240,039	2,167,092	622,064
Less accumulated depreciation	(1,374,273)	(707,255)	(102,067)
Net property, plant and equipment in service	1,865,766	1,459,837	519,997
Construction in progress	221,579	371,173	23,476
Nuclear fuel, net of amortization	17,933	--	--
Plant held for future use	30,745	--	--
Total capital assets	2,173,635	1,967,747	602,918
Intangible assets, net of amortization	--	87,602	--
Other long-term assets	1,352	2	--
Deferred costs and expenses, net of amortization	187,181	176,934	2,425
Total noncurrent assets	2,530,449	2,232,446	607,424
Total assets	$ 3,043,307	2,368,926	729,260

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

	Nonmajor Enterprise Funds	2004 Total	Governmental Activities- Internal Service Funds
ASSETS			
Current assets:			
Cash	20	55	17
Pooled investments and cash	36,789	88,354	88,783
Pooled investments and cash - designated	15,241	27,591	--
Pooled investments and cash - restricted	86,070	275,255	--
Total pooled investments and cash	138,100	391,200	88,783
Investments, at fair value - designated	--	105,135	--
Investments, at fair value - restricted	5,739	158,725	--
Cash held by trustee	--	--	717
Cash held by trustee - restricted	--	8,259	--
Working capital advances	124	3,456	--
Accounts receivable	15,402	183,979	1,339
Less allowance for doubtful accounts	(4,309)	(8,264)	(222)
Net accounts receivable	11,093	175,715	1,117
Receivables from other governments	1,349	1,349	--
Receivables from other governments - restricted	--	944	--
Due from other funds	1,164	1,185	410
Due from other funds - restricted	--	650	--
Inventories, at cost	645	55,441	1,757
Prepaid expenses	148	3,119	353
Other assets	--	24,158	--
Other receivables - restricted	4	169	--
Total current assets	158,386	929,560	93,154
Noncurrent assets:			
Advances to other funds	101	3,099	--
Advances to other funds - restricted	15	2,257	--
Investments, at fair value	--	65,000	--
Investments held by trustee - restricted	--	99,372	--
Interest receivable - restricted	--	911	--
Capital assets			
Land and other nondepreciable assets	47,942	281,736	1,737
Property, plant and equipment in service	441,409	6,470,604	55,980
Less accumulated depreciation	(122,112)	(2,305,707)	(22,688)
Net property, plant and equipment in service	319,297	4,164,897	33,292
Construction in progress	63,331	679,559	5,495
Nuclear fuel, net of amortization	--	17,933	--
Plant held for future use	--	30,745	--
Total capital assets	430,570	5,174,870	40,524
Intangible assets, net of amortization	--	87,602	--
Other long-term assets	--	1,354	--
Deferred costs and expenses, net of amortization	3,390	369,930	7
Total noncurrent assets	434,076	5,804,395	40,531
Total assets	592,462	6,733,955	133,685

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

Proprietary Funds
Statement of Net Assets
September 30, 2004
(In thousands)

	Electric	Water and Wastewater	Airport
LIABILITIES			
Current liabilities:			
Accounts payable	$ 49,055	1,482	1,271
Accounts and retainage payable from restricted assets	18,498	26,929	1,384
Accrued payroll	2,959	1,520	570
Accrued compensated absences	6,799	3,435	1,116
Claims payable	--	--	--
Due to other funds	--	--	--
Due to other governments	--	--	--
Accrued interest payable from restricted assets	26,327	18,993	8,063
Interest payable on other debt	107	835	4
General obligation bonds payable and other tax supported debt	--	--	109
General obligation bonds payable and other tax supported debt payable from restricted assets	490	4,347	--
Revenue bonds payable	--	2,035	--
Revenue bonds payable from restricted assets	89,949	40,796	7,650
Capital lease obligations payable	1,983	1,109	173
Customer and escrow deposits payable from restricted assets	7,765	2,042	614
Nuclear fuel expense payable from restricted assets	33,403	--	--
Deferred credits and other liabilities	5,042	3,515	1,269
Total current liabilities	242,377	107,038	22,223
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	2,623	1,280	262
Claims payable	--	--	--
Advances from other funds	--	4,234	--
Capital appreciation bond interest payable	82,337	84,531	--
Commercial paper notes payable, net of discount	94,984	220,632	--
Revenue notes payable	--	--	28,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	2,392	19,853	471
Revenue bonds payable, net of discount and inclusive of premium	1,168,752	1,106,769	343,996
Pension obligation payable	1,260	648	229
Capital lease obligations payable	5,203	3,714	321
Accrued landfill closure and postclosure costs	--	--	--
Decommissioning expense payable from restricted assets	100,019	--	--
Deferred credits and other liabilities	71,520	424,999	2,467
Other liabilities payable from restricted assets	--	3,035	1,972
Total noncurrent liabilities	1,529,090	1,869,695	377,718
Total liabilities	1,771,467	1,976,733	399,941
NET ASSETS			
Invested in capital assets, net of related debt	913,447	263,729	224,655
Restricted for:			
Debt service	58,528	21,836	22,009
Capital projects	--	--	56,700
Renewal and replacement	--	--	10,000
Passenger facility charges	--	--	8,537
Convention Center operating reserve	--	--	--
Unrestricted	299,865	106,628	7,418
Total net assets	$ 1,271,840	392,193	329,319
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	2,405	2,341	742
Total net assets - Business-type activities	$ 1,274,245	394,534	330,061

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

	Nonmajor Enterprise Funds	2004 Total	Governmental Activities- Internal Service Funds
LIABILITIES			
Current liabilities:			
Accounts payable	7,644	59,452	5,570
Accounts and retainage payable from restricted assets	11,921	58,732	--
Accrued payroll	2,108	7,157	2,732
Accrued compensated absences	4,072	15,422	5,290
Claims payable	--	--	18,595
Due to other funds	--	--	442
Due to other governments	3,000	3,000	--
Accrued interest payable from restricted assets	4,742	58,125	--
Interest payable on other debt	193	1,139	168
General obligation bonds payable and other tax supported debt	3,827	3,936	2,963
General obligation bonds payable and other tax supported debt payable from restricted assets	914	5,751	--
Revenue bonds payable	--	2,035	--
Revenue bonds payable from restricted assets	3,520	141,915	--
Capital lease obligations payable	157	3,422	161
Customer and escrow deposits payable from restricted assets	2,609	13,030	--
Nuclear fuel expense payable from restricted assets	--	33,403	--
Deferred credits and other liabilities	448	10,274	1,986
Total current liabilities	45,155	416,793	37,907
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	523	4,688	944
Claims payable	--	--	8,845
Advances from other funds	4,226	8,460	858
Capital appreciation bond interest payable	--	166,868	--
Commercial paper notes payable, net of discount	--	315,616	--
Revenue notes payable	--	28,000	--
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	71,397	94,113	24,409
Revenue bonds payable, net of discount and inclusive of premium	220,031	2,839,548	--
Pension obligation payable	667	2,804	--
Capital lease obligations payable	93	9,331	74
Accrued landfill closure and postclosure costs	7,612	7,612	--
Decommissioning expense payable from restricted assets	--	100,019	--
Deferred credits and other liabilities	--	498,986	--
Other liabilities payable from restricted assets	--	5,007	8
Total noncurrent liabilities	304,549	4,081,052	35,138
Total liabilities	349,704	4,497,845	73,045
NET ASSETS			
Invested in capital assets, net of related debt	167,658	1,569,489	18,966
Restricted for:			
Debt service	5,739	108,112	--
Capital projects	9,987	66,687	9,651
Renewal and replacement	1,415	11,415	--
Passenger facility charges	--	8,537	--
Convention Center operating reserve	2,423	2,423	--
Unrestricted	55,536	469,447	32,023
Total net assets	242,758	2,236,110	60,640
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	2,146	7,634	
Total net assets - Business-type activities	244,904	2,243,744	

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, 2004
(In thousands)

	Electric	Water and Wastewater	Airport
OPERATING REVENUES			
Utility services	$ 829,018	233,964	--
User fees and rentals	--	--	65,361
Billings to departments	--	--	--
Employee contributions	--	--	--
Operating revenues from other governments	--	--	--
Other operating revenues	--	--	--
Total operating revenues	829,018	233,964	65,361
OPERATING EXPENSES			
Operating expenses before depreciation	516,857	109,555	38,517
Depreciation and amortization	95,525	52,808	16,054
Total operating expenses	612,382	162,363	54,571
Operating income (loss)	216,636	71,601	10,790
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	12,523	1,006	1,916
Interest on revenue bonds and other debt	(102,274)	(79,296)	(22,497)
Interest capitalized during construction	--	--	953
Passenger facility charges	--	--	10,555
Amortization of bond issue cost	(711)	(534)	(131)
Cost (recovered) to be recovered in future years	(61,707)	(49,996)	--
Other nonoperating revenue (expense)	1,633	(1,682)	(1,577)
Total nonoperating revenues (expenses)	(150,536)	(130,502)	(10,781)
Income (loss) before contributions and transfers	66,100	(58,901)	9
Capital contributions	4,284	36,495	6,117
Transfers in	--	--	--
Transfers out	(76,674)	(22,068)	--
Change in net assets	(6,290)	(44,474)	6,126
Special items - hospital district reserve payment	--	--	--
Net change in net assets	(6,290)	(44,474)	6,126
Total net assets - beginning	1,278,130	436,667	323,193
Total net assets - ending	$ 1,271,840	392,193	329,319
Reconciliation to government-wide Statement of Activities			
Change in net assets	(6,290)	(44,474)	6,126
Adjustment to consolidate internal service activities	739	1,172	282
Change in net assets - Business-type activities	$ (5,551)	(43,302)	6,408

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

	Nonmajor Enterprise Funds	2004 Total	Governmental Activities-Internal Service Funds
OPERATING REVENUES			
Utility services	--	1,062,982	--
User fees and rentals	131,292	196,653	--
Billings to departments	--	--	196,432
Employee contributions	--	--	24,053
Operating revenues from other governments	4,209	4,209	2,090
Other operating revenues	5,166	5,166	8,525
Total operating revenues	140,667	1,269,010	231,100
OPERATING EXPENSES			
Operating expenses before depreciation	159,886	824,815	212,155
Depreciation and amortization	14,111	178,498	2,220
Total operating expenses	173,997	1,003,313	214,375
Operating income (loss)	(33,330)	265,697	16,725
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	1,137	16,582	134
Interest on revenue bonds and other debt	(15,637)	(219,704)	(651)
Interest capitalized during construction	2,701	3,654	--
Passenger facility charges	--	10,555	--
Amortization of bond issue cost	(184)	(1,560)	(4)
Cost (recovered) to be recovered in future years	--	(111,703)	--
Other nonoperating revenue (expense)	(24,407)	(26,033)	(2,171)
Total nonoperating revenues (expenses)	(36,390)	(328,209)	(2,692)
Income (loss) before contributions and transfers	(69,720)	(62,512)	14,033
Capital contributions	674	47,570	1,918
Transfers in	61,101	61,101	17
Transfers out	(1,623)	(100,365)	(1,079)
Change in net assets	(9,568)	(54,206)	14,889
Special items - hospital district reserve payment	(3,000)	(3,000)	--
Net change in net assets	(12,568)	(57,206)	14,889
Total net assets - beginning	255,326	2,293,316	45,751
Total net assets - ending	242,758	2,236,110	60,640
Reconciliation to government-wide Statement of Activities			
Change in net assets	(12,568)	(57,206)	
Adjustment to consolidate internal service activities	1,346	3,539	
Change in net assets - Business-type activities	(11,222)	(53,667)	

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

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2004
(In thousands)

	Electric	Water and Wastewater	Airport
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	$ 885,304	231,355	64,639
Cash payments to suppliers for goods and services	(400,113)	(54,867)	(20,073)
Cash payments to employees for services	(97,510)	(51,851)	(18,537)
Cash payments to claimants/beneficiaries	--	--	--
Cash received from other governments	--	--	--
Taxes collected and remitted to other governments	(17,728)	--	--
Net cash provided (used) by operating activities	369,953	124,637	26,029
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	--	--	--
Transfers out	(76,674)	(22,068)	--
Interest paid on revenue notes and other debt	(157)	(140)	--
Increase in deferred assets	867	--	--
Increase in due to other governments	--	--	--
Loans to other funds	(499)	(6)	(46)
Loans from other funds	--	941	617
Loan repayments to other funds	--	--	--
Loan repayments from other funds	--	27	83
Net cash provided (used) by noncapital financing activities	(76,463)	(21,246)	654
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	40,312	146,820	--
Proceeds from the sale of general obligation bonds and other tax supported debt	960	4,112	--
Proceeds from long-term loans	390	--	483
Principal paid on long-term debt	(96,695)	(36,088)	(7,327)
Proceeds from the sale of capital assets	244	--	--
Purchased interest received	2	7	315
Interest paid on revenue bonds and other debt	(82,355)	(67,777)	(22,060)
Passenger facility charges	--	--	10,555
Acquisition and construction of capital assets	(156,761)	(159,273)	(12,051)
Contributions from municipality	--	--	--
Contributions from State and Federal governments	--	--	7,033
Contributions in aid of construction	4,837	13,373	83
Bond issuance costs	--	(1,233)	(736)
Bond discounts	--	(465)	(280)
Bond premiums	--	--	4,550
Cash paid for bond defeasance	(87,928)	(51,693)	--
Bonds issued for advanced refundings of debt	--	132,475	54,250
Cash paid for bond refunding escrow	--	(130,778)	(57,783)
Cash paid for nuclear fuel inventory	(5,756)	--	--
Net cash provided (used) by capital and related financing activities	$ (382,750)	(150,520)	(22,968)

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

	Nonmajor Enterprise Funds	2004 Total	Governmental Activities-Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	130,348	1,311,646	241,374
Cash payments to suppliers for goods and services	(83,082)	(558,135)	(76,845)
Cash payments to employees for services	(70,477)	(238,375)	(77,981)
Cash payments to claimants/beneficiaries	--	--	(64,864)
Cash received from other governments	3,186	3,186	--
Taxes collected and remitted to other governments	--	(17,728)	--
Net cash provided (used) by operating activities	(20,025)	500,594	21,684
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	61,101	61,101	17
Transfers out	(1,623)	(100,365)	(1,079)
Interest paid on revenue notes and other debt	(6)	(303)	--
Increase in deferred assets	--	867	--
Increase in due to other governments	3,000	3,000	--
Loans to other funds	(833)	(1,384)	--
Loans from other funds	529	2,087	863
Loan repayments to other funds	(383)	(383)	(27)
Loan repayments from other funds	--	110	(394)
Net cash provided (used) by noncapital financing activities	61,785	(35,270)	(620)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	--	187,132	--
Proceeds from the sale of general obligation bonds and other tax supported debt	32,386	37,458	14,890
Proceeds from long-term loans	57	930	--
Principal paid on long-term debt	(8,911)	(149,021)	(2,774)
Proceeds from the sale of capital assets	--	244	--
Purchased interest received	350	674	--
Interest paid on revenue bonds and other debt	(14,895)	(187,087)	(640)
Passenger facility charges	--	10,555	--
Acquisition and construction of capital assets	(26,519)	(354,604)	(7,668)
Contributions from municipality	--	--	3,952
Contributions from State and Federal governments	--	7,033	--
Contributions in aid of construction	1,346	19,639	--
Bond issuance costs	(1,016)	(2,985)	--
Bond discounts	(284)	(1,029)	--
Bond premiums	5,120	9,670	--
Cash paid for bond defeasance	--	(139,621)	--
Bonds issued for advanced refundings of debt	52,715	239,440	--
Cash paid for bond refunding escrow	(62,403)	(250,964)	--
Cash paid for nuclear fuel inventory	--	(5,756)	--
Net cash provided (used) by capital and related financing activities	(22,054)	(578,292)	7,760

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

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2004
(In thousands)

	Electric	Water and Wastewater	Airport
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	$ (358,243)	(184,812)	(48,515)
Proceeds from sale and maturities of investment securities	449,040	230,524	48,319
Interest on investments	23,104	5,524	1,132
Net cash provided by investing activities	113,901	51,236	936
Net increase in cash and cash equivalents	24,641	4,107	4,651
Cash and cash equivalents, October 1	91,855	52,499	83,641
Cash and cash equivalents, September 30	116,496	56,606	88,292
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	216,636	71,601	10,790
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	95,525	50,308	16,054
Amortization	--	2,500	--
Change in assets and liabilities:			
Increase in working capital advances	(576)	--	--
(Increase) decrease in accounts receivable	(9,290)	(1,501)	(715)
Increase (decrease) in allowance for doubtful accounts	639	(214)	--
Decrease in receivables from other governments	--	--	--
(Increase) decrease in inventory	(8,469)	196	--
(Increase) decrease in prepaid expenses and other assets	45,568	(7)	(72)
Decrease in deferred costs and other expenses	9,985	2	--
(Increase) decrease in other long-term assets	559	--	--
Increase (decrease) in accounts payable	4,246	364	(1)
Increase (decrease) in accrued payroll and compensated absences	(202)	(141)	109
Decrease in claims payable	--	--	--
Increase in pension obligations payable	1,260	648	229
Increase (decrease) in deferred credits and other liabilities	13,868	815	(408)
Increase in customer deposits	204	66	43
Total adjustments	153,317	53,036	15,239
Net cash provided (used) by operating activities	$ 369,953	124,637	26,029

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

	Nonmajor Enterprise Funds	2004 Total	Governmental Activities-Internal Service Funds
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	(34,661)	(626,231)	--
Proceeds from sale and maturities of investment securities	43,230	771,113	--
Interest on investments	1,225	30,985	134
Net cash provided by investing activities	9,794	175,867	134
Net increase in cash and cash equivalents	29,500	62,899	28,958
Cash and cash equivalents, October 1	108,620	336,615	60,559
Cash and cash equivalents, September 30	138,120	399,514	89,517
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	(33,330)	265,697	16,725
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	14,111	175,998	2,220
Amortization	--	2,500	--
Change in assets and liabilities:			
Increase in working capital advances	--	(576)	--
(Increase) decrease in accounts receivable	(550)	(12,056)	9,305
Increase (decrease) in allowance for doubtful accounts	436	861	--
Decrease in receivables from other governments	(1,023)	(1,023)	--
(Increase) decrease in inventory	(98)	(8,371)	(28)
(Increase) decrease in prepaid expenses and other assets	(17)	45,472	(95)
Decrease in deferred costs and other expenses	3	9,990	1
(Increase) decrease in other long-term assets	--	559	(1)
Increase (decrease) in accounts payable	2,233	6,842	(989)
Increase (decrease) in accrued payroll and compensated absences	(54)	(288)	(94)
Decrease in claims payable	--	--	(6,465)
Increase in pension obligations payable	668	2,805	--
Increase (decrease) in deferred credits and other liabilities	(2,698)	11,577	1,105
Increase in customer deposits	294	607	--
Total adjustments	13,305	234,897	4,959
Net cash provided (used) by operating activities	(20,025)	500,594	21,684

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

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2004
(In thousands)

	Electric	Water and Wastewater	Airport
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Decrease in deferred assets/expenses	$ 73,728	23,017	--
Increase in capital appreciation bond interest payable	6,448	9,448	--
Capital assets contributed from (to) other funds	51	--	18
Increase in contributed facilities	--	25,524	--
Net decrease in the fair value of investments	12,564	4,002	--
Amortization of bond issue costs	(711)	(534)	(131)
Amortization of bond discounts and premiums	(1,998)	(856)	(211)
Amortization of deferred loss on refundings	25,736	3,989	346
Gain (loss) on disposal of assets	2,112	(1,684)	(1,559)
Deferred gain (loss) on bond refunding	12,541	(1,538)	(5,718)
Bond issuance costs, discounts, premiums and accrued interest written off due to refunding	867	2,154	225
Deferred costs (recovered) to be recovered	(61,707)	(49,996)	--
Loss on extinguishment of debt	(16,358)	(9,573)	--
Increase in deferred credits and other liabilities	4,740	19,399	--
Contributions	--	--	--

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

(Continued)

	Nonmajor Enterprise Funds	2004 Total	Governmental Activities- Internal Service Funds
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Decrease in deferred assets/expenses	14,978	111,723	--
Increase in capital appreciation bond interest payable	--	15,896	--
Capital assets contributed from (to) other funds	(629)	(560)	(2,033)
Increase in contributed facilities	--	25,524	--
Net decrease in the fair value of investments	--	16,566	--
Amortization of bond issue costs	(183)	(1,559)	(2)
Amortization of bond discounts and premiums	(99)	(3,164)	(2)
Amortization of deferred loss on refundings	538	30,609	6
Gain (loss) on disposal of assets	(24,449)	(25,580)	(2,459)
Deferred gain (loss) on bond refunding	(2,601)	2,684	--
Bond issue costs, discounts, premiums and accrued interest written off due to refunding	1,158	4,404	--
Deferred costs (recovered) to be recovered	--	(111,703)	--
Loss on extinguishment of debt	--	(25,931)	--
Increase in deferred credits and other liabilities	--	24,139	969
Contributions	3,100	3,100	--

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

Fiduciary Funds
Statement of Fiduciary Net Assets
September 30, 2004
(In thousands)

	Private-purpose Trust	Agency
ASSETS		
Pooled investments and cash	$ 904	3,192
Other assets	121	--
Total assets	1,025	3,192
LIABILITIES		
Accounts payable	1	35
Due to other governments	--	2,524
Deposits and other liabilities	314	633
Total liabilities	315	3,192
NET ASSETS		
Held in trust	710	
Total net assets	$ 710	

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

For the year ended September 30, 2004
(In thousands)

	Private-purpose Trust
ADDITIONS	
Contributions	$ 254
Interest and other	15
Total additions	269
DEDUCTIONS	
Deductions	310
Total deductions	310
Change in net assets	(41)
Total net assets - beginning	751
Total net assets - ending	$ 710

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 who may serve for 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 public safety; transportation, planning and sustainability; public health; public recreation and culture; urban growth management; and general government. In addition, the City owns and operates certain major enterprise activities, including an electric utility, water and wastewater utility, airport, convention and other enterprise activities. These activities are included in the accompanying financial statements.

The Charter of the City of Austin requires an annual audit by an independent certified public accountant. The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City has implemented GASB Statement No. 1 through Statement No. 41. GASB Statement No. 40 entitled *"Deposit and Investment Risk Disclosures"* was implemented in fiscal year 2004. The more significant accounting and reporting policies and practices used by the City are described below.

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

a -- Reporting Entity

As required by generally accepted accounting principles (GAAP), these financial statements present the City, the Primary Government, and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations and 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, nonmajor special revenue funds.

Related Organizations -- The following paragraph summarizes related organizations to which the City Council appoints board members but the City has no significant financial accountability. The City appoints certain members of the board of the Capital Metropolitan Transit Authority (Capital Metro), but the City's accountability for this organization does not extend beyond making the appointments. City Councilmembers appoint themselves as members of the board of the Austin-Bergstrom International Airport (ABIA) Development Corporation; their function on this board is ministerial rather than substantive. The City Council appoints the members of the board of Austin-Bergstrom Landhost Enterprises, Inc., and Austin Convention Enterprises, Inc.; the functions of these boards are ministerial rather than substantive. The Mayor, with consent of the City Council, appoints the Board of Commissioners for the Urban Renewal Agency, whose primary responsibility is to oversee the implementation and compliance of Urban Renewal Plans adopted by the City Council. The City's presiding officer of the municipality governing body appoints the persons to serve as commissioners of the Austin Housing Authority. 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 retirement plans (described in Note 8) and the City of Austin Deferred Compensation Plan for City employees are not included in the City's reporting entity because the City does not exercise substantial control over the entities.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

b -- Government-wide and Fund Financial Statements

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 of the non-fiduciary activities of the primary government and its component units. Internal service fund asset and liability balances that are not eliminated in the statement of net assets are reported in the governmental activities column on the government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers.

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

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

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

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

The government-wide financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting. Revenues are 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 revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e. both measurable and available. Revenues, other than grants, are considered to be available when they are collectible, within the current period or soon enough thereafter to pay liabilities of the current period (defined by the City as collected within 60 days of year end). Revenues billed under a contractual agreement with another governmental entity, including federal and state grants, are recognized when billed and when all eligibility requirements of the provider have been met and 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 to the extent they are normally expected to be liquidated with available financial resources. Debt service expenditures are recognized when payment is matured. 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, EMS charges, Municipal Court fines and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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, except those required to be accounted for in another fund. It includes the following activities: public safety; transportation, planning and sustainability; public health; public recreation and culture; urban growth management; and general government.

Proprietary and fiduciary fund financial statements are accounted for on 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.

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).

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

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

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

Capital Projects Funds: Account for financial resources for the acquisition or construction of major capital facilities (other than those reported within proprietary funds and private-purpose funds) and 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 and not principal may be used for purposes that support the City's programs. Permanent funds account for the public recreation and culture activity.

The City reports the following proprietary and fiduciary funds:

Enterprise Funds: Account for operations that are financed and operated in a manner similar to private business enterprises. Costs are financed or recovered primarily through user charges. The City has elected to follow GASB statements issued after November 30, 1989, rather than statements issued by the Financial Accounting Standards Board (FASB), in accordance with GASB Statement No. 20. The nonmajor enterprise funds account for the operations in a variety of areas: convention center, drainage, golf, hospital (both Brackenridge and Austin Women's Hospital), recreation activities, primary care clinics, solid waste and transportation.

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

d -- Budget

The City Manager submits a proposed budget to the City Council no later than thirty days prior to the beginning of the new fiscal year. The City Council holds public hearings, modifies the City Manager's recommendations, and adopts a final budget no later than the twenty-seventh day of September. The City Council passes an appropriation ordinance and a tax levying ordinance.

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

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

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

e -- Financial Statement Elements

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

Investments -- Certain investments are required to be reported at fair value, based on quoted market prices. Realized gains or losses resulting from the sale of investments are determined by the specific cost of the securities sold. The City carries all of its investments in U.S. government and agency debt securities and money market mutual funds at fair value as of September 30, 2004. Investments in local government investment pools are carried at amortized cost, which approximates fair value. The City has implemented GASB Statement No. 40 entitled "*Deposit and Investment Risk Disclosures*".

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Accounts Receivable -- Balances of accounts receivable, reported on the government-wide statement of net assets, are aggregations of different components such as charges for services, fines, and balances due from taxpayers or other governments. In order to assist the reader, the following information has been provided regarding significant components of receivable balances as of September 30, 2004 (in thousands):

	Charges for Services	Fines	Taxes	Other Governments	Other	Total
Governmental activities						
General Fund	$ 63,583	35,055	26,758	--	9,082	134,478
Nonmajor governmental funds	4,745	37	8,153	8,467	952	22,354
Internal service funds	1,339	--	--	--	--	1,339
Allowance for doubtful accounts	(61,421)	(22,642)	--	--	--	(84,063)
Total	$ 8,246	12,450	34,911	8,467	10,034	74,108

Municipal Court fines in the governmental activities, because of the nature of the fines, have a collection period greater than one year. Fines recognized that will not be collected during the subsequent year are estimated to be approximately $5.4 million.

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

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

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

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

Interfund Receivables, 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 expected to be liquidated after one year, they are classified as "advances to other funds" or "advances from other funds."

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

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

Inventories for all funds use 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."

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

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

	Electric	Water and Wastewater	Airport	Nonmajor Enterprise	Total Restricted Assets
Bond reserve	$ 2,001	--	--	--	2,001
Capital projects	16,275	43,470	72,245	80,614	212,604
Customer and escrow deposits	7,765	5,077	615	1,618	15,075
Debt service	84,855	40,830	15,108	5,754	146,547
Federal grants	--	--	3,642	4	3,646
Nuclear decommissioning	101,809	--	--	--	101,809
Nuclear fuel inventory replacement	33,403	--	--	--	33,403
Operating reserve account	--	--	6,901	2,423	9,324
Passenger facility charge account	--	--	10,718	--	10,718
Renewal and replacement account	--	--	10,000	1,415	11,415
	$ 246,108	89,377	119,229	91,828	546,542

Designated assets -- Designated assets are funds that have been appropriated by City Council action and are intended for specific purposes. They are not constrained by creditors, grantors, contributors, or laws or regulations of other governments nor are they constrained by law through constitutional provisions or enabling legislation.

Capital assets -- Capital assets, which include land and improvements, buildings and improvements, equipment, vehicles and infrastructure assets, are reported in the applicable governmental or business-type activity columns of the government-wide statement of net assets, and related depreciation is allocated to programs in the statement of activities. Capital assets are defined as assets with an initial individual cost of $1,000 or more and an estimated useful life of greater than one year. Assets purchased or constructed are capitalized at historical cost. Contributed or annexed capital assets are recorded at estimated fair market value at the time received, or at historical cost, if historical cost is available. 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, and improvements and betterments that extend the useful lives of capital assets are capitalized.

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

Interest is not capitalized on governmental capital assets. For enterprise funds, except for Electric and Water and Wastewater Utility funds, interest paid on long-term debt in the enterprise funds is capitalized 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 and Water and Wastewater Utility enterprise fund assets in accordance with FASB Statement No. 71.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

(1) Includes internal service funds

Depreciation of assets is classified by functional components. The City considers land, arts and treasures and library collections to be inexhaustible; and therefore, these assets are reported as nondepreciable. The true value of arts and treasures and library collections is expected to be maintained over time and, thus, is not depreciated. Unallocated depreciation reported in the government-wide statement of activities consists of depreciation of infrastructure assets ($35.8 million).

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

City policies provide for the following amounts to be paid at termination: accumulated vacation pay with a maximum of six weeks and accumulated sick leave with a maximum of ninety days. Sick leave accumulated in excess of ninety days or by employees hired on or after October 1, 1986 is not payable at termination and is not included in these financial statements.

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

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

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

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

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

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

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

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

Electric Fund	$	7,732
Water and Wastewater Fund		1,199
Airport		19
Nonmajor Enterprise Funds		1,361

Electric, water and wastewater revenue is recorded when earned. Customers' electric and water meters are read and bills are rendered on a cycle basis by billing district. Electric rate schedules include fuel cost adjustment clauses that permit recovery of fuel costs in the month incurred. The City reported fuel costs on the same basis as it recognized revenue in 2003 and prior years. Austin Energy recorded unbilled revenue as earned based upon taking each day's power generation and using the billing district read dates to estimate what percentage was billed as of September 30, 2004 and what percentage will be billed thereafter over the days since the last meter read, on a billing cycle basis. The amount of unbilled revenue recorded as of September 30, 2004 for Austin Energy was $38.2 million. Austin Water recorded unbilled revenue as earned based upon an extrapolation of customer usage from the prior year, over the days since the last meter read, on an aggregate basis. The amount of unbilled revenue recorded as of September 30, 2004 for Austin Water was $16.3 million.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Interfund Revenues, Expenses and Transfers -- Transactions between funds that would be treated as revenues, expenditures, or expenses if they involved organizations external to the governmental unit are accounted for as revenues, expenditures, or expenses in the funds involved, such as billing for utility services. Transactions between funds that constitute reimbursements for expenditures or expenses are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditure or expense in the fund that is reimbursed. Transfers between funds are reported in the operations of governmental and proprietary funds.

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

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

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

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

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

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

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

Special Items -- These are significant transactions or events within the control of the City that are either unusual in nature or infrequent in occurrence. On September 13, 2004, the City Council approved a transfer in the amount of $10.7 million to the Travis County Hospital District as a portion of an initial reserve established by the District. Although the cash was transferred on October 1, 2004, the special item and associated liability were recognized in fiscal year 2004. The total $10.7 million consists of $7.7 million from the General Fund and $3 million from Primary Care (which is reported as a nonmajor enterprise fund).

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, including medical malpractice; theft of, damage to, or destruction of assets; errors and omissions; and natural disasters. The City continues to be self-insured for liabilities for most health benefits, third-party and workers' compensation claims.

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

f -- Comparative Data

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

g -- Use of Estimates

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

2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Total fund balances of the City's governmental funds, $309 million, differ from the net assets of governmental activities, $1,439 million, reported in the statement of net assets. The differences result from the long-term economic focus in the government-wide statement of net assets versus the current financial resources focus of the governmental fund balance sheets. The differences are shown below (in thousands):

Total fund balances - Governmental funds		$ 309,191
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Governmental capital assets	2,576,499	
Less: accumulated depreciation	(584,734)	
Total		1,991,765
Other long-term assets are not available as current-period resources and are not reported in the funds.		
Accounts and other taxes receivable	11,800	
Deferred costs and expenses	3,226	
Total		15,026
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	(836,152)	
Pension obligation payable	(3,102)	
Capital lease obligations payable	(578)	
Compensated absences	(63,739)	
Interest payable	(3,447)	
Deferred credits and other liabilities	(23,466)	
Total		(930,484)
Internal service funds		53,006
Total net assets - Governmental activities		$ 1,438,504

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

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

The net change in fund balances of governmental funds, $36 million deficit, differs from the change in net assets for governmental activities, $90 million, reported in the statement of activities. The differences result from the long-term economic focus in the government-wide statement of net assets versus the current financial resources focus of the governmental fund balance sheets. The differences are shown below (in thousands):

Net change in fund balances - Governmental funds		$ (36,264)
Governmental funds report capital outlay as expenditures. In the statement of activities, the cost of those assets are depreciated over the estimated useful life of the asset.		
Capital outlay	157,140	
Depreciation expense	(61,112)	
Loss on disposal of capital assets	(1,672)	
Total		94,356
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		
Property taxes	(3,357)	
Charges for services	(6,553)	
Capital assets contribution	63,398	
Total		53,488
Revenues in the governmental funds are recognized when measurable and available, but are deferred in the statement of activities until earned, regardless of when collected.		
Intergovernmental revenue	(12,728)	
Total		(12,728)
Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but are deferred and amortized throughout the period during which the related debt is outstanding in the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Issuance of long-term debt	(70,040)	
Principal repayment on long-term debt	48,862	
Deferral of debt issue costs	(24)	
Total		(21,202)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated absences	(1,924)	
Pension obligation	(3,102)	
Interest and other	6,403	
Total		1,377
Internal services. The net revenue (expense) of the internal service funds is reported with the governmental activities.		11,350
Change in net assets - Governmental activities		$ 90,377

3 – DEFICITS IN FUND BALANCES AND NET ASSETS

At September 30, 2004, the following funds reported deficits in fund balances or net assets. Management intends to recover these deficits through future operating revenues, transfers or debt issues.

Nonmajor Governmental	Deficit (in thousands)
Special Revenue Funds:	
Fiscal Surety - Land Development	$ 77
Capital Projects Funds:	
Energy improvements - city facilities	82
Parks/Old Bakery	184
Police facilities	14
Radio Trunking	5,820
Parks - 1992	225
Build Austin	25
Central City Entertainment Center	1
Capital reserve	965
Public Works	19
City Hall, plaza, parking garage	2,913
Interest income fund	595

	Deficit (in thousands)
Internal Service Funds:	
CTECC	384
Liability Reserve	775

4 – POOLED INVESTMENTS AND CASH

The following summarizes the amounts of pooled investments and cash by fund at September 30, 2004 (in thousands):

	Pooled Investments and Cash	
	Unrestricted	**Restricted**
General Fund	$ 97,002	--
Nonmajor governmental funds	187,228	--
Electric	55,574	58,227
Water and Wastewater	8,341	42,672
Airport	--	88,286
Nonmajor enterprise funds	52,030	86,070
Internal service funds	88,783	--
Fiduciary funds	4,096	--
Subtotal pooled investments and cash	493,054	275,255
Total pooled investments and cash	$ 768,309	

5 – INVESTMENTS AND DEPOSITS

a -- Investments

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

5 – INVESTMENTS AND DEPOSITS, continued

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

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

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

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

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

The City invests in TexPool and TexasDAILY to provide its liquidity needs. TexPool and TexasDAILY are local government investment pools that were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. TexPool and TexasDAILY are 2(a)7 like funds, meaning that they are structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of $1.00, although this cannot be fully guaranteed. TexPool and TexasDAILY are rated AAAm and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit. At September 30, 2004 TexPool and TexasDAILY had a weighted average maturity of 23 days and 43 days, respectively. Although the TexPool and TexasDAILY portfolios had a weighted average maturity of 23 days and 43 days, respectively, the City considers the holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

5 – INVESTMENTS AND DEPOSITS, continued

The City did not participate in any reverse repurchase agreements or security lending agreements during fiscal year 2004.

All of the City's investments are insured, registered, or the City's agent holds the securities in the City's name; therefore, the City is not exposed to custodial credit risk.

The following table includes the portfolio balances of all non-pooled and pooled investment types of the City at September 30, 2004 (in thousands).

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Non-pooled investments:				
Local Government Investment Pools	$ 13,477	143,848	--	157,325
US Agency Discount Notes	--	14,883	--	14,883
US Treasury Notes	--	98,275	--	98,275
US Agency Bonds	--	169,225	--	169,225
US Agency Bonds-Step	--	2,001	--	2,001
Total non-pooled investments	13,477	428,232	--	441,709
Pooled investments:				
Local Government Investment Pools	123,517	129,454	1,356	254,327
US Agency Discount Notes	36,257	38,025	398	74,680
US Treasury Notes	9,660	10,132	106	19,898
US Agency Bonds	205,346	213,375	2,234	420,955
US Agency Bonds-Step	2,421	2,539	26	4,986
Total pooled investments (1)	377,201	393,525	4,120	774,846
Total investments	$ 390,678	821,757	4,120	1,216,555

(1) A difference of $6.5 million exists between the investment portfolio balance and book balance, primarily due to deposits in transit offset by outstanding checks.

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 Special Projects or Special Purpose funds;
2. Debt Service Funds;
3. Special Projects Funds or Special Purpose Funds;

The City's investment policy seeks to control credit risk. Such risk shall be controlled by investing in compliance with the City's investment policy, qualifying the broker and financial institution with whom the City will transact, sufficient collateralization, portfolio diversification, and limiting maturity.

5 – INVESTMENTS AND DEPOSITS, continued

Operating Funds (excluding Special Projects or Special Purpose Funds)
As of September 30, 2004, the City of Austin's operating funds (excluding Special Projects or Special Purpose 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 Invest Pools (LGIPs)	$ 123,517	129,454	1,356	254,327	1
US Agency Discount Notes	36,257	38,025	398	74,680	78
US Treasury Notes	9,660	10,132	106	19,898	329
US Agency Bonds	205,346	213,375	2,234	420,955	544
US Agency Bonds-Step	2,421	2,539	26	4,986	565
	$ 377,201	393,525	4,120	774,846	315

Credit Risk
As of September 30, 2004, the LGIPs (which represent approximately 33% of the portfolio) are rated AAAm by Standard and Poor's. The US Agency Discount Notes (which represent approximately 10% of the portfolio) are rated A-1+ by Standard and Poor's. The US Agency Bonds and US Agency Step Bonds (which represent approximately 55% of the portfolio) are rated AAA by Standard and Poor's. Approximately 2% of the portfolio consists of direct obligations of the US government.

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 of time before maturity.

At September 30, 2004, nearly a third of the Investment Pool was invested in AAAm rated LGIPs (2(a)-7 like pools), with the remainder invested in short-to-medium term US Agency and Treasury obligations. Term limits on individual maturities did not exceed three years from the purchase date. The dollar weighted average maturity for all securities was 315 days, which was less than the threshold of 365 days.

5 – INVESTMENTS AND DEPOSITS, continued

Debt Service Funds
As of September 30, 2004, the City of Austin's debt service funds had the following investments:

	Fair Value (in thousands)		
	Governmental Activities	**Business-type Activities**	**Final Maturity**
General Obligation Debt Service			
TexPool (LGIPs)	$ 13,392	--	N/A
TexasDAILY(LGIPs)	85	--	N/A
Subtotal	13,477	--	
Enterprise-Utility (1)			
TexPool (LGIPs)	--	120,697	N/A
Fannie Mae Discount Notes (FNDN)	--	4,988	11/15/2004
Subtotal	--	125,685	
Enterprise-Airport			
TexPool (LGIPs)	--	15,108	N/A
Nonmajor Enterprise-Convention Center			
TexPool (LGIPs)	--	5,739	N/A
Total	$ 13,477	146,532	

(1) Includes combined pledge debt service

Credit Risk
As of September 30, 2004, TexPool and TexasDAILY are rated AAAm by Standard and Poor's, and the Fannie Mae Agency Discount Notes are rated A-1+ by Standard and Poor's.

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

At September 30, 2004, portfolios in this category held investments in AAAm rated LGIPs and US Agencies with final maturities matching anticipated debt service requirements in October and/or November 2004.

Special Projects Funds
As of September 30, 2004, the City of Austin's Special Projects Funds had the following investments:

	Fair Value (in thousands)		
Capital Project Construction	**Governmental Activities**	**Business-type Activities**	**Final Maturity**
TexPool (LGIPs)	$ 80	--	N/A
Federal Home Loan Bank (FHLB) 2.315% of 04/28/06	1,890	--	04/28/2006
Subtotal	1,970	--	
Airport Construction			
TexPool (LGIPs)	--	2,298	N/A
Freddie Mac Discount Notes (FMCDN) of 04/05/05	--	9,895	04/05/2005
Subtotal	--	12,193	
Total special projects funds	$ 1,970	12,193	

Credit Risk
As of September 30, 2004, TexPool is rated AAAm by Standard and Poor's. The Freddie Mac Discount Notes are rated A-1+ by Standard and Poor's, and the Federal Home Loan Bank Agency Bonds are rated AAA by Standard and Poor's.

5 – INVESTMENTS AND DEPOSITS, continued

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

At September 30, 2004, the portfolios held investments in a AAAm rated LGIP and US Agencies with maturities that meet anticipated cash flow requirements.

__Special Purpose Funds__
Austin Energy Debt Management Fund
As of September 30, 2004, the City of Austin's Special Purpose Fund (Austin Energy Debt Management Fund) had the following investments:

Business-type Activities	Fair Value (in thousands)	Weighted Average Maturity (days)
TexPool (LGIPs)	$ 6	1
US Treasuries	70,990	790
US Agencies	99,139	787
Total	$ 170,135	788

Credit Risk
At September 30, 2004, the Electric Utility Department Debt Management Fund had a minimal 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. The US Agency Bonds are rated AAA by Standard and Poor's. The remaining securities are direct obligations of the US government.

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, 2004, the portfolios held investments in TexPool (AAAm rated LGIP), US Treasuries and US Agencies with maturities that meet anticipated cash flow requirements and an overall dollar weighted average maturity of 788 days (2.16 years).

Austin Energy Nuclear Decommissioning Trust Funds
As of September 30, 2004, the Austin Energy's Special Purpose Fund (Nuclear Decommissioning Trust Funds, NDTF) had the following investments:

Business-type Activities	Fair Value (in thousands)	Weighted Average Maturity (years)
US Treasuries	$ 27,285	2.47
US Agencies	70,086	2.39
US Agencies-Step	2,001	4.58
Total	$ 99,372	2.46

Credit Risk
As of September 30, 2004, the US Agency Bonds and US Agency Step Bonds are rated AAA by Standard and Poor's. The remaining securities are direct obligations of the US government.

Interest Rate Risk
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy for the Decommissioning Trust Fund portfolios requires that the dollar weighted average maturity, using final stated maturity dates, shall not exceed seven years, although the portfolio's weighted average maturity may be substantially shorter if market conditions so dictate. At September 30, 2004, the dollar weighted average maturity was 2.46 years.

5 – INVESTMENTS AND DEPOSITS, continued

Investments and deposits at September 30, 2004 are as follows (in thousands):

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Non-pooled investments and deposits	$ 17,369	436,546	--	453,915
Pooled investments and deposits	379,226	395,647	4,142	779,015
Total investments and deposits	396,595	832,193	4,142	1,232,930
Unrestricted deposits	3,892	55	--	3,947
Restricted deposits	--	8,259	--	8,259
Pooled deposits	2,025	2,122	22	4,169
Investments	390,678	821,757	4,120	1,216,555
Total investments and deposits	$ 396,595	832,193	4,142	1,232,930

A difference of $10.7 million exists between bank balance and book balance, primarily due to deposits in transit offset by outstanding checks.

c -- Deposits

The September 30, 2004 carrying amount of deposits is as follows (in thousands):

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Cash				
Unrestricted	$ 111	55	--	166
Cash held by trustee				
Unrestricted	3,781	--	--	3,781
Restricted	--	8,259	--	8,259
Pooled cash	2,025	2,122	22	4,169
Total deposits	$ 5,917	10,436	22	16,375

All bank accounts were either insured or collateralized with securities held by the City or by its agent in the City's name at September 30, 2004.

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, 2003, upon which the 2004 levy was based, was $48,964,275,008.

Taxes are due by January 31 following the October 1 levy date. During the year ended September 30, 2004, 99.06% of the current tax levy (October 1, 2003) was collected. The statutory lien date is January 1.

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

6 – PROPERTY TAXES, continued

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

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

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

The tax rate to finance general governmental functions, other than the payment of principal and interest on general obligation long-term debt, for the year ended September 30, 2004, was $.3236 per $100 assessed valuation. The City has a tax margin for general governmental purposes of $.6764 per $100 assessed valuation, and could levy approximately $331,194,356 in additional taxes from the assessed valuation of $48,964,275,008 before the legislative limit is reached.

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE

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

The City has recorded capitalized interest for fiscal year 2004 in the following funds related to the construction of various enterprise fund capital improvement projects (in thousands):

Major fund:		
Airport	$	953
Nonmajor enterprise funds:		
Convention Center		1,390
Drainage		1,113
Golf		67
Solid Waste Services		131

Interest is not capitalized on governmental capital assets.

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Components of capital assets (in thousands)

	Governmental Activities	Business-type Activities	Total
Capital assets not depreciated			
Land and improvements	$ 232,953	280,377	513,330
Arts and treasures	4,811	1,359	6,170
Library collections	12,885	--	12,885
Total	250,649	281,736	532,385
Depreciable property, plant and equipment in service			
Building and improvements	355,580	1,959,528	2,315,108
Equipment	63,405	4,234,261	4,297,666
Vehicles	75,635	87,543	163,178
Infrastructure	1,435,360	--	1,435,360
Completed assets not classified	131,663	189,272	320,935
Total	2,061,643	6,470,604	8,532,247
Less accumulated depreciation for			
Building and improvements	(95,008)	(557,904)	(652,912)
Equipment	(30,520)	(1,688,281)	(1,718,801)
Vehicles	(43,851)	(50,633)	(94,484)
Infrastructure	(426,668)	--	(426,668)
Completed assets not classified	(11,375)	(8,889)	(20,264)
Total	(607,422)	(2,305,707)	(2,913,129)
Net property, plant and equipment in service	1,454,221	4,164,897	5,619,118
Other capital assets not depreciated			
Construction in progress	327,419	679,559	1,006,978
Nuclear fuel, net of amortization	--	17,933	17,933
Plant held for future use	--	30,745	30,745
Total capital assets	$ 2,032,289	5,174,870	7,207,159

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Governmental Activities

Capital asset activity for the year ended September 30, 2004 was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 195,274	37,679	--	232,953
Arts and treasures	4,785	26	--	4,811
Library collections	12,880	5	--	12,885
Total	212,939	37,710	--	250,649
Depreciable property, plant and equipment in service				
Building and improvements	310,174	45,406	--	355,580
Equipment	50,253	14,251	(1,099)	63,405
Vehicles	74,447	4,461	(3,273)	75,635
Infrastructure	1,308,273	127,087	--	1,435,360
Completed assets not classified	108,595	31,383	(8,315)	131,663
Total	1,851,742	222,588	(12,687)	2,061,643
Less accumulated depreciation for				
Building and improvements	(84,558)	(10,450)	--	(95,008)
Equipment	(23,938)	(7,398)	816	(30,520)
Vehicles	(38,791)	(8,152)	3,092	(43,851)
Infrastructure	(389,336)	(37,332)	--	(426,668)
Completed assets not classified	(13,299)	--	1,924	(11,375)
Total	(549,922)	(63,332) (2)	5,832	(607,422)
Net property, plant and equipment in service	1,301,820	159,256	(6,855)	1,454,221
Other capital assets not depreciated				
Construction in progress	353,951	154,798	(181,330)	327,419
Total capital assets	$ 1,868,710	351,764	(188,185)	2,032,289

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

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

Governmental activities:	
General government	$ 2,043
Public safety	9,966
Transportation, planning and sustainability	3,293
Public health	1,428
Public recreation and culture	7,181
Urban growth management	1,368
Unallocated depreciation expense - infrastructure	35,833
Internal service funds	2,220
Total accumulated depreciation	$ 63,332

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Electric Fund

Capital asset activity for the year ended September 30, 2004 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 34,942	2,670	--	37,612
Total	34,942	2,670	--	37,612
Depreciable property, plant and equipment in service				
Building and improvements	601,793	19,795	--	621,588
Equipment	2,302,680	286,217	(12,330)	2,576,567
Vehicles	19,319	1,791	(679)	20,431
Completed assets not classified	27,617	866	(7,030)	21,453
Total	2,951,409	308,669	(20,039)	3,240,039
Less accumulated depreciation for				
Building and improvements	(250,556)	(17,861)	--	(268,417)
Equipment	(1,020,307)	(76,631)	9,750	(1,087,188)
Vehicles	(14,919)	(661)	679	(14,901)
Completed assets not classified	(2,893)	(874)	--	(3,767)
Total	(1,288,675)	(96,027) (1)	10,429	(1,374,273)
Net property, plant and equipment in service	1,662,734	212,642	(9,610)	1,865,766
Other capital assets not depreciated				
Construction in progress	359,749	160,070	(298,240)	221,579
Nuclear fuel, net of amortization	21,805	--	(3,872)	17,933
Plant held for future use	31,379	--	(634)	30,745
Total capital assets	$ 2,110,609	375,382	(312,356)	2,173,635

(1) Components of accumulated depreciation increases:	
Current year depreciation	$ 95,525
Adjustment to accumulated depreciation	502
Total accumulated depreciation	$ 96,027

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Water and Wastewater Fund

Capital asset activity for the year ended September 30, 2004 was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 136,173	1,007	(443)	136,737
Total	136,173	1,007	(443)	136,737
Depreciable property, plant and equipment in service				
Building and improvements	343,874	42,300	--	386,174
Equipment	1,508,381	106,480	(423)	1,614,438
Vehicles	20,988	609	(820)	20,777
Completed assets not classified	248,413	--	(102,710)	145,703
Total	2,121,656	149,389	(103,953)	2,167,092
Less accumulated depreciation for				
Building and improvements	(103,580)	(8,533)	--	(112,113)
Equipment	(536,353)	(40,623)	418	(576,558)
Vehicles	(13,611)	(1,152)	819	(13,944)
Completed assets not classified	(4,640)	--	--	(4,640)
Total	(658,184)	(50,308) (2)	1,237	(707,255)
Net property, plant and equipment in service	1,463,472	99,081	(102,716)	1,459,837
Other capital assets not depreciated				
Construction in progress	232,170	161,901	(22,898)	371,173
Total capital assets	$ 1,831,815	261,989	(126,057)	1,967,747

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

(2) Components of accumulated depreciation increases:

Current year depreciation	
Water	$ 24,412
Wastewater	25,896
Total accumulated depreciation	$ 50,308

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Airport Fund

Capital asset activity for the year ended September 30, 2004 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 58,690	--	--	58,690
Arts and treasures	459	296	--	755
Total	59,149	296	--	59,445
Depreciable property, plant and equipment in service				
Building and improvements	575,013	24,439	--	599,452
Equipment	14,704	1,413	(387)	15,730
Vehicles	3,722	377	(37)	4,062
Completed assets not classified	21,796	--	(18,976)	2,820
Total	615,235	26,229	(19,400)	622,064
Less accumulated depreciation for				
Building and improvements	(78,768)	(14,794)	--	(93,562)
Equipment	(5,523)	(927)	210	(6,240)
Vehicles	(1,969)	(333)	37	(2,265)
Completed assets not classified	(323)	--	323	--
Total	(86,583)	(16,054) (1)	570	(102,067)
Net property, plant and equipment in service	528,652	10,175	(18,830)	519,997
Other capital assets not depreciated				
Construction in progress	19,368	11,883	(7,775)	23,476
Total capital assets	$ 607,169	22,354	(26,605)	602,918

(1) Components of accumulated depreciation increases:	
Current year depreciation	$ 16,054
Total accumulated depreciation	$ 16,054

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Nonmajor Enterprise Funds

Capital asset activity for the year ended September 30, 2004 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 40,795	6,601	(58)	47,338
Arts and treasures	268	336	--	604
Total	41,063	6,937	(58)	47,942
Depreciable property, plant and equipment in service				
Building and improvements	341,862	11,077	(625)	352,314
Equipment	22,762	4,970	(207)	27,525
Vehicles	40,390	3,986	(2,102)	42,274
Completed assets not classified	30,611	21	(11,336)	19,296
Total	435,625	20,054	(14,270)	441,409
Less accumulated depreciation for				
Building and improvements	(75,093)	(8,721)	2	(83,812)
Equipment	(16,585)	(1,804)	94	(18,295)
Vehicles	(17,844)	(3,617)	1,938	(19,523)
Completed assets not classified	(760)	--	278	(482)
Total	(110,282)	(14,142) (1)	2,312	(122,112)
Net property, plant and equipment in service	325,343	5,912	(11,958)	319,297
Other capital assets not depreciated				
Construction in progress	49,870	28,457	(14,996)	63,331
Nuclear fuel, net of amortization	--	--	(0)	(0)
Plant held for future use	--	--	0	0
Total capital assets	$ 416,276	41,306	(27,012)	430,570

(1) Components of accumulated depreciation increases:

Current year depreciation	
Convention Center	$ 6,445
Other nonmajor enterprise funds	7,666
Adjustment to accumulated depreciation	31
Total accumulated depreciation	$ 14,142

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities

Capital asset activity for the year ended September 30, 2004 was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 270,600	10,278	(501)	280,377
Arts and treasures	727	632	--	1,359
Total	271,327	10,910	(501)	281,736
Depreciable property, plant and equipment in service				
Building and improvements	1,862,542	97,611	(625)	1,959,528
Equipment	3,848,527	399,145	(13,411)	4,234,261
Vehicles	84,419	6,763	(3,639)	87,543
Completed assets not classified	328,437	887	(140,052)	189,272
Total	6,123,925	504,406	(157,727)	6,470,604
Less accumulated depreciation for				
Building and improvements	(507,997)	(49,909)	2	(557,904)
Equipment	(1,578,768)	(119,985)	10,472	(1,688,281)
Vehicles	(48,343)	(5,763)	3,473	(50,633)
Completed assets not classified	(8,616)	(874)	601	(8,889)
Total	(2,143,724)	(176,531) (2)	14,548	(2,305,707)
Net property, plant and equipment in service	3,980,201	327,875	(143,179)	4,164,897
Other capital assets not depreciated				
Construction in progress	661,157	362,311	(343,909)	679,559
Nuclear fuel, net of amortization	21,805	--	(3,872)	17,933
Plant held for future use	31,379	--	(634)	30,745
Total capital assets	$ 4,965,869	701,096	(492,095)	5,174,870

(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	$ 95,525
Water	24,412
Wastewater	25,896
Airport	16,054
Convention Center	6,445
Other nonmajor enterprise funds	7,666
Total business-type activities depreciation expense	175,998
Adjustment to accumulated depreciation	533
Total increases in accumulated depreciation	$ 176,531

8 – RETIREMENT PLANS

a -- Description

The City participates in funding three contributory, defined benefit retirement plans: City of Austin Employees' Retirement and Pension Fund, City of Austin Police Officers' Retirement and Pension Fund, and Fire Fighters' Relief and Retirement Fund of Austin, Texas. An independent board of trustees administers each plan. These plans are City-wide single employer funded plans that cover substantially all full-time employees. The fiscal year of each pension fund ends December 31. The most recently available financial statements of the pension funds are for the year ended December 31, 2003. Membership in the plans at December 31, 2003 is as follows:

	City Employees	Police Officers	Fire Fighters	Total
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	3,619	338	392	4,349
Current employees	7,432	1,406	969	9,807
Total	11,051	1,744	1,361	14,156

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

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

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

8 – RETIREMENT PLANS, continued

b -- Funding Policy

	City of Austin Employees' Retirement and Pension Fund	City of Austin Police Officers' Retirement and Pension Fund	Fire Fighters' Relief and Retirement Fund
Authority establishing contributions obligation	State Legislation	State Legislation	State Legislation
Frequency of contribution	Biweekly	Biweekly	Biweekly
Employee's contribution (percent of earnings)	8.0%	9.0%	13.7% until June 2003; 15.7% thereafter
City's contribution (percent of earnings)	8.0% (1)	18.0%	18.05%

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

While the contribution requirements are not actuarially determined, state law requires that a qualified actuary approve each plan of benefits adopted. The actuary for the Police Officers and Fire Fighters plan has certified that the contribution commitment by the participants and the City provides an adequate financing arrangement. Contributions for fiscal year ended September 30, 2004, are as follows (in thousands):

		City Employees	Police Officers	Fire Fighters	Total
City	$	25,268	14,358	9,835	49,461
Employees		25,218	7,179	8,554	40,951
Total contributions	$	50,486	21,537	18,389	90,412

c -- Annual Pension Cost and Net Pension Obligation

The City's annual pension cost of $55,367,000 for fiscal year ended September 30, 2004, was $5,906,000 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):					
2002	$	25,986	12,160	9,089	47,235
2003		26,093	13,626	9,608	49,327
2004		31,174	14,358	9,835	55,367
Percentage of APC contributed:					
2002		100%	100%	100%	N/A
2003		100%	100%	100%	N/A
2004		81%	100%	100%	N/A
Net Pension Obligation:					
2002	$	--	--	--	--
2003		--	--	--	--
2004		5,906	--	--	5,906

8 – RETIREMENT PLANS, continued

The latest actuarial valuations were completed as of December 31, 2003. The actuarial cost method and significant assumptions underlying the actuarial calculations are as follows:

	City Employees	Police Officers	Fire Fighters
Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method
Asset Valuation Basis	5-year smoothed market	5-year smoothed market	5-year smoothed market
Inflation Rate	3.5%	4%	4.5%
Projected Annual Salary Increases	4% to 14%	6.8% average	6.0%
Post retirement benefit increase	None	None	1%
Assumed Rate of Return on Investments	7.75%	8%	8%
Amortization method	Level percent of projected pay, open	Level percent of projected pay, open	Level percent of projected pay, open
Remaining Amortization Period	Infinite	28.6 years	33.7 years

d -- Trend Information (Unaudited)

Information pertaining to the latest actuarial valuations for each Plan is as follows (in thousands):

Valuation Date, December 31st	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
City Employees						
1995	$ 707,300	623,000	(84,300)	113.5%	221,000	(38.1%)
1997	856,423	832,140	(24,283)	102.9%	219,208	(11.1%)
1999	1,105,100	1,044,500	(60,600)	105.8%	244,500	(24.8%)
2001	1,311,288	1,360,270	48,982	96.4%	316,793	15.5%
2002	1,250,851	1,440,199	189,348	86.9%	322,008	58.8%
2003	1,348,800	1,551,800	203,000	86.9%	312,800	64.9%
Police Officers						
1995	$ 127,572	164,865	37,293	77.4%	36,211	103.0%
1997	168,602	222,703	54,101	75.7%	47,189	114.6%
1999	226,913	257,850	30,937	88.0%	54,695	56.6%
2001	284,761	347,548	62,787	81.9%	69,707	90.1%
2002	298,782	384,992	86,210	77.6%	79,236	108.8%
2003	320,354	413,965	93,611	77.4%	80,959	115.6%
Fire Fighters						
1995	$ 213,403	236,994	23,591	90.0%	32,496	72.6%
1997	268,241	279,472	11,231	96.0%	35,130	32.0%
1999	341,593	317,223	(24,370)	107.7%	38,690	(63.0%)
2001	395,371	406,266	10,895	97.3%	49,726	21.9%
2003	421,136	452,669	31,533	93.0%	55,939	56.4%

(1) UAAL – Unfunded Actuarial Accrued Liability (Excess)

9 – SELECTED REVENUES

a -- Governmental Funds - General Fund

Hospital lease payments
Effective October 1, 1995, the City entered into a long-term lease arrangement with the Daughters of Charity Health Services of Austin ("Seton") to operate City-owned Brackenridge Hospital. This lease agreement qualifies as an operating lease for accounting purposes.

The lease agreement specifies a minimum lease payment in addition to a supplemental rent payment based on approximately 46% of net disproportionate share revenue proceeds. In fiscal year 2004, General Fund revenues included minimum lease payments of $1.3 million and additional rent of $12.2 million.

In March 2004, the Austin Women's Hospital began operations. The facility is a separately licensed facility located on the 5th floor of Brackenridge Hospital. The City has entered into an agreement with the University of Texas Medical Branch at Galveston to operate the facility. Total construction costs were approximately $9.3 million; approximately $6.8 million of these costs were related to enhancing the capacity of OB services related to Brackenridge, in addition to providing certain reproductive services that Seton is not capable of performing. The remaining $2.5 million of costs were related to licensing requirements. Construction costs will be amortized over the remaining life of the original lease agreement with Seton, which has approximately twenty-two years remaining. For further information, please refer to the Subsequent Events Note (Note 16).

b -- Major enterprise funds

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

Under a bill passed by the Texas Legislature in 1999, municipally-owned electric utilities such as the City's utility system have the option of offering retail competition after January 1, 2002. At September 30, City management had decided not to enter the retail market, as allowed by State law. Because the effects of entering retail competition are uncertain, a change in accounting policy is not warranted at this time.

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

Airport
The City has entered into certain lease agreements as lessor for concessions at the Airport. These lease agreements qualify as operating leases for accounting purposes. In fiscal year 2004, the Airport Fund revenues included minimum concession guarantees of $8,251,503.

9 – SELECTED REVENUES, continued

The following is a schedule by year of minimum future rentals on noncancelable operating leases for terms of up to thirty years for the Airport Fund as of September 30, 2004 (in thousands):

Fiscal Year Ended September 30	Enterprise Airport Lease Payments
2005	$ 7,609
2006	7,194
2007	7,021
2008	6,719
2009	4,533
2010-2014	811
2015-2019	392
2020-2024	392
2025-2029	392
2030-2034	65
Totals	$ 35,128

10 – DEBT AND NON-DEBT LIABILITIES

a -- Long-Term Liabilities

The following is a summary of long-term liabilities. Balances at September 30, 2004 are (in thousands):

Description	Governmental Activities	Business-Type Activities	Total
Long-term obligations			
General obligation bonds	$ 738,533	20,240	758,773
Certificates of obligation	91,021	58,616	149,637
Contractual obligations	33,970	14,575	48,545
Other tax supported debt	--	10,369	10,369
General obligation bonds and other tax supported debt total	863,524	103,800	967,324
Commercial paper notes	--	315,616	315,616
Revenue notes	--	28,000	28,000
Revenue bonds	--	2,969,758	2,969,758
Contract revenue bonds	--	13,740	13,740
Capital lease obligations	813	12,753	13,566
Debt service requirements total	864,337	3,443,667	4,308,004
Other long-term obligations			
Accrued compensated absences	70,456	20,110	90,566
Claims payable	27,440	--	27,440
Accrued landfill closure and postclosure costs	--	7,612	7,612
Decommissioning expense payable	--	100,019	100,019
Pension obligation payable	3,102	2,804	5,906
Deferred credits and other liabilities	81,895	527,297	609,192
	182,893	657,842	840,735
Total long-term obligations	$ 1,047,230	4,101,509	5,148,739

This schedule excludes short-term liabilities of $48,781 for governmental activities and $221,008 for business-type activities and long-term interest payable of $166,868 for business-type activities.

Payments on bonds payable for governmental activities will be made in the General Obligation Debt Service Funds. Accrued compensated absences that pertain to governmental activities will be liquidated by the General Fund and Special Revenue Funds. Claims payable will be liquidated by Internal Service Funds. Deferred credits and other liabilities that pertain to governmental activities will be liquidated by the General Fund, Special Revenue Funds, and General Government Capital Improvement Projects Funds.

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

The following is a summary of changes in long-term obligations. Certain long-term obligations provide financing to both governmental and business-type activities. Balances at September 30, 2004 are (in thousands):

Description	September 30, 2003	Increases	Decreases	September 30, 2004	Amounts Due Within One Year
Governmental activities (1)					
General obligation bonds, net	$ 708,200	70,293	(39,960)	738,533	41,470
Certificates of obligation	95,328	600	(4,907)	91,021	5,034
Contractual obligations	26,230	13,950	(6,210)	33,970	6,162
General obligation bonds					
and other tax supported debt total	829,758	84,843	(51,077)	863,524	52,666
Capital lease obligations	793	343	(323)	813	475
Debt service requirements total	830,551	85,186	(51,400)	864,337	53,141
Other long-term obligations					
Accrued compensated absences	69,243	2,878	(1,665)	70,456	30,719
Claims payable	34,748	12,653	(19,961)	27,440	18,595
Pension obligation payable	--	3,102	--	3,102	--
Deferred credits and other liabilities	75,923	44,094	(38,122)	81,895	56,594
Governmental activities total	1,010,465	147,913	(111,148)	1,047,230	159,049
Business-type activities:					
Electric activities					
General obligation bonds	1,326	--	(6)	1,320	5
Contractual obligations	2,001	--	(439)	1,562	485
General obligation bonds					
and other tax supported debt total	3,327	--	(445)	2,882	490
Commercial paper notes	54,672	40,312	--	94,984	--
Revenue bonds, net	1,410,965	--	(152,264)	1,258,701	89,949
Capital lease obligations	9,107	127	(2,048)	7,186	1,983
Debt service requirements total	1,478,071	40,439	(154,757)	1,363,753	92,422
Other long-term obligations					
Accrued compensated absences	9,766	1,228	(1,572)	9,422	6,799
Decommissioning expense payable	90,687	9,332	--	100,019	--
Pension obligation payable	--	1,260	--	1,260	--
Deferred credits and other liabilities	86,613	14,043	(16,329)	84,327	12,807
Electric activities total	1,665,137	66,302	(172,658)	1,558,781	112,028
Water and Wastewater activities					
General obligation bonds, net	7,504	--	(1,460)	6,044	1,473
Contractual obligations	5,639	3,780	(1,632)	7,787	1,779
Other tax supported debt, net	11,527	--	(1,158)	10,369	1,095
General obligation bonds					
and other tax supported debt total	24,670	3,780	(4,250)	24,200	4,347
Commercial paper notes	73,812	146,820	--	220,632	--
Revenue bonds, net	1,199,630	124,931	(188,701)	1,135,860	40,796
Contract revenue bonds, net	16,177	--	(2,437)	13,740	2,035
Capital lease obligations	5,796	62	(1,035)	4,823	1,109
Debt service requirements total	1,320,085	275,593	(196,423)	1,399,255	48,287
Other long-term obligations					
Accrued compensated absences	4,863	393	(541)	4,715	3,435
Pension obligation payable	--	648	--	648	--
Deferred credits and other liabilities	410,889	23,875	(1,173)	433,591	5,557
Water and Wastewater activities total	1,735,837	300,509	(198,137)	1,838,209	57,279

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

Business-type activities (continued):

Description	September 30, 2003	Increases	Decreases	September 30, 2004	Amounts Due Within One Year
Airport activities					
General obligation bonds, net	529	--	(64)	465	45
Contractual obligations	183	--	(68)	115	64
General obligation bonds and other tax supported debt total	712	--	(132)	580	109
Revenue notes	28,000	--	--	28,000	--
Revenue bonds, net	357,262	52,802	(58,418)	351,646	7,650
Capital lease obligations	22	483	(11)	494	173
Debt service requirements total	385,996	53,285	(58,561)	380,720	7,932
Other long-term obligations					
Accrued compensated absences	1,362	222	(206)	1,378	1,116
Pension obligation payable	--	229	--	229	--
Deferred credits and other liabilities	7,136	--	(814)	6,322	1,883
Airport activities total	394,494	53,736	(59,581)	388,649	10,931
Nonmajor activities					
General obligation bonds, net	13,660	--	(1,249)	12,411	1,650
Certificates of obligation, net	34,701	25,491	(1,576)	58,616	2,371
Contractual obligations	1,817	4,100	(806)	5,111	720
General obligation bonds and other tax supported debt total	50,178	29,591	(3,631)	76,138	4,741
Revenue bonds, net	234,046	53,859	(64,354)	223,551	3,520
Capital lease obligations	240	142	(132)	250	157
Debt service requirements total	284,464	83,592	(68,117)	299,939	8,418
Other long-term obligations					
Accrued compensated absences	4,928	636	(969)	4,595	4,072
Accrued landfill closure and postclosure costs	7,370	242	--	7,612	--
Pension obligation payable	--	667	--	667	--
Deferred credits and other liabilities	2,657	403	(3)	3,057	3,057
Nonmajor activities total	299,419	85,540	(69,089)	315,870	15,547
Total business-type activities					
General obligation bonds, net	23,019	--	(2,779)	20,240	3,173
Certificates of obligation, net	34,701	25,491	(1,576)	58,616	2,371
Contractual obligations	9,640	7,880	(2,945)	14,575	3,048
Other tax supported debt, net	11,527	--	(1,158)	10,369	1,095
General obligation bonds and other tax supported debt total	78,887	33,371	(8,458)	103,800	9,687
Commercial paper notes	128,484	187,132	--	315,616	--
Revenue notes	28,000	--	--	28,000	--
Revenue bonds, net	3,201,903	231,592	(463,737)	2,969,758	141,915
Contract revenue bonds	16,177	--	(2,437)	13,740	2,035
Capital lease obligations	15,165	814	(3,226)	12,753	3,422
Debt service requirements total	3,468,616	452,909	(477,858)	3,443,667	157,059
Other long-term obligations					
Accrued compensated absences	20,919	2,479	(3,288)	20,110	15,422
Accrued landfill closure and postclosure costs	7,370	242	--	7,612	--
Decommissioning expense payable	90,687	9,332	--	100,019	--
Pension obligation payable	--	2,804	--	2,804	--
Deferred credits and other liabilities	507,295	38,321	(18,319)	527,297	23,304
Business-type activities total	4,094,887	506,087	(499,465)	4,101,509	195,785
Total long-term liabilities	$ 5,105,352	654,000	(610,613)	5,148,739	354,834

This schedule excludes short-term liabilities of $48,781 for governmental activities and $221,008 for business-type activities and long-term interest payable of $166,868 for business-type activities.

10 – DEBT AND NON-DEBT LIABILITIES, continued

b -- Governmental Activities Long-Term Liabilities

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

The following table summarizes significant facts about general obligation bonds, certificates of obligation, contractual obligations, and assumed municipal utility district (MUD) bonds outstanding at September 30, 2004, including those reported in certain proprietary funds (in thousands):

	Date Issued	Original Issue	Amount Outstanding at September 30, 2004	Aggregate Interest Requirements at September 30, 2004		Interest Rates of Debt Outstanding at September 30, 2004	Maturity Dates of Serial Debt
Series 1993	February 1993	$ 71,600	39,255	6,045	(1)	5.60 - 5.75%	9/1/2005-2009
Series 1995	October 1995	30,250	1,885	138	(1)	7.30%	9/1/2005
Series 1995	October 1995	8,660	420	20	(1)	4.75%	9/1/2005
Series 1996	October 1996	30,550	8,160	1,791	(1)	5.00 - 6.00%	9/1/2005-2009
Series 1997	October 1997	29,295	28,215	12,773	(1)	5.00 - 5.75%	9/1/2005-2017
Series 1997	October 1997	13,975	1,155	26	(2)	4.50%	11/1/2004
Series 1997	October 1997	2,120	1,610	637	(1)	4.60 - 5.25%	9/1/2005-2017
Series 1998	January 1998	110,300	104,590	34,000	(1)	4.60 - 5.25%	9/1/2005-2016
Assumed MUD Debt	December 1997	33,680	12,037	5,892	(3)	4.40 - 10.50%	11/15/2004-2018
Series 1998	October 1998	13,430	13,030	5,871	(1)	4.40 - 7.13%	9/1/2005-2018
Series 1998	October 1998	22,770	18,455	7,291	(1)	4.10 - 4.75%	9/1/2005-2018
Series 1998	October 1998	14,975	4,340	177	(2)	4.00%	11/1/2004-2005
Series 1999	October 1999	51,100	50,390	29,410	(1)	4.50- 5.75%	9/1/2005-2019
Series 1999	October 1999	10,335	4,130	299	(2)	4.75%	11/1/2004-2006
Series 1999	October 1999	5,590	4,670	2,263	(1)	5.00 - 6.00%	9/1/2005-2019
Series 2000	October 2000	52,930	51,045	32,178	(1)	4.40 - 6.00%	9/1/2005-2020
Series 2000	October 2000	6,060	5,320	2,715	(1)	5.00 - 5.38%	9/1/2005-2020
Series 2001	June 2001	123,445	62,995	16,040	(1)	4.75 - 5.50%	9/1/2005-2022
Series 2001	October 2001	79,650	78,685	41,089	(1)	4.00 - 5.25%	9/1/2005-2021
Series 2001	October 2001	2,650	1,825	173	(2)	3.00 - 3.88%	11/1/2004-2008
Series 2001	October 2001	65,335	56,750	22,013	(1)	4.38 - 5.25%	9/1/2005-2021
Series 2002	July 2002	12,190	12,190	4,507	(1)	3.00 - 5.00%	3/1/2005-2017
Series 2002	July 2002	2,495	2,130	258	(1)	4.00 - 5.00%	3/1/2005-2009
Series 2002	September 2002	99,615	99,100	48,053	(1)	2.50 - 5.00%	9/1/2005-2022
Series 2002	September 2002	8,690	7,130	690	(2)	2.50 - 4.00%	11/1/2004-2009
Series 2002	September 2002	34,095	31,950	15,822	(1)	2.50 - 5.38%	9/1/2005-2022
Series 2003	June 2003	62,585	58,150	10,743	(1)	2.25 - 5.00%	9/1/2006-2013
Series 2003	September 2003	68,855	68,555	37,677	(1)	2.00 - 5.00%	9/1/2006-2023
Series 2003A	September 2003	2,530	2,325	623	(1)	4.00 - 5.00%	9/1/2005-2013
Series 2003	September 2003	4,450	4,310	2,183	(1)	4.00 - 4.80%	9/1/2005-2023
Series 2003	September 2003	8,610	8,135	833	(2)	2.00 - 3.38%	11/1/2004-2010
Series 2004	September 2004	67,835	67,835	37,244	(1)	3.00 - 5.00%	9/1/2007-2024
Series 2004A	September 2004	2,430	2,430	724	(1)	4.00 - 4.75%	9/1/2006-2014
Series 2004	September 2004	25,000	25,000	14,462	(1)	2.00 - 5.00%	9/1/2005-2024
Series 2004	September 2004	21,830	21,830	2,622	(2)	1.85 - 3.35%	5/1/2005-2011
			$ 960,032				

(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 four times a year on March 1, May 15, September 1, and November 15.

10 – DEBT AND NON-DEBT LIABILITIES, continued

In September 2004, the City issued Public Improvement and Refunding Bonds, Series 2004, in the amount of $67,835,000. The proceeds from the issue will be used as follows: street improvements ($35,503,000); right of way acquisition and utility relocation ($15,000,000); parks and recreation facilities ($11,532,000); libraries ($2,875,000); and to refund a court settlement ($2,925,000). These bonds will be amortized serially on September 1 of each year from 2007 to 2024. Certain of these bonds are callable beginning September 1, 2014. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2005. Total interest requirements for these bonds, at rates ranging from 3% to 5%, are $37,244,485.

In September 2004, the City issued Public Improvement Refunding Bonds, Taxable Series 2004A, in the amount of $2,430,000. Proceeds from the issue will be used to finance certain payment obligations relating to the City's liability under a settlement agreement. These bonds will be amortized serially on September 1 of each year from 2006 to 2014. These bonds are not subject to optional redemption prior to maturity. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2005. Total interest requirements for these bonds, at rates ranging from 4% to 4.75%, are $723,615.

In September 2004, the City issued Certificates of Obligation, Series 2004, in the amount of $25,000,000. The proceeds from the issue will be used as follows: convention center garage ($16,400,000); School for the Deaf renovation ($600,000); and closed landfill remediation at Mabel Davis Park ($8,000,000). These certificates of obligation will be amortized serially on September 1 of each year from 2005 to 2024. Certain of these obligations are callable beginning September 1, 2014. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2005. Total interest requirements for these obligations, at rates ranging from 2% to 5%, are $14,462,050.

In September 2004, the City issued Public Property Finance Contractual Obligations, Series 2004, in the amount of $21,830,000. The proceeds from the issue will be used as follows: systems backup and enhancements ($500,000); communications technology upgrades ($11,420,000); public works capital equipment ($2,100,000); Solid Waste Services capital equipment ($2,000,000); fire capital equipment ($2,030,000); and capital equipment vehicles ($3,780,000). These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2005 to 2011. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2005. These contractual obligations are not subject to optional redemption prior to maturity. The total interest requirements for these obligations, at rates ranging from 1.85% to 3.35%, are $2,622,163.

General obligation bonds authorized and unissued amounted to $123,275,000 at September 30, 2004. Bond ratings at September 30, 2004, were Aa2 (Moody's Investor Services, Inc.), AA+ (Standard & Poor's) and AA+ (Fitch).

c -- Business -Type Activities Long-Term Liabilities

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

Combined Utility Systems Debt -- General - The City's Electric Fund and Water and Wastewater Fund comprise the Combined Utility Systems, which issue Combined Utility Systems revenue bonds to finance Electric Fund and Water and Wastewater Fund 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, 2004, exclusive of discounts, premiums and loss on refundings consist of $929,104,135 prior lien bonds and $253,444,512 subordinate lien bonds. Aggregate interest requirements for all prior lien and subordinate lien bonds are $862,408,727 at September 30, 2004. Revenue bonds authorized and unissued amount to $1,492,642,660 at that date. Bond ratings at September 30, 2004 for the prior lien and subordinate lien bonds were, respectively, A2 and A2 (Moody's Investor Services, Inc.), A+ and A (Standard & Poor's), and A+ and A+ (Fitch).

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

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

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

Combined Utility Systems Debt -- Bonds Issued and Outstanding - The following schedule shows the original and refunding revenue bonds outstanding at September 30, 2004 (in thousands):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2004
1990B Refunding	February 1990	$ 236,009	3,668
1992 Refunding	March 1992	265,806	30,116
1992A Refunding	May 1992	351,706	108,111
1993 Refunding	February 1993	203,166	88,841
1993A Refunding	June 1993	263,410	35,029
1994 Refunding	October 1994	142,559	26,894
1995 Refunding	June 1995	151,770	4,000
1996AB Refunding	September 1996	249,235	227,940
1997 Refunding	August 1997	227,215	218,210
1998 Refunding	August 1998	180,000	169,575
1998A Refunding	August 1998	123,020	16,720
1998 Refunding	November 1998	139,965	139,730
1998A Refunding	November 1998	105,350	105,350
1998B	November 1998	10,000	8,365
			$ 1,182,549

Combined Utility Systems Debt -- Commercial Paper Notes - The City is authorized by ordinance to issue commercial paper notes in an aggregate principal amount not to exceed $350,000,000 outstanding at any one time. Proceeds from the notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2004 were P-1 (Moody's Investor Services, Inc.), A-1 (Standard & Poor's), and F1+ (Fitch). The notes will be in denominations of $100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the notes are payable from the combined net revenues of the City's Electric Fund and Water and Wastewater Fund.

At September 30, 2004, the Electric Fund had outstanding commercial paper notes of $94,984,000 and the Water and Wastewater Fund had $220,632,000, of commercial paper notes outstanding. Interest rates on the notes range from 1.11% to 1.64%, adjusted daily, and 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.

10 – DEBT AND NON-DEBT LIABILITIES, continued

Combined Utility Systems Debt -- Taxable Commercial Paper Notes - The City is authorized by ordinance to issue taxable commercial paper notes, (the "taxable notes"), in an aggregate principal amount not to exceed $50,000,000 outstanding at any one time. Proceeds from the taxable notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2004 were P-1 (Moody's Investor Services, Inc.), A-1+ (Standard & Poor's), and F1+ (Fitch).

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

At September 30, 2004, the Electric Fund and the Water and Wastewater Fund had no taxable notes outstanding.

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

Electric Utility System Revenue Debt -- Revenue Bond Defeasance - In August 2004 the City defeased $84,328,789 of the City's outstanding Combined Utility System Prior Lien Revenue Refunding Bonds, Series 1993 and Series 1993A issued for the Electric Utility System. A total of $87,928,103 was placed in an irrevocable escrow account and used to purchase U.S. government obligations to provide for all future debt service payments on the defeased bonds. The City is legally released from the obligations for the defeased debt and the liability has been removed from the financial statements. The City recognized an accounting loss of $17,008,036 on this defeasance.

Bond ratings at September 30, 2004 were A3 (Moody's Investor Services, Inc.), A (Standard & Poor's), and A (Fitch).

Electric Utility System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all electric system original and refunding revenue bonds outstanding at September 30, 2004 (in thousands):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2004
2001 Refunding	February 2001	$ 126,700	126,200
2002 Refunding	March 2002	74,750	74,750
2002A Refunding	August 2002	172,880	159,085
2003 Refunding	March 2003	182,100	182,100
			$ 542,135

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 August 2004, the City issued Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2004, in an aggregate principal amount of $132,475,000. Proceeds from the variable rate bond refunding were used to refund $126,605,000 of the City's outstanding Combined Utility System Revenue Refunding Bonds, Series 1993, Series 1993A, Series 1994, and Subordinate Lien Revenue Bonds, Series 1994 issued for the Water and Wastewater Utility System. The debt service requirements on the variable rate refunding bonds were $187,919,782 with interest calculated using a constant rate of 3.66%. During fiscal year 2004, interest rates on the bonds ranged from 1.30% to 1.70%, adjusted weekly at market rates, and subsequent rates changes cannot exceed the maximum rate of 12%. The City realized an economic gain of $17,385,292 on this transaction. The change in net cash flows that resulted was a decrease of $21,137,829. An accounting loss of $7,080,369, which will be deferred and amortized in accordance with Statement of Financial Accounting Standards No. 71, was recognized on this refunding.

10 – DEBT AND NON-DEBT LIABILITIES, continued

Water and Wastewater System Revenue Debt -- Revenue Bond Defeasance - In August 2004, the City defeased $46,446,211 of the City's outstanding Combined Utility System Prior Lien Revenue Refunding Bonds, Series 1992A, Series 1993 and Series 1993A issued for the Water and Wastewater Utility System. A total of $51,693,235 was placed in an irrevocable escrow account and used to purchase U.S. government obligations to provide for all future debt service payments on the defeased bonds. The City is legally released from the obligations for the defeased debt and the liability has been removed from the financial statements. The City recognized an accounting loss of $10,035,826 on this defeasance.

Bond ratings at September 30, 2004 were A2 (Moody's Investor Services, Inc.), A (Standard & Poor's), and A+ (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, 2004 (in thousands):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2004
Maple Run MUD, 1992	May 1992	$ 17,955	9,130
Tanglewood Forest MUD, 1993	December 1993	1,350	145
North Austin MUD #1, 2003 RFD	August 2003	4,510	4,510
2000 Refunding	June 2000	100,000	98,500
2001A Refunding	June 2001	152,180	149,680
2001B Refunding	June 2001	73,200	72,000
2001C Refunding	December 2001	95,380	80,980
2002A Refunding	August 2002	139,695	132,400
2003 Refunding	March 2003	121,500	121,500
2004 Refunding	August 2004	132,475	132,475
			$ 801,320

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, 2004 the total Airport System obligation for prior lien bonds is $360,125,000 exclusive of discounts, premiums and loss on refundings. Aggregate interest requirements for all prior lien bonds are $287,431,616 at September 30, 2004. Revenue bonds authorized and unissued amount to $735,795,000 at that date.

Airport System Revenue Debt -- Revenue Bond Refunding Issues - In December 2003, the City issued Airport System Prior Lien Revenue Refunding Bonds, Series 2003, in an aggregate principal amount of $54,250,000. Proceeds from the prior lien bond refunding were used to refund $52,290,000 of the City's outstanding Airport System Prior Lien Revenue Bonds, Series 1995A. The debt service requirements on the prior lien refunding bonds were $85,899,110. The City realized an economic gain of $3,132,423 on this transaction. The change in net cash flows that resulted was a decrease of $3,418,051. An accounting loss of $5,717,945, which will be deferred and amortized in accordance with GASB Statement No. 23, was recognized on this refunding. These bonds are callable beginning November 15, 2013.

Bond ratings at September 30, 2004 for the prior lien bonds were NUR (Moody's Investor Services, Inc.), A- (Standard & Poor's), and NUR (Fitch).

The following table summarizes all airport system original and refunding revenue bonds outstanding at September 30, 2004 (in thousands):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2004
1989	September 1989	$ 30,000	1,000
1995A	August 1995	362,205	276,700
1995B Refunding	August 1995	31,040	28,175
2003	December 2003	54,250	54,250
			$ 360,125

10 – DEBT AND NON-DEBT LIABILITIES, continued

Airport Debt -- Variable Rate Revenue Notes - The City is authorized to issue Airport System variable rate revenue notes, pursuant to Ordinance No. 950817B, as amended and restated by Ordinance 980205A, adopted by the City Council on February 5, 1998. At September 30, 2004, 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 $384,941, including accrued interest, at September 30, 2004 and was restricted within the Airport System. During fiscal year 2004, interest rates on the notes ranged from 0.90% to 1.73%, adjusted weekly at market rates, and subsequent rates changes cannot exceed the maximum rate of 15%. Principal and interest on the notes are payable from the net revenues of the Airport System.

The bond rating at September 30, 2004 for the airport variable rate notes was P-1 (Moody's Investor Services, Inc.).

Nonmajor fund:
Convention Center -- Prior and Subordinate Lien Revenue Bonds - The City's Convention Center Fund issues Convention Center revenue bonds and Hotel Occupancy Tax revenue bonds to fund Convention Center Fund capital projects. Principal and interest on these bonds are payable solely from pledged hotel occupancy tax revenues and the special motor vehicle rental tax revenues. At September 30, 2004 the total Convention Center obligation for prior and subordinate lien bonds is $228,140,000, exclusive of discounts, premiums and loss on refundings. Aggregate interest requirements for all prior and subordinate lien bonds are $186,899,903 at September 30, 2004. Revenue bonds authorized and unissued amount to $760,000 at September 30, 2004.

Convention Center Revenue Debt -- Revenue Bond Refunding Issues - In February 2004, the City issued Hotel Occupancy Tax Revenue Refunding Bonds, Series 2004, in an aggregate principal amount of $52,715,000. Proceeds from the prior lien bond refunding were used to refund $60,960,000 of the City's outstanding Convention Center Prior Lien Revenue Bonds, Series 1993A. The debt service requirements on the revenue bonds were $79,004,526. The City realized an economic gain of $3,717,537 on this transaction. The change in net cash flows that resulted was a decrease of $11,462,427. An accounting loss of $2,601,339, which will be deferred and amortized in accordance with GASB Statement No. 23, was recognized on this refunding. These bonds are callable beginning November 15, 2013.

Bond ratings at September 30, 2004 for the revenue bonds were NUR (Moody's Investor Services, Inc.), NUR (Standard & Poor's), and NUR (Fitch).

The following table summarizes all Convention Center original and refunding revenue bonds outstanding at September 30, 2004 (in thousands):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2004
1999 Refunding	June 1999	$ 6,445	2,205
1999A	June 1999	25,000	24,570
1999 Refunding	September 1999	110,000	109,000
1999	November 1999	40,000	39,650
2004 Refunding	February 2004	52,715	52,715
			$ 228,140

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
2005	$ 41,470	35,346	5,034	4,335	6,162	844
2006	48,593	33,355	5,175	4,109	5,961	756
2007	48,539	30,963	5,456	3,877	4,766	597
2008	45,706	28,590	5,733	3,602	4,455	483
2009	43,553	26,423	6,053	3,330	4,538	360
2010-2014	224,725	99,701	31,133	12,063	8,088	353
2015-2019	186,712	48,623	23,516	5,659	--	--
2020-2024	90,723	10,192	8,921	777	--	--
	730,021	313,193	91,021	37,752	33,970	3,393
Less: Unamortized bond discounts	(382)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(1,041)	--	--	--	--	--
Add: Unamortized bond premiums	9,935	--	--	--	--	--
Net debt service requirements	738,533	313,193	91,021	37,752	33,970	3,393

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 Governmental Debt Service Requirements Total
2005	475	9	53,141	40,534	93,675
2006	286	6	60,015	38,226	98,241
2007	52	--	58,813	35,437	94,250
2008	--	--	55,894	32,675	88,569
2009	--	--	54,144	30,113	84,257
2010-2014	--	--	263,946	112,117	376,063
2015-2019	--	--	210,228	54,282	264,510
2020-2024	--	--	99,644	10,969	110,613
	813	15	855,825	354,353	1,210,178
Less: Unamortized bond discounts	--	--	(382)	--	(382)
Unamortized gain(loss) on bond refundings	--	--	(1,041)	--	(1,041)
Add: Unamortized bond premiums	--	--	9,935	--	9,935
Net debt service requirements	$ 813	15	864,337	354,353	1,218,690

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
2005	$ 5	69	485	47	94,984	91
2006	5	68	358	30	--	--
2007	53	68	202	19	--	--
2008	88	65	140	14	--	--
2009	98	60	146	11	--	--
2010-2014	588	222	231	8	--	--
2015-2019	483	57	--	--	--	--
Net debt service requirements	1,320	609	1,562	129	94,984	91

Fiscal Year Ended September 30	Revenue Bonds		Capital Lease Obligations		Total Electric Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2005	89,949	67,906	1,983	457	187,406	68,570	255,976
2006	75,905	63,057	1,960	332	78,228	63,487	141,715
2007	101,312	58,866	2,003	202	103,570	59,155	162,725
2008	87,063	59,036	29	61	87,320	59,176	146,496
2009	75,650	75,666	31	60	75,925	75,797	151,722
2010-2014	428,579	292,981	178	274	429,576	293,485	723,061
2015-2019	204,147	102,612	229	224	204,859	102,893	307,752
2020-2024	144,025	51,898	294	159	144,319	52,057	196,376
2025-2029	108,267	17,839	377	75	108,644	17,914	126,558
2030-2034	18,500	938	102	4	18,602	942	19,544
	1,333,397	790,799	7,186	1,848	1,438,449	793,476	2,231,925
Less: Unamortized bond discounts	(8,750)	--	--	--	(8,750)	--	(8,750)
Unamortized gain(loss) on bond refundings	(104,386)	--	--	--	(104,386)	--	(104,386)
Add: Unamortized bond premiums	38,440	--	--	--	38,440	--	38,440
Net debt service requirements	$ 1,258,701	790,799	7,186	1,848	1,363,753	793,476	2,157,229

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Water and Wastewater Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Contractual Obligations Principal	Contractual Obligations Interest	Tax Supported Debt Principal	Tax Supported Debt Interest
2005	$ 1,473	413	1,779	207	1,095	1,223
2006	854	340	1,671	170	864	1,189
2007	1,143	296	1,059	120	642	430
2008	789	237	853	93	594	401
2009	524	196	784	69	532	374
2010-2014	2,531	527	1,641	80	3,321	1,427
2015-2019	578	93	--	--	3,360	406
2020-2024	88	7	--	--	--	--
	7,980	2,109	7,787	739	10,408	5,450
Less: Unamortized bond discounts	(28)	--	--	--	(67)	--
Unamortized gain(loss) on bond refundings	(2,283)	--	--	--	--	--
Add: Unamortized bond premiums	375	--	--	--	28	--
Net debt service requirements	6,044	2,109	7,787	739	10,369	5,450

Fiscal Year Ended September 30	Commercial Paper Notes (1) Principal	Commercial Paper Notes (1) Interest	Revenue Bonds Principal	Revenue Bonds Interest	Municipal Utility District Contract Revenue Bonds Principal	Municipal Utility District Contract Revenue Bonds Interest
2005	220,632	222	40,796	54,053	2,035	670
2006	--	--	42,584	52,019	2,025	573
2007	--	--	44,095	50,378	2,170	466
2008	--	--	50,992	50,951	2,325	345
2009	--	--	47,567	58,673	2,475	216
2010-2014	--	--	260,858	277,273	2,755	75
2015-2019	--	--	269,391	259,816	--	--
2020-2024	--	--	215,497	87,440	--	--
2025-2029	--	--	171,042	34,082	--	--
2030-2034	--	--	36,000	2,709	--	--
	220,632	222	1,178,822	927,394	13,785	2,345
Less: Unamortized bond discounts	--	--	(10,264)	--	(26)	--
Unamortized gain(loss) on bond refundings	--	--	(56,652)	--	(55)	--
Add: Unamortized bond premiums	--	--	23,954	--	36	--
Net debt service requirements	$ 220,632	222	1,135,860	927,394	13,740	2,345

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Water and Wastewater Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	Capital Lease Obligations		Total Water and Wastewater Debt Service Requirements		
	Principal	Interest	Principal	Interest	Total
2005	$ 1,109	335	268,919	57,123	326,042
2006	1,164	249	49,162	54,540	103,702
2007	1,225	155	50,334	51,845	102,179
2008	1,325	54	56,878	52,081	108,959
2009	--	--	51,882	59,528	111,410
2010-2014	--	--	271,106	279,382	550,488
2015-2019	--	--	273,329	260,315	533,644
2020-2024	--	--	215,585	87,447	303,032
2025-2029	--	--	171,042	34,082	205,124
2030-2034	--	--	36,000	2,709	38,709
	4,823	793	1,444,237	939,052	2,383,289
Less: Unamortized bond discounts	--	--	(10,385)	--	(10,385)
Unamortized gain(loss) on bond refundings	--	--	(58,990)	--	(58,990)
Add: Unamortized bond premiums	--	--	24,393	--	24,393
Net debt service requirements	$ 4,823	793	1,399,255	939,052	2,338,307

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Airport Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Contractual Obligations Principal	Contractual Obligations Interest	Revenue Notes (1) Principal	Revenue Notes (1) Interest
2005	$ 45	23	64	4	--	484
2006	18	21	40	2	--	484
2007	49	20	11	--	--	484
2008	36	17	--	--	--	484
2009	31	16	--	--	--	484
2010-2014	168	52	--	--	--	2,420
2015-2019	95	12	--	--	28,000	1,699
2020-2024	6	1	--	--	--	--
	448	162	115	6	28,000	6,539
Less: Unamortized bond discounts	(1)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	9	--	--	--	--	--
Add: Unamortized bond premiums	9	--	--	--	--	--
Net debt service requirements	465	162	115	6	28,000	6,539

Fiscal Year Ended September 30	Revenue Bonds Principal	Revenue Bonds Interest	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Total Airport Debt Service Requirements Principal	Total Airport Debt Service Requirements Interest	Total Airport Debt Service Requirements Total
2005	7,650	21,169	173	13	7,932	21,693	29,625
2006	8,415	20,659	170	9	8,643	21,175	29,818
2007	7,720	20,180	151	4	7,931	20,688	28,619
2008	9,965	19,710	--	--	10,001	20,211	30,212
2009	10,535	19,167	--	--	10,566	19,667	30,233
2010-2014	63,100	85,875	--	--	63,268	88,347	151,615
2015-2019	88,530	63,915	--	--	116,625	65,626	182,251
2020-2024	111,835	33,501	--	--	111,841	33,502	145,343
2025-2029	52,375	3,256	--	--	52,375	3,256	55,631
	360,125	287,432	494	26	389,182	294,165	683,347
Less: Unamortized bond discounts	(6,022)	--	--	--	(6,023)	--	(6,023)
Unamortized gain(loss) on bond refundings	(6,790)	--	--	--	(6,781)	--	(6,781)
Add: Unamortized bond premiums	4,333	--	--	--	4,342	--	4,342
Net debt service requirements	$ 351,646	287,432	494	26	380,720	294,165	674,885

(1) These are variable rate notes with 1.73% interest.

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
2005	$ 1,650	639	2,371	2,624	720	103
2006	1,636	563	2,150	2,539	730	116
2007	994	480	2,259	2,466	647	99
2008	1,261	433	2,372	2,378	641	85
2009	1,106	369	2,497	2,286	672	67
2010-2014	5,162	949	14,542	9,722	1,701	84
2015-2019	977	95	17,994	5,920	--	--
2020-2024	40	4	13,278	1,718	--	--
	12,826	3,532	57,463	29,653	5,111	554
Less: Unamortized bond discounts	(35)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(921)	--	--	--	--	--
Add: Unamortized bond premiums	541	--	1,153	--	--	--
Net debt service requirements	12,411	3,532	58,616	29,653	5,111	554

Fiscal Year Ended September 30	Revenue Bonds		Capital Lease Obligations		Total Nonmajor Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2005	3,520	12,284	157	3	8,418	15,653	24,071
2006	3,830	12,077	80	1	8,426	15,296	23,722
2007	3,525	11,878	13	--	7,438	14,923	22,361
2008	5,815	11,669	--	--	10,089	14,565	24,654
2009	7,210	11,406	--	--	11,485	14,128	25,613
2010-2014	41,280	51,634	--	--	62,685	62,389	125,074
2015-2019	53,465	39,059	--	--	72,436	45,074	117,510
2020-2024	44,885	24,928	--	--	58,203	26,650	84,853
2025-2029	52,245	11,603	--	--	52,245	11,603	63,848
2030-2034	12,365	362	--	--	12,365	362	12,727
	228,140	186,900	250	4	303,790	220,643	524,433
Less: Unamortized bond discounts	(1,182)	--	--	--	(1,217)	--	(1,217)
Unamortized gain(loss) on bond refundings	(7,745)	--	--	--	(8,666)	--	(8,666)
Add: Unamortized bond premiums	4,338	--	--	--	6,032	--	6,032
Net debt service requirements	$ 223,551	186,900	250	4	299,939	220,643	520,582

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Business-Type Activities (in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Certificates of Obligation Principal	Certificates of Obligation Interest	Contractual Obligations Principal	Contractual Obligations Interest
2005	$ 3,173	1,144	2,371	2,624	3,048	361
2006	2,513	992	2,150	2,539	2,799	318
2007	2,239	864	2,259	2,466	1,919	238
2008	2,174	752	2,372	2,378	1,634	192
2009	1,759	641	2,497	2,286	1,602	147
2010-2014	8,449	1,750	14,542	9,722	3,573	172
2015-2019	2,133	257	17,994	5,920	--	--
2020-2024	134	12	13,278	1,718	--	--
	22,574	6,412	57,463	29,653	14,575	1,428
Less: Unamortized bond discounts	(64)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(3,195)	--	--	--	--	--
Add: Unamortized bond premiums	925	--	1,153	--	--	--
Net debt service requirements	20,240	6,412	58,616	29,653	14,575	1,428

Fiscal Year Ended September 30	Tax Supported Debt Principal	Tax Supported Debt Interest	Commercial Paper Notes (1) Principal	Commercial Paper Notes (1) Interest	Revenue Notes (2) Principal	Revenue Notes (2) Interest
2005	1,095	1,223	315,616	313	--	484
2006	864	1,189	--	--	--	484
2007	642	430	--	--	--	484
2008	594	401	--	--	--	484
2009	532	374	--	--	--	484
2010-2014	3,321	1,427	--	--	--	2,420
2015-2019	3,360	406	--	--	28,000	1,699
	10,408	5,450	315,616	313	28,000	6,539
Less: Unamortized bond discounts	(67)	--	--	--	--	--
Add: Unamortized bond premiums	28	--	--	--	--	--
Net debt service requirements	$ 10,369	5,450	315,616	313	28,000	6,539

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

(2) These are variable rate notes with 1.73% interest.

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Business-Type Activities (in thousands)

Fiscal Year Ended September 30	Revenue Bonds		Municipal Utility District Contract Revenue Bonds		Capital Lease Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	$ 141,915	155,412	2,035	670	3,422	808
2006	130,734	147,812	2,025	573	3,374	591
2007	156,652	141,302	2,170	466	3,392	361
2008	153,835	141,366	2,325	345	1,354	115
2009	140,962	164,912	2,475	216	31	60
2010-2014	793,817	707,763	2,755	75	178	274
2015-2019	615,533	465,402	--	--	229	224
2020-2024	516,242	197,767	--	--	294	159
2025-2029	383,929	66,780	--	--	377	75
2030-2034	66,865	4,009	--	--	102	4
	3,100,484	2,192,525	13,785	2,345	12,753	2,671
Less: Unamortized bond discounts	(26,218)	--	(26)	--	--	--
Unamortized gain(loss) on bond refundings	(175,573)	--	(55)	--	--	--
Add: Unamortized bond premiums	71,065	--	36	--	--	--
Net debt service requirements	2,969,758	2,192,525	13,740	2,345	12,753	2,671

Fiscal Year Ended September 30	Total Business-Type Activities Debt Service Requirements		
	Principal	Interest	Total
2005	472,675	163,039	635,714
2006	144,459	154,498	298,957
2007	169,273	146,611	315,884
2008	164,288	146,033	310,321
2009	149,858	169,120	318,978
2010-2014	826,635	723,603	1,550,238
2015-2019	667,249	473,908	1,141,157
2020-2024	529,948	199,656	729,604
2025-2029	384,306	66,855	451,161
2030-2034	66,967	4,013	70,980
	3,575,658	2,247,336	5,822,994
Less: Unamortized bond discounts	(26,375)	--	(26,375)
Unamortized gain(loss) on bond refundings	(178,823)	--	(178,823)
Add: Unamortized bond premiums	73,207	--	73,207
Net debt service requirements	$ 3,443,667	2,247,336	5,691,003

11 – CONDUIT DEBT

The City has issued several series of housing and industrial development revenue bonds to provide for low cost housing and for acquisition and construction of industrial and commercial facilities. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Prior to September 30, 1997 the City issued several series of bonds; the aggregate principal amount payable of these bonds could not be determined; however, their original issue amounts totaled $310.2 million. Since 1997, the City has issued various series of bonds, with the original issues totaling $84.4 million; and $83.6 million is outstanding at September 30, 2004.

The City has issued various facility revenue bonds to provide for facilities located at the airport and convention center. These bonds are special limited obligations, payable solely from and secured by a pledge of revenue to be received from agreements between the City and various third parties. The original issues totaled $367.4 million, with $360.5 million outstanding at September 30, 2004.

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

12 – INTERFUND BALANCES AND TRANSFERS

Interfund receivables and payables at September 30, 2004, are as follows (in thousands):

		Amount	
Receivable Fund	**Payable Fund**	**Current**	**Long-Term**
Governmental funds:			
Nonmajor governmental funds	General Fund	$ 9	--
	Nonmajor governmental funds	28,819	--
	Water and Wastewater	--	4,234
	Nonmajor enterprise funds	--	1,647
	Internal service funds	--	278
Business-type funds:			
Electric	Internal service funds	21	419
	Nonmajor enterprise funds	--	2,579
Water and Wastewater (restricted)	Internal service funds	27	161
	Nonmajor governmental funds	6	--
Airport (restricted)	General Fund	617	1,851
	Nonmajor governmental funds	--	230
Nonmajor enterprise funds	Nonmajor governmental funds	1,164	116
Internal service funds	Nonmajor governmental funds	16	--
	Internal service funds	394	--
		$ 31,073	11,515

Interfund receivables and payables reflect temporary loans between funds. Of the above current amount, $13.4 million is an interfund loan from the Fiscal Surety Fund, a special revenue fund, to other special revenue funds (primarily grant funds) to cover deficit pooled investments and cash.

Interfund transfers during fiscal year 2004 were as follows (in thousands):

	Transfers In				
Transfers Out	**General Fund**	**Nonmajor Governmental**	**Nonmajor Enterprise**	**Internal Service Funds**	**Total**
General Fund	$ --	11,413	37,353	--	48,766
Nonmajor governmental funds	--	16,092	23,690	--	39,782
Electric	76,674	--	--	--	76,674
Water and Wastewater	19,220	2,848	--	--	22,068
Nonmajor enterprise funds	--	1,565	58	--	1,623
Internal service funds	--	1,062	--	17	1,079
Total transfers out	$ 95,894	32,980	61,101	17	189,992

12 – INTERFUND BALANCES AND TRANSFERS, continued

Interfund operating transfers are authorized through City Council approval. Significant transfers include the Electric and Water and Wastewater transfers to the General Fund, which are comparable to a return on investment to owners.

13 – LITIGATION

A number of claims against the City are pending with respect to various matters arising in the normal course of the City's operations. Legal counsel and City management are of the opinion that settlement of these claims and pending litigation will not have a material effect on the City's financial statements. The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2004. These liabilities include amounts for lawsuits settled subsequent to year-end, which are reported in the government-wide statement of net assets.

14 – COMMITMENTS AND CONTINGENCIES

a -- Fayette Power Project

Austin Energy's coal-fired electric generating units are located at the Fayette Power Project (FPP) and operate pursuant to a participation agreement with the Lower Colorado River Authority (LCRA, Project Manager). Austin Energy has an undivided 50 percent interest in Units 1 and 2, and LCRA wholly owns Unit 3. Austin Energy's investment is financed with City funds, and its pro-rata share of operations is recorded as if wholly owned. Austin Energy's equity in FPP was $43.3 million as of September 30, 2004. The equity interest in the FPP is calculated pursuant to the participation agreement and is reported in various asset and liability accounts within the City's financial statements.

The original cost of the Austin Energy's share of FPP's generation and transmission facilities is recorded in the utility plant accounts of the City in accordance with its accounting policies. Each participant issued its own debt to finance its portion of construction costs. The City's portion was financed through utility revenue bonds. In addition, each participant has the obligation to finance its portion of any operating and capital costs, as well as its deficits.

A management committee of four members governs FPP; each participant administratively appoints two members. As managing partner, LCRA is responsible for the operation of the project and appoints project management.

b -- South Texas Project

Austin Energy is one of four participants in the South Texas Project (STP), which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the STP are Texas Genco LP, formerly known as Reliant Energy, American Electric Power, formerly known as Central Power and Light Company, 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, 2004, Austin Energy's investment in the STP was approximately $564 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 own funding for STP. 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 committee. A member of the 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.

14 – COMMITMENTS AND CONTINGENCIES, continued

c -- South Texas Project Decommissioning

The South Texas Project (STP) is subject to regulation by the Nuclear Regulatory Commission (NRC). The NRC requires that each holder of a nuclear plant-operating license submit information to the NRC indicating the minimum funding required to decommission the plant. In addition, reasonable assurance must be demonstrated that sufficient funds are being accumulated to provide the minimum requirement for decommissioning. This amount must be adjusted annually as required by the NRC. At September 30, 2004, Austin Energy funded its share of the estimated decommissioning liability as follows:

	2004
Estimated cost to decommission STP	$ 245,191,822
Restricted decommissioning fund assets	101,808,700

Austin Energy and other STP participants have provided the required information to the NRC and have been collecting decommissioning funds through rates since 1989. Austin Energy has established an external irrevocable trust for collecting sufficient funds for its share of the estimated decommissioning costs. For fiscal year 2004, Austin Energy collected $4,958,221 for decommissioning expenses.

d -- Energy Risk Management Program

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

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

Brokerage	Credit Rating
Citigroup Global Market Holding Inc.	AA-
Man Group	A3

The hedging related contracts are reported at cost on the statement of net assets. The gains and losses related to these transactions are netted to fuel expense in the period realized. As of September 30, 2004, Austin Energy's options, futures, and basis swaps, valued at mark-to-market, netted to an unrealized loss of $58,022. This reflects the difference between the cost and the fair market value of these contracts at September 30, 2004. Initial margins are flat fees per contract and are paid in cash. Fair market values are calculated by multiplying the number of outstanding contracts by the forward prices as quoted by the New York Mercantile Exchange. The unrealized gain/loss refers to the difference between the cost and fair market value of the contracts, which is not included in the financial statements at September 30, 2004.

Futures	
Contracts effective date	August 2004
Contracts maturity date	Through January 2006
Initial margin	$ 135,000
Cost	2,680,000
Fair market value	2,826,000
Unrealized Gain/(Loss)	146,000

Options	
Contracts effective date	June through September 2004
Contracts maturity date	Through December 2007
Fair Value	$ (259,382)
Unrealized Gain/(Loss)	(1,662,082)

14 – COMMITMENTS AND CONTINGENCIES, continued

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

Swaps	
Contracts effective date	August through September 2004
Contracts maturity date	Through September 2007
Cost	$ 9,126,500
Fair market value	10,584,560
Unrealized Gain/(Loss)	1,458,060

The swap agreements expose Austin Energy to credit, termination, and non-performance risk. However, Austin Energy does not expect the swap counterparty to fail to meet its obligation given its high credit rating of A by S&P, and A3 by Moody's. Austin Energy's exposure to termination and non-performance risk is minimal due to the high credit rating of the counterparty, and the contractual provisions under the ISDA (International Swaps and Derivatives Association) agreement applied to the swaps.

e -- Derivative Instruments

Swap for the Water & Wastewater System

Objective of the swap. In order to lower its borrowing costs, on July 2, 2004 the City entered into a swap in connection with its Series 2004 Water and Wastewater System Variable Rate Revenue Refunding Bonds (the "Series 2004 Bonds"). The variable rate bonds were issued to advance refund various outstanding Combined Utility System Revenue Refunding Bonds. The swap was used to hedge the interest rate on the variable rate refunding bonds to a fixed rate and the synthetic fixed rate refunding produces a lower expected interest rate cost to the City. The swap had closing costs of $561,302.

Terms, fair values, and credit risk. The terms, including the counterparty credit ratings of the outstanding swap, as of September 30, 2004, are included in the table below. The City's swap agreement contains scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2004 Bonds were issued on August 27, 2004 with a principal amount of $132,475,000. The swap was structured to match the principal amortization structure and dates of the Series 2004 Bonds. The counterparty to the swap is JPMorgan Chase Bank. The table below contains a summary of the terms and fair value of the swap.

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Market Value
Water & Wastewater Variable Rate Revenue Refunding Bonds, Series 2004	May 15, 2024	JP Morgan	Aa2/AA-/AA-	68% of 1-month LIBOR	3.657%	$ (5,161,263)

The combination of variable rate bonds and a floating-to-fixed swap creates synthetic fixed-rate debt for the City. The transaction allowed the City to create a synthetic fixed rate on the Bonds in advance of issuance, protecting the City against *potential* increases in long-term interest rates.

Fair value. The swap had a negative fair value as of September 30, 2004 of $(5,161,263). This fair value takes into consideration the prevailing interest rate, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the London InterBank Offered Rate (LIBOR) swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swap.

14 – COMMITMENTS AND CONTINGENCIES, continued

Credit risk. As of September 30, 2004, the City was not exposed to credit risk on its outstanding swap because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the City would be exposed to credit risk in the amount of the swap's fair value. The City is exposed to credit risk in the amount of the derivative's fair value. This amount may become positive if interest rates increase in the future. However, if interest rates decline and the fair value of the swap were to remain negative, the City would not be exposed to credit risk. The current credit ratings of the JPMorgan Chase Bank are Aa2/AA-/AA- by Moody's/Standard & Poor's/Fitch, respectively. The City will be exposed to interest rate risk only if the counterparty defaults or if the swap is terminated.

The swap agreement contains a collateral agreement with the counterparty. Collateralization of the fair value of the swap is required should the counterparty's credit rating fall below the applicable thresholds in the agreement. The City purchased insurance to mitigate the need to post collateral as long as the insurer, Financial Security Assurance, maintains a credit rating above A2/A by Moody's/S&P.

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

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

Termination risk. The City or the counterparty may terminate the swap if the other party fails to perform under the terms of the respective contracts. If the swap is 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 insurance to mitigate the possibility of termination risk.

Swap payments and associated debt. As of September 30, 2004, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ended September 30	Water and Wastewater Variable-Rate Bonds (in thousands) Principal	Interest	Interest Rate Swaps, Net	Total
2005	$ 5,900	2,180	2,510	4,690
2006	3,000	2,123	2,444	4,567
2007	7,000	2,029	2,335	4,364
2008	1,200	1,975	2,273	4,248
2009	--	1,961	2,258	4,219
2010-2014	26,095	9,229	10,624	19,853
2015-2019	53,740	4,461	5,134	9,595
2020-2024	35,540	1,704	1,962	3,666
Total	$ 132,475	25,662	29,540	55,202

14 – COMMITMENTS AND CONTINGENCIES, continued

Swap for the Airport System

Objective of the swap. In order to lower its borrowing costs, on July 2, 2004 the City entered into an interest rate swap in connection with its Airport System Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2005 (the "Series 2005 Bonds"). The variable rate bonds will be issued to forward refund various outstanding bonds of the airport. The swap was used to hedge the interest rate on the variable rate refunding bonds to a fixed rate and the synthetic fixed rate refunding produces a lower expected interest rate cost to the City.

Terms, fair values, and credit risk. The terms, including the counterparty credit ratings of the outstanding swaps, as of September 30, 2004, are included below. The City's swap agreement contains scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2005 Bonds will be issued on August 17, 2005 with a principal amount of $306,225,000. The swap was structured to match the likely principal amortization structure and dates of the Series 2005 Bonds. The counterparty to the swap is Morgan Stanley Capital Services, Inc ("Morgan Stanley") with a guarantee from Morgan Stanley. The table below contains a summary of the terms and fair value of the swap.

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Market Value
Airport System Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2005	Nov 15, 2025	Morgan Stanley	Aa3/A+/AA-	71% of 1-month LIBOR	4.051%	$ (11,507,263)

The combination of variable rate bonds and a floating-to-fixed swap creates synthetic fixed-rate debt for the City. The transaction allowed the City to create a synthetic fixed rate on the Bonds in advance of issuance, protecting the City against *potential* increases in long-term interest rates. Other than the aforementioned swap agreement, there are no other monetary fees for the swap transaction.

Fair value. The swap had a negative fair value as of September 30, 2004 of $(11,507,263). This fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swap.

Credit risk. As of September 30, 2004, the City was not exposed to credit risk on its outstanding swap because the swap had a negative fair value. However, should interest rates change and the fair values of the swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value. The City is exposed to credit risk in the amount of the derivative's fair value. This amount may become positive if interest rates increase in the future. However, if interest rates decline and the fair value of the swap were to remain negative, the City would not be exposed to credit risk. The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

The swap agreement contains a collateral agreement with the counterparty. The swap requires collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds in the agreement. The City purchased swap insurance to mitigate the need to post collateral as long as the insurer, Financial Security Assurance, maintains a credit rating above A2/A by Moody's/S&P.

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

14 – COMMITMENTS AND CONTINGENCIES, continued

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

Termination risk. The City or the counterparty may terminate the swap if the other party fails to perform under the terms of the respective contracts. If the swap is 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 non-issuance of the Series 2005 Bonds and credit related events only and the ratings triggers are substantially below the current credit rating of the City. Additionally, the City purchased insurance to mitigate the possibility of termination risk.

Market-access risk. Market access risk describes the possibility that the City may not be able to access the debt market efficiently on the anticipated issuance date. This outcome is estimated to be very unlikely.

f -- Certificates of Participation

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

$ 23,060,000 Certificates of Participation, City of Austin, Texas Electric Utility Office Project, Series 1987

$ 14,000,000 Certificates of Participation, City of Austin, Texas Water and Wastewater Utility Office Project, Series 1987

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

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

The following table presents information regarding these certificates:

Description	Electric Fund Office Project (1)	Water and Wastewater Fund Office Project (1)
Date issued	February 1987	August 1987
Amount issued	$ 23,060,000	$ 14,000,000
Interest rates	4.00% - 7.00%	5.25% - 8.00%
Interest payable on	March 15 and	May 15 and
	September 15	November 15
Maturity dates	September 15	November 15
	1988 - 2007	1989 - 2007
Present value of lease payments	$ 5,600,493	$ 4,890,980
Reserve Fund (2)	$ 2,000,000	$ 1,250,000

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

14 – COMMITMENTS AND CONTINGENCIES, continued

g -- Federal and State Financial Assistance Programs

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

h -- Arbitrage Rebate Payable

The City's financial advisor has determined that the City has earned interest revenue on unused bond proceeds in excess of amounts allowed by applicable Federal regulations. The City will be required to rebate funds to the federal government. The estimated amounts payable at September 30, 2004 are as follows (in thousands):

	Business-type Activities			
Governmental Activities	**Electric**	**Water and Wastewater**	**Nonmajor**	**Total**
$ 244	1,320	406	20	$ 1,990

i -- Capital Improvement Plan

As required by the City Charter, the City has a *Five Year Capital Improvement Plan* (Capital Budget) that is an anticipated spending plan for projects in the upcoming and future years. The City's 2005 Capital Budget includes new appropriations of $231.9 million for the City's enterprise funds and $56.8 million for general government projects. The City has substantial contractual commitments relating to its capital improvement plan.

The key projects in progress include parks development and improvements, financial and administrative, transportation improvements, electric system improvements, water and wastewater system improvements and annexations and airport improvements as shown below (in thousands). Remaining commitments represent current unspent budget and future costs required to complete projects.

Project	Spent-to-Date	Remaining Commitment
Governmental activities:		
Parks development and improvements	$ 107,159	13,672
Financial and administrative	37,007	11,187
Transportation improvements	367,144	80,405
Other governmental	132,143	27,207
Business-type activities:		
Electric system improvements	1,225,334	180,971
Water and wastewater system improvements and annexations	1,263,028	703,268
Airport improvements	96,139	129,786
Nonmajor enterprise	142,443	222,458
Total	$ 3,370,397	1,368,954

j -- Operating Lease with Daughters of Charity Health Services of Austin

Effective October 1, 1995, the City entered into a long-term lease arrangement with the Daughters of Charity Health Services of Austin ("Seton"). Under the terms of the lease, Seton will operate City-owned Brackenridge Hospital and will provide all necessary medical services for residents of Austin regardless of their ability to pay. The City will reimburse Seton for services provided through three programs. Under the Charity Care Program, the City will reimburse Seton a maximum of $5.6 million annually for providing medical care to the medically indigent; provided however, that Seton must first provide charity care in the amount of 4% of net revenues as required by State law. Under the Medical Assistance Program (MAP), the City paid Seton approximately $10.6 million in fiscal year 2004 for patients enrolled in this program. Under the Physician Services Program, the City paid Seton approximately $5.8 million during fiscal year 2004 for providing physician services to patients in the first two programs.

14 – COMMITMENTS AND CONTINGENCIES, continued

In May 2003, the City amended the lease agreement to accommodate capacity issues related to the Children's Hospital at Brackenridge. In order to meet future community needs for pediatric medical services, the City Council approved moving the Children's Hospital to the former site of Robert Mueller Airport. The new Children's Hospital will be owned and operated by Seton. Other provisions of the amendment include lengthening the lease term from an original term of 30 years to 60 years (with an optional 30 year extension), increasing the breach of contract penalty from $5 million to $50 million, and adding a requirement that Seton spend a minimum of $50 million for capital improvements at Brackenridge over the next 20 years; of which $30 million must be spent within the next 10 years. The lease amendment also strengthens financial provisions related to the operation of the Austin Women's Hospital. The cost of the leased assets as of September 30, 2004 is as follows (in thousands):

	Cost	Accumulated Depreciation
Land and other nondepreciable assets	$ 745	--
Property, plant and equipment in service	73,977	(38,499)

Due to the creation of the Travis County Hospital District, assets associated with Brackenridge Hospital, Children's Hospital and the Austin Women's Hospital will convey to the Travis County Hospital District. For further information, please refer to the Subsequent Events Note (Note 16).

k -- 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, the City reports in the Solid Waste Services Fund, a nonmajor enterprise fund, a portion of these closure and postclosure care costs as an operating expense in each period, based on landfill capacity used as of each balance sheet date. The $7.6 million reported as accrued landfill closure and postclosure costs at September 30, 2004, represents the cumulative amount reported to date based on the use of 82.3% of the estimated capacity of the landfill. The Solid Waste Services Fund will recognize the remaining estimated cost of closure and postclosure care of $1.6 million as the remaining estimated capacity is filled over the next eight years. The total estimated costs of $9.2 million include costs of closure in 2012 of $2.3 million and postclosure costs over the subsequent thirty years of $6.9 million. These amounts are based on what it would cost to perform all closure and postclosure care in 2004. 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.

l -- 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 between a self-insured PPO or an HMO. Approximately 27% of City employees and 55% of retirees use the HMO option; approximately 73% of City employees and 45% 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. Excludes losses and claims related to health benefits or workers' compensation. Premiums are charged to other City funds each year based on historical costs.
Workers' Compensation	This self-insured program charges premiums to other City funds each year based on historical costs.

14 – COMMITMENTS AND CONTINGENCIES, continued

The City purchases stop loss insurance for the City's PPO. This stop loss insurance covers individual claims that exceed $500,000 per calendar year beginning in calendar year 2002 and $150,000 per calendar year prior to calendar year 2002, up to a maximum of $1 million. During fiscal year 2004, no claims exceeded the stop loss limit of $500,000; During fiscal year 2003, one claim exceeded the stop loss limit of $500,000; and no claims exceeded the stop loss limit of $500,000 in fiscal year 2002. City coverage is limited to $1 million in lifetime benefits. The City does not purchase stop loss insurance for workers' compensation claims.

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

Liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The City utilizes actuarial information and historical claim settlement trends to determine the claim liabilities for the Employee Benefits Fund and Workers' Compensation Fund; liabilities for the Liability Reserve Fund are calculated based on outstanding claims. The amount to be paid out ultimately may be more or less than the amount accrued at September 30, 2004. The possible range of loss is $27.4 to $41.2 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	
	2004	2003	2004	2003	2004	2003
Liability balances, beginning of year	$ 5,541	4,618	20,080	21,899	9,127	6,864
Claims and changes in estimates	4,460	5,328	3,601	9,586	4,592	6,587
Claim payments	(5,061)	(4,405)	(10,523)	(11,405)	(4,377)	(4,324)
Liability balances, end of year	$ 4,940	5,541	13,158	20,080	9,342	9,127

The Liability Reserve Fund claims liability balance at fiscal year end includes liabilities of $4.4 million discounted at 4.78% in 2004 and $4.9 million discounted at 5.02% in 2003.

In fiscal year 2004, the City reached a settlement agreement in a litigation matter with Christopher Ochoa in the amount of $4.8 million. This amount is included in the financial statements as presented.

m -- Environmental Remediation Contingencies

The Electric Fund may incur costs for environmental remediation of certain sites including the Holly and Seaholm Power Plants. The financial statements include a liability of $11.5 million at September 30, 2004. This amount includes the cost of penalties associated with an Environmental Protection Agency (EPA) PCB inspection and estimated remaining costs for the remediation of the contaminated sites. The Electric Fund anticipates payment of these costs in 2005 and future years.

The EPA issued an Administrative Order to the Water and Wastewater Utility on April 29, 1999. The Administrative Order requires the Utility perform a series of activities designed to result in an improved system free from sanitary sewer overflows. These activities include Infiltration/Inflow, Sanitary Sewer Evaluation Studies, as well as subsequent design and construction of necessary improvements to the wastewater collection system to eliminate overflows by December 2007. Construction costs are estimated to be $150 million and the Utility is on schedule to comply with the Administrative Order.

The Airport Fund may also incur costs for the environmental remediation of certain sites and has recorded an estimated liability of $1.5 million in the financial statements.

14 – COMMITMENTS AND CONTINGENCIES, continued

n -- Other Commitments and Contingencies

The City is committed under various leases for building and office space, tracts of land and rights of way, and various equipment. These leases are considered operating leases for accounting purposes. Lease expense for the year ended September 30, 2004 was $19.2 million. The City expects these leases to be replaced with similar leases in the ordinary course of business. Future minimum lease payments for these leases will remain approximately the same.

The City has entered into certain lease agreements, including the certificates of participation, as lessee for financing equipment purchases for Electric and Water and Wastewater Utilities and for financing personal computers for both governmental and business-type departments. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of the future minimum lease payments at their inception date. Refer to Note 10 for the debt service requirements on these leases.

The following summarizes assets recorded at September 30, 2004, under capital lease obligations (in thousands):

		Business-type Activities				
Assets	**Governmental Activities**	**Electric**	**Water and Wastewater**	**Airport**	**Nonmajor**	**Total**
Building and improvements	$ --	21,604	12,750	--	--	34,354
Equipment	2,289	1,334	284	917	652	3,187
Accumulated depreciation	(1,157)	(10,169)	(4,432)	(59)	(300)	(14,960)
Net assets	$ 1,132	12,769	8,602	858	352	22,581

15 – OTHER POST-EMPLOYMENT BENEFITS

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

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

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

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

Years of Service	Retiree only	Dependent only
Less than 5 years	14% - 16%	8% - 15%
5 to 9 years	22% - 24%	13% - 23%
10 to 14 years	38% - 40%	23% - 38%
15 to 20 years	55% - 56%	33% - 53%
Greater than 20 years	79% - 80%	49% - 75%

15 – OTHER POST-EMPLOYMENT BENEFITS, continued

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

Other post-employment benefits are expensed and funded on a pay-as-you-go basis. The City recognizes the cost of providing these benefits as payroll expense/expenditure in an operating fund with corresponding revenue in the Employee Benefits Fund. Medical and dental premiums and claims and life insurance premiums are reported in the Employee Benefits Fund. The estimated cost of providing these benefits for 2,443 retirees was $13.7 million in 2004, and $12.5 million in 2003 for 2,298 retirees.

As more fully described in Note 14, the City is a participant in the South Texas Project Nuclear Operating Company (STPNOC) and as such is liable for certain post-employment benefits for STPNOC employees. At December 31, 2003, the City's portion of this obligation, $7,883,039, is not reflected in the financial statements of the Electric Fund.

16 – SUBSEQUENT EVENTS

a -- Water and Wastewater System Revenue Bond Refunding Issue

In October 2004, the City issued $165,145,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2004A. Proceeds from the bonds were used to refund $175,000,000 of the City’s outstanding Tax-Exempt Commercial Paper issued for the Water and Wastewater System. The refunding resulted in future interest requirements to service the debt of $134,342,208. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

b -- Travis County Hospital District

In May 2004, voters in Travis County approved the creation of the Travis County Hospital District. In August 2004, the City and Travis County appointed members to serve on the Board of the District, which is comprised of nine members. The Board consists of four appointees from the City, four from Travis County, and one selected jointly. The District budget, which is required to be approved by the Travis County Commissioner’s Court, was approved for operations beginning on October 1, 2004.

On October 1, 2004, the City transferred $10.7 million to the District to fund a significant portion of a financial reserve fund. Of this amount, $3 million was transferred from remaining operating and capital reserves that existed in the Primary Care Fund at the end of fiscal year 2004. The City’s General Fund transferred the remaining amount of $7.7 million.

Certain City assets, obligations and rights will transfer to the District, including title to the land and buildings of Brackenridge Hospital, Children’s Hospital and the Austin Women’s Hospital. In addition, upon federal approval related to transfer of the federally-qualified status of the Community Health Center, assets associated with the City’s Federally Qualified Health Centers will also transfer to the District. On November 22, 2004, the Board approved the conveyance of land, buildings, and equipment pertaining to Brackenridge Hospital, Children’s Hospital and Austin Women’s Hospital.

The District has assumed the rights and obligations related to the lease with Seton to operate Brackenridge Hospital and the Children’s Hospital. The assumption of the lease includes provisions for the District to continue funding certain indigent healthcare costs previously funded by the City. The District has also assumed the agreement with the University of Texas Medical Branch at Galveston to operate Austin Women’s Hospital. An interlocal agreement approved by the District allows the City to operate the Federally Qualified Health Centers and administer the City and County Medical Assistance Programs.

General Fund **City of Austin, Texas**
Schedule of Revenues, Expenditures and Changes in **RSI-1**
Fund Balances--Budget and Actual-Budget Basis
For the year ended September 30, 2004
(In thousands)

	2004					
	Actual	Adjustments (1) (2)	Actual-Budget Basis	Budget Original	Budget Final	Variance Positive (Negative) (3)
REVENUES						
Taxes	$ 281,720	--	281,720	273,751	273,751	7,969
Franchise fees	29,018	--	29,018	27,132	27,132	1,886
Fines, forfeitures and penalties	16,976	--	16,976	17,317	17,317	(341)
Licenses, permits and inspections	15,317	--	15,317	16,884	16,884	(1,567)
Charges for services/goods	15,565	(1,185)	14,380	15,239	15,239	(859)
Interest and other	19,168	(475)	18,693	13,167	13,167	5,526
Total revenues	377,764	(1,660)	376,104	363,490	363,490	12,614
EXPENDITURES						
General government						
Municipal Court	8,199	32	8,231	8,713	8,613	382
Public safety						
Police	159,344	(1,652)	157,692	161,445	162,745	5,053
Fire	82,786	(14)	82,772	84,089	84,089	1,317
Emergency Medical Services	19,956	(437)	19,519	20,058	20,058	539
Transportation, planning and sustainability						
Transportation, Planning and Sustainability	8,493	311	8,804	9,277	9,277	473
Street lighting	176	--	176	160	160	(16)
Public health:						
Health	15,728	(244)	15,484	16,362	16,362	878
Social services management	9,579	505	10,084	10,293	10,293	209
Public recreation and culture						
Parks and Recreation	26,952	(271)	26,681	26,788	26,788	107
Austin Public Library	16,303	(116)	16,187	16,587	16,587	400
Urban growth management						
Neighborhood Planning and Zoning	3,088	6	3,094	3,413	3,413	319
Development Services and Watershed Protection	7,158	(220)	6,938	7,433	7,433	495
General city responsibilities (4)	46,983	(32,823)	14,160	12,705	12,705	(1,455)
Total expenditures	404,745	(34,923)	369,822	377,323	378,523	8,701
Excess (deficiency) of revenues over expenditures	(26,981)	33,263	6,282	(13,833)	(15,033)	21,315
OTHER FINANCING SOURCES (USES)						
Capital leases	634	(634)	--	--	--	--
Transfers in	95,894	1,725	97,619	97,619	97,619	--
Transfers out	(48,766)	(36,968)	(85,734)	(83,786)	(83,886)	(1,848)
Total other financing sources (uses)	47,762	(35,877)	11,885	13,833	13,733	(1,848)
Excess (deficiency) of revenues and other sources over expenditures and other uses	20,781	(2,614)	18,167	--	(1,300)	19,467
Special items - hospital district reserve payment	(7,700)	7,700	--	--	--	--
Fund balance at beginning of year	93,206	(58,854)	34,352	34,245	34,245	107
Fund balance at end of year	$ 106,287	(53,768)	52,519	34,245	32,945	19,574

(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.

BUDGET BASIS REPORTING

a -- General

The City of Austin prepares its annual operating budget based on cash and available resources (budget basis) which differs from generally accepted accounting principles (GAAP basis). In governmental funds, 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.

b -- Reconciliation of GAAP Basis and Budget Basis Amounts

The primary differences between GAAP-basis and budget reporting for the General Fund are the reporting of encumbrances and the reporting of certain operating 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	$ 20,781
Adjustments - increases (decreases) due to:	
Unbudgeted revenues	(475)
Net compensated absences accrual	(126)
Outstanding encumbrances established in current year	(4,247)
Payments against prior year encumbrances	2,550
Advance from Airport Fund	(450)
Other	134
Excess (deficiency) of revenues and other sources over expenditures and other uses - budget basis	$ 18,167

c -- Budget Amendments

The original budget of the General Fund was amended twice during fiscal year 2004 for increased public safety costs and an increase in transfers out offset by a decrease in expenditures for Municipal Court.

The original and amended budget is presented in the accompanying financial statements. The General Fund budget includes other revenues and requirements, which are presented in the general city responsibilities category. The amended expenditure budget for these general city requirements includes the following: tuition reimbursement ($85,000), accrued payroll ($1,435,000), expenditures for workers' compensation ($7,146,683), liability reserve ($2,500,000) and public safety ($1,538,700).

APPENDIX C

CERTAIN DEFINITIONS

APPENDIX C

CERTAIN DEFINITIONS

In addition to the words and terms defined in this Official Statement, the following words and terms as used in this Official Statement, including the Appendices thereto, have the following meanings:

“Act” means, collectively, Vernon’s Texas Code Annotated, Government Code, Chapters 1207 and 1371, and Vernon’s Texas Code Annotated, Local Government Code, Chapter 334.

“Additional Bond” means a bond issued by the City pursuant to the Ordinance and as described in the Official Statement under the heading “SECURITY FOR THE BONDS—Additional Bonds.”

“Alternate Credit Facility” or “Alternate Liquidity Facility” means a letter of credit, insurance policy, line of credit, surety bond, standby purchase agreement or other security or liquidity instrument, as the case may be, issued in accordance with the terms of the Ordinance as a replacement or substitute for any Credit Facility or Liquidity Facility, as applicable, then in effect.

“Authorized Denominations” mean, with respect to Bonds in a Daily or Weekly Mode, $100,000 and any integral multiple of $5,000 in excess thereof.

“Authorized Official” means, individually and collectively, each of the Mayor, the City Manager, the Treasurer and the Chief Financial Officer of the City.

“Available Commitment” means the amount available under the Credit Facility or Liquidity Facility, as applicable, to pay the principal of and interest on the Bonds or the Purchase Price of the Bonds, as applicable.

“Bank Rate” means, with respect to a Purchased Bond (i) for the period commencing on its Purchase Date to and including the date that is 180 days after its Purchase Date, the Base Rate, (ii) beginning on the 181st day after the Purchase Date up to but not including the day that is the last day of the Purchase Period, the Base Rate plus 1.00%, (iii) for days on and after the last day of the Purchase Period, the Base Rate plus 2.00%; provided that from and after the occurrence of an Event of Default, the “Bank Rate” means the Default Rate and in each case the Bank Rate may not exceed the Maximum Lawful Rate.

“Base Rate” means, for any day, a rate per annum equal to the higher of (a) the Federal Funds Rate plus 1.00% per annum or (b) the Prime Rate.

“BMA Municipal Swap Index” means, the rate per annum determined on the basis of an index based upon the weekly interest rates of tax-exempt variable rate issues included in a database which meet specific criteria established by the Bond Market Association. In the event an index satisfying the requirements of the preceding sentence is no longer published, the rate is required to be the “J.J. Kenny Index”, provided, however, that if the J.J. Kenny Index also ceases to be published, an alternative index is required to be calculated by an entity selected in good faith by the City, and is required to be determined using the criteria for the BMA Municipal Swap Index.

"Bond Policy" means the financial guaranty insurance policy to be issued by CIFG Assurance North America, Inc. as the initial Credit Facility.

"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.

"Book-Entry System" means the book entry system of registering ownership described in the Official Statement under the heading "BOOK-ENTRY-ONLY SYSTEM."

"Business Day" means any business day other than (a) a Saturday or Sunday or (b) a day on which banks located in the cities which are located the designated offices of the Tender Agent, Paying Agent/Registrar, Remarketing Agent, the Credit Provider, or Liquidity Provider are required or authorized by law or executive order to be closed, (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.

"City Consent," "City Order," and "City Request" mean, respectively, a written consent, order or request signed in the name of the City by any Authorized Official of the City.

"Convention Center/Waller Creek Venue Project" means the capital improvement project described generally as consisting of the expansion of 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 on 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.

"Credit Facility" means a direct-pay letter of credit, standby bond purchase agreement, insurance policy, surety bond, line of credit or other instrument then in effect which secures or guarantees the payment of principal of and interest on the Bonds. The initial Credit Facility is the Bond Policy issued by the initial Credit Provider.

"Credit Facility Failure" or "Liquidity Facility Failure" means a failure of the Credit Provider or Liquidity Provider, as applicable, to pay or honor a properly presented and conforming draw, claim or request for advance under the Credit Facility or Liquidity Facility, as applicable, or the filing or commencement of any bankruptcy, receivership or other insolvency proceedings by or against the Credit Provider or Liquidity Provider, as applicable, or the Credit Provider or Liquidity Provider, as applicable (provided, however, that no Credit Facility Failure or Liquidity Facility Failure may occur as a result of an involuntary bankruptcy, receivership, or other insolvency proceeding unless such proceeding has not been dismissed within 90 days after it commenced), is required to declare in writing a moratorium on the payment of its unsecured debt obligations or repudiate in writing the Credit Facility or Liquidity Facility, as applicable.

"Credit Provider" means any bank, insurance company, pension fund or other financial institution which provides a Credit Facility or Alternate Credit Facility for the Bonds. The initial Credit Provider is CIFG Assurance North America, Inc.

"Credit Reimbursement Agreement" means any reimbursement agreement, credit agreement, line of credit agreement, standby purchase agreement or other agreement, by and between the City and the Credit Provider or Liquidity Provider, as applicable. Initially, there are one Credit Reimbursement Agreement between the City and the Credit Provider which relates to the Reserve Fund Surety Bond issued by the initial Credit Provider. Additionally, the initial Liquidity Facility constitutes a Credit Reimbursement Agreement among the City, the Tender Agent and the Liquidity Provider.

"Daily Mode" means the period of time when the Bonds bear interest at the Daily Rate.

"Daily Rate" means the per annum interest rate on Bonds in the Daily Mode determined pursuant to the Ordinance and as described in the Official Statement under the heading "DESCRIPTION OF THE BONDS—General—Calculation of Interest."

"Daily Rate Period" means the period of time when a Bond in the Daily Mode bears interest at the Daily Rate, which will be the period commencing on the applicable Mode Change Date or the day immediately following each Rate Determination Date and continuing through the following Rate Determination Date or, if applicable, the day before the Mode Change Date.

"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 such bonds then Outstanding which will become due and owing during such Bond Year.

"Designated Payment/Transfer Office" means the office of the Paying Agent/Registrar so designated by it from time to time.

"Default Rate" with respect to Liquidity Provider Bonds means the Base Rate plus 3.0%; provided, that in no circumstance may the Default Rate for Liquidity Provider Bonds exceed the lesser of 15% or the maximum "net effective interest rate" allowed under Texas law, currently codified as Chapter 1204, Texas Gov't. Code, as amended.

"Designated Day" means a day of the week designated by the Remarketing Agent in connection with a Mode Change as a day on which a particular action is to occur. Different days of the week may be "Designated Days" for different actions.

"Electronic Means" mean telecopy, facsimile transmission, e-mail transmission or other similar electronic means of communication providing evidence of transmission, including a telephonic communication confirmed by any other method set forth in this definition.

"Federal Funds Rate" means, for any day a fluctuating interest rate per annum equal to the weighted average (rounded to the next higher 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average (rounded to the next higher 1/100 of 1%) of the quotations for such day on such transactions received by the Liquidity Provider from three Federal funds brokers of recognized standing selected by the Liquidity Provider. Each determination of the Fed Funds Rate by the Liquidity Provider will be conclusive and binding on the City.

"Fiscal Year" means the City's fiscal year as from time to time designated by the City, which is currently October 1 to September 30.

"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 and (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.

"Holder" when used with respect to any Bond (or Parity Bond) means 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 means the Holders 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 a 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 Accrual Period" means the period during which a Bond accrues interest payable on any Interest Payment Date applicable thereto. With respect to Bonds in the Daily Mode or a Weekly Mode, the Interest Accrual Period is required to commence on (and include) the 15th day of each month and is required to extend through (and include) the 14th day of the following month; provided, that if such month is the month in which the Bonds are authenticated and delivered, or if the Bonds are changed to the Daily Mode or Weekly Mode during such month, the Interest Accrual Period is required to commence on the date of authentication and delivery of the Bonds or the Mode Change Date, as the case may be; provided, further, that if no interest has been paid on Bonds in the Daily Mode or Weekly Mode, interest is required to accrue from the date of original authentication and delivery of the Bonds or the Mode Change Date, as appropriate.

"Interest Payment Date" means each date on which interest is to be paid and is, with respect to a Bond in the Daily Mode or a Weekly Mode, the 15th day of each month, or if such day is not a Business Day, the next succeeding Business Day.

"Interest Period" means the period of time that the Bonds bear interest at the rate (per annum) which becomes effective at the beginning of such period. Initially, the Interest Period for the Bonds is a Weekly Rate Period.

"Junior Subordinate Lien Bond" means an Additional Bond issued by the City and secured in whole or in part by liens on the Pledged Revenues that are junior and subordinate to the lien on Pledged Revenues securing payment of the Parity Bonds.

"Liquidity Facility" means any letter of credit, line of credit, standby bond purchase agreement or other instrument then in effect which provides for the purchase of the Bonds upon their tender in the event remarketing proceeds are insufficient. The initial Liquidity Facility for the Bonds is the Standby Bond Purchase Agreement dated as of August 15, 2005 between the City and the initial Liquidity Provider.

"Liquidity Provider" means any bank, insurance company, pension fund or other financial institution which provides a Liquidity Facility or Alternate Liquidity Facility for the Bonds. The initial Liquidity Provider is Dexia Crédit Local, acting through its New York Branch.

"Liquidity Provider Bonds" mean any Bonds held by or for the benefit of the Liquidity Provider (or its assignee) following purchase of such Bonds with funds drawn on or advanced under the Liquidity Facility other than Bonds which the Liquidity Provider (or its assignee) has elected to continue to hold following receipt of a Purchase Notice (as defined in the initial Liquidity Facility).

"Mandatory Tender Date" means each of the following dates (except that so long as the Bonds are in the Daily or Weekly Mode, such dates are required to be a Mandatory Tender Date only if a Liquidity Facility is in effect pursuant to which the Liquidity Provider is obligated to pay or advance funds to pay the Purchase Price of the Bonds tendered on such date):

(1) each Mode Change Date, except in connection with a change between a Daily Mode and Weekly Mode or between a Weekly Mode and a Daily Mode;

(2) any Substitution Date;

(3) the seventh Business Day prior to any expiration date of the Liquidity Facility (but there will be no separate mandatory tender in respect of an expiration date of the Liquidity Facility if notice has been given of a mandatory tender that will occur prior to the expiration date of the Liquidity Facility and the Bonds will not subsequently be remarketed under the Liquidity Facility that is expiring);

(4) the Business Day specified by the Paying Agent/Registrar as the tenth day after any default in the payment of any interest upon any Bond when such interest becomes due and payable or after any default in the payment of any Purchase Price when due or any principal of (or premium, if any, on) any Bond at its Maturity if either (a) the Credit Provider so directs the Paying Agent/Registrar in writing or (b) the Credit Provider is in payment default under the Bond Policy (unless on such Mandatory Tender Date there is no Liquidity Facility in effect with respect to such Bonds); and

(5) each date established by the City for mandatory tender pursuant to the Ordinance.

Each Mandatory Tender Date must be a Business Day. If a Mandatory Tender Date described above would not be a Business Day, then the Mandatory Tender Date is required to be the immediately preceding Business Day.

"Matched Interest Rate Exchange Agreement" means a Credit Agreement between the City and another party entered into in connection with or related to the City's Variable Rate Obligations, which Credit Agreement 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 such Variable Rate Obligations of the City, and of which the notional amount is reduced as the principal of such Variable Rate Obligation is paid.

"Maturity" means a Stated Maturity and any date upon which principal of a Bond becomes due, whether by means of redemption, acceleration of maturity or otherwise.

"Maximum Lawful Rate" means the lesser of either (a) (i) in the case of Liquidity Provider Bonds, 15% per annum or (ii) for all other Bonds 10% per annum, as applicable, or (b) the maximum "net effective interest rate" allowed under Texas law, currently codified as Chapter 1204, Texas Gov't. Code, as amended.

"Mode" means, as the context may require, the Daily Mode or the Weekly Mode. Initially, the Bonds will be in the Weekly Mode.

"Mode Change" means a conversion from one Mode to another pursuant to the terms of the Ordinance and as described in this Official Statement under the heading "DESCRIPTION OF THE BONDS—Interest Rate Modes; Conversions."

"Mode Change Date" means, with respect to Bonds in a particular Mode, the day on which another Mode for the Bonds begins.

"Moody's" means Moody's Investors Service, Inc., a corporation duly 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 is be dissolved or liquidated or no longer is able to perform the functions of a securities rating agency, then the term "Moody's" will be deemed to refer to any other nationally recognized securities rating agency selected by the City after consultation with the Remarketing Agent.

"Optional Tender Notice" means a notice delivered by Electronic Means or in writing to the Tender Agent that states (a) the principal amount of such Bond to be purchased pursuant to the Ordinance, (b) the Purchase Date on which such Bond is to be purchased, and (c) applicable payment instructions with respect to the Bonds being tendered for purchase.

"Ordinance" means Ordinance No. 050623-122 and all exhibits, appendices, amendments and supplements attached thereto and the Pricing Certificate.

"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, any or all, theretofore and thereupon delivered except: (a) any such Prior Lien Bond, Parity Bond or Junior Subordinate Lien Bond paid, discharged or canceled by or on behalf of the City at or before said date; (b) any such Prior Lien Bond, Parity Bond and Junior Subordinate Lien Bond defeased pursuant to the defeasance provisions of the ordinance authorizing its issuance, or otherwise defeased as permitted by applicable law; and (c) any such Prior Lien Bond, Parity Bond or Junior Subordinate Lien Bonds in lieu of or in substitution for which another obligation will have been delivered pursuant to the ordinances authorizing the issuance of such Prior Lien Bonds, Parity Bonds or Junior Subordinate Lien Bonds.

"Parity Bonds" mean the Bonds and Additional Bonds secured by a lien on Pledged 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 a Swap 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 for in 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 a 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 the Ordinance.

"Pricing Certificate" means the pricing certificate to be executed by an Authorized Official in accordance with the provisions of Section 1207.007, Texas Government Code, as amended, to evidence certain approvals and determinations as authorized pursuant to the Ordinance.

"Prime Rate" means the rate established by the Liquidity Provider from time to time as its prime rate; the Liquidity Provider may lend to its customers at rates that are at, above or below the Prime Rate.

"Principal Office" means, with respect to the Auction Agent, the office thereof designated in writing to the City and each Broker-Dealer.

“Prior Lien Bonds” mean (a) with respect to the Pledged Hotel Occupancy Tax Revenues, the outstanding (i) “City of Austin, Texas Hotel Occupancy Tax Revenue Taxable Refunding Bonds, Series 1999,” dated June 15, 1999, and originally issued in the aggregate principal amount of $6,445,000 and (ii) “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, and (b) with respect to the Special Hotel Occupancy Tax deposited to the credit of the Venue Project Fund, the Special Venue Project Bonds.

“Purchase Date” means (a) for a Bond in the Daily Mode, any Business Day selected by the Owner of said Bond, (b) for a Bond in the Weekly Mode, the first day of that Weekly Rate Period, and if such day is not a Business Day the next succeeding Business Day, and (c) any Mandatory Tender Date.

“Purchase Price” means (a) an amount equal to the principal amount of any Bonds purchased on any Purchase Date, plus in the case of any purchase of Bonds in the Daily Mode or the Weekly Mode and purchased on a date that is not an Interest Payment Date, accrued interest, if any, or (b) an amount equal to the principal amount of any Bonds purchased on a Mandatory Tender Date, plus accrued interest, if any, to the Mandatory Date.

“Rate Determination Date” means the date on which the interest rate on a Bond is determined, which, (a) in the case of the Daily Mode, is required to be each Business Day commencing with the first day the Bonds become subject to the Daily Mode; and (b) in the case of the Weekly Mode, is required to be each Wednesday or, if Wednesday is not a Business Day, the next succeeding day or, if such day is not a Business Day, then the Business Day next preceding such Wednesday.

“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.

“Refunded Bonds” mean those City of Austin, Texas, Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 1999, dated September 1, 1999, identified by an Authorized Official in the Pricing Certificate as the obligations to be refunded with the proceeds of the Bonds.

“Regular Record Date” means (a) with respect to Bonds in a Weekly Mode, the day (whether or not a Business Day) preceding each Interest Payment Date, and (b) with respect to Bonds in the Daily Mode, the 14th day of each month (whether or not a Business Day).

“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, its obligations to reimburse a

Credit Provider for amounts paid under a Credit Facility, and its obligation to reimburse the issuer of a Swap Policy for amounts paid under the Swap Policy constitute Reimbursement Obligations.

"Remarketing Agent" means any investment banking firm appointed by the City to serve as Remarketing Agent for the Bonds. Until such time as an alternate Remarketing Agent is appointed, the Remarketing Agent will be Lehman Brothers Inc.

"Remarketing Agreement" means a remarketing agreement between the City and the applicable Remarketing Agent, as it may be amended or supplemented from time to time in accordance with its terms.

"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 the Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder.

"Reserve Fund Surety Bond" mean 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.

"Securities Depository" means The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax – (516) 227-4039 or (516) 227-4190 or such other securities depository as the City may designate with respect to the Bonds by City Order.

"Security Register" mean 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 a day.

"Special Venue Project Bonds" mean City of Austin, Texas, Convention Center/Waller Creek Venue Project Bonds, Series 1999A, dated June 15, 1999, and originally issued in the aggregate principal amount of $25,000,000.

"Standard & Poor's" means Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, and its successors and assigns, except that if such corporation is dissolved or liquidated or is no longer able to perform the functions of a securities rating agency, then the term "Standard & Poor's" will be deemed to refer to any other nationally recognized securities rating agency selected by the City after consultation with the Remarketing Agent.

"Stated Maturity" means, initially, a Stated Maturity specified in the Pricing Certificate.

“Substitution Date” means the date upon which an Alternate Credit Facility or Alternate Liquidity Facility is substituted for the Credit Facility or Liquidity Facility then in effect.

“Surety Bond Issuer” means the issuer of a surety bond, selected by an Authorized Official, for the purpose of satisfying the Reserve Fund Requirement.

“Swap Agreement” means an ISDA Master Agreement (Local Currency – Single Jurisdiction) together with the Schedule, Credit Support Annex and Confirmation thereto, between the City and a Swap Counterparty.

“Swap Counterparty” means a counterparty under any Swap Agreement.

“Swap Policy” means a financial guaranty insurance policy insuring the obligations of the City under a Swap Agreement.

“Tax Act” mean Chapter 351 of the Texas Tax Code, Vernon’s Texas Codes Annotated, as amended.

“Tender Agent” means a commercial bank or a trust company which may from time to time be appointed by the City to serve as Tender Agent for the Bonds. Until such time as an alternate Tender Agent is appointed, the Tender Agent will be Deutsche Bank Trust Company Americas.

“Transfer Date” mean each February 14, May 14, August 14, and November 14, beginning November 14, 2005.

“Transfer Period” mean 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” mean 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.

“Weekly Mode” means the period of time when the Bonds bear interest at the Weekly Rate.

“Weekly Rate” means the per annum interest rate on Bonds in the Weekly Mode determined pursuant to the Ordinance and as described in the Official Statement under the heading “DESCRIPTION OF THE BONDS—General—Calculation of Interest.”

“Weekly Rate Period” means the period when a Bond in the Weekly Mode bears interest at the Weekly Rate, which is required to be the period commencing on the applicable Designated

Day of each week to, but not including, the applicable Designated Day of the following week, except the first Weekly Rate Period which is required to be from the immediately preceding Mode Change Date or date of initial issuance of such Bond, as applicable, to, but not including, the applicable Designated Day of the following week and the last Weekly Rate Period which is required to be from, but not including, the applicable Designated Day of the week prior to the proposed Mode Change Date to the day next succeeding the proposed Mode Change Date. The Designated Day for the Bonds during the Weekly Rate Period is required to be Thursday of each week, commencing with the first Thursday that is at least five days after the applicable Mode Change Date, or such other day as may be established by the Remarketing Agent with the consent of the City and the Liquidity Provider in connection with the establishment of that rate period.

APPENDIX D

FORM OF BOND COUNSEL'S OPINION

Fulbright & Jaworski l.l.p.
A Registered Limited Liability Partnership
600 Congress Avenue, Suite 2400
Austin, Texas 78701
www.fulbright.com

telephone: (512) 474-5201 **facsimile: (512) 536-4598**

August 17, 2005

IN REGARD to the authorization and issuance of the "City of Austin, Texas, Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2005" (the "Bonds"), dated August 17, 2005, in the principal amount of $119,290,000, we have examined the legality and validity of the issuance thereof by the City of Austin, Texas (the "City"), which Bonds are issuable in fully registered form and mature on November 15, 2029, unless redeemed prior to maturity in accordance with the applicable optional or mandatory redemption provisions. The Bonds bear interest on the unpaid principal amount from the date of issuance at the rates per annum applicable thereto from time to time as provided in the ordinance (the "Ordinance") authorizing the issuance of the Bonds, and such interest is payable on the dates specified in the Ordinance to the registered owners shown on the registration books of the Paying Agent/Registrar on the Regular Record Dates therefor.

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 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.

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 all tax-exempt obligations, such as 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 as to the affect on the excludability from gross income for federal income tax purposes of any action taken under the Ordinance which requires that the City shall have received an opinion of counsel to the effect that such action will not adversely affect the excludability of interest on the Bonds from the gross income, as defined in Section 61 of the Code, of the owners thereof for federal income tax purposes. The Ordinance provides that prior to taking certain actions, including converting the interest rate on the Bonds, the City must have received such an opinion, which is dependent on the occurrence of certain events in the future.

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.

APPENDIX E

SPECIMEN BOND INSURANCE POLICY

CIFG Assurance North America, Inc.
825 Third Avenue, Sixth Floor
New York, NY 10022
For information, contact (212) 909-3939
Toll-free (866) 243-4212

FINANCIAL GUARANTY INSURANCE POLICY

ISSUER: ___________________ Policy No.: CIFG NA-##

CUSIP: ____________________ Effective Date: _______, 200_

OBLIGATIONS: ____

CIFG ASSURANCE NORTH AMERICA, INC. ("CIFG NA"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY GUARANTEES to each Policyholder, subject only to the terms and conditions of this Policy (which includes each endorsement hereto), the full and complete payment by or on behalf of the Issuer of Regular Payments of principal of and interest on the Obligations.

For the further protection of each Policyholder, CIFG NA irrevocably and unconditionally guarantees:

(1) payment of any amount required to be paid under this Policy by CIFG NA following CIFG NA's receipt of notice and instruments of assignment as described in Endorsement No. 1 hereto and

(2) payment of the amount of any distribution of principal of and interest on the Obligations made during the Term of this Policy to such Policyholder that is subsequently avoided in whole or in part as a preference payment under applicable law, all as described in Endorsement No. 1 hereto.

CIFG NA shall be subrogated to the rights of each Policyholder to receive payments under the Obligations to the extent of any payment by CIFG NA hereunder. Upon disbursement in respect of an Obligation, CIFG NA shall become the owner of the Obligation, appurtenant coupon, if any, and all rights to payment of principal thereof or interest thereon.

The following terms shall have the meanings specified below, subject to and including any modifications set forth in any endorsement hereto, for all purposes of this Policy. "Effective Date," "Issuer" and "Obligations" mean, respectively, the Effective Date, Issuer and Obligations referenced above. "Policyholder" means, if the Obligations are in book-entry form, the registered owner of any Obligation as indicated on the registration books maintained by or on behalf of the Issuer for such purpose or, if the Obligations are in bearer form, the holder of any Obligation; *provided, however, that* any trustee acting on behalf of and for the benefit of such registered owner or holder shall be deemed to be the Policyholder to the extent of such trustee's authority. "Regular Payments" means payments of interest and principal which are agreed to be made during the Term of this Policy in accordance with the original terms of the Obligations when issued and without regard to any amendment or modification of such Obligations thereafter; payments which become due on an accelerated basis as a result of (a) a default by the Issuer or any other person, (b) an election by the Issuer to pay principal or other amounts on an accelerated basis or (c) any other cause, shall not constitute "Regular Payments" unless CIFG NA shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration. "Term of this Policy" has the meaning set forth in Endorsement No. 1 hereto.

This Policy sets forth in full the undertaking of CIFG NA, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto or to the Obligations (except a contemporaneous or subsequent agreement or instrument given by CIFG NA or to which CIFG NA has given its written consent) or by the merger, consolidation or dissolution of the Issuer. The premiums paid in respect of this Policy are nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Obligations prior to maturity. This Policy may not be cancelled or revoked during the Term of this Policy, including for nonpayment of premium due to CIFG NA. Payments under this Policy may not be accelerated except at the sole option of CIFG NA.

In witness whereof, CIFG ASSURANCE NORTH AMERICA, INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

CIFG ASSURANCE NORTH AMERICA, INC.

By ______________________________________
Authorized Officer

APPENDIX F

SCHEDULE OF REFUNDED BONDS

		Maturity	Coupon	Maturity Amount	Call Date	Redemption Price
Hotel Occupancy Tax Subordinate Lien		11/15/2005	4.600%	$ 1,500,000		
Series 1999		11/15/2006	4.700%	2,265,000		
		11/15/2007	4.800%	2,375,000		
		11/15/2008	4.900%	2,490,000		
		11/15/2009	5.500%	2,615,000		
		11/15/2010	5.500%	2,750,000	11/15/2009	100.00%
		11/15/2011	5.500%	2,895,000	11/15/2009	100.00%
		11/15/2012	5.750%	3,050,000	11/15/2009	100.00%
		11/15/2013	6.000%	3,215,000	11/15/2009	100.00%
		11/15/2014	6.000%	3,390,000	11/15/2009	100.00%
		11/15/2015	6.000%	3,580,000	11/15/2009	100.00%
		11/15/2016	6.000%	3,775,000	11/15/2009	100.00%
		11/15/2017	5.625%	3,985,000	11/15/2009	100.00%
		11/15/2018	5.625%	4,210,000	11/15/2009	100.00%
		11/15/2019	5.625%	4,445,000	11/15/2009	100.00%
		11/15/2020	5.625%	4,695,000	11/15/2009	100.00%
		11/15/2021	5.625%	4,960,000	11/15/2009	100.00%
	Term Bond	11/15/2029	5.800%	51,305,000	11/15/2009	100.00%
Total Par Amount				$ 107,500,000		

APPENDIX G

THE STANDBY PURCHASER

Dexia Credit Local

Dexia Credit Local ("Dexia") is a subsidiary of the Dexia Group, which was created in 1996. The Dexia Group is a major European banking organization that is the product of several cross-border mergers. Dexia is an authentically European bank in terms of both its management organization and the scope of its different lines of business. The Dexia Group is listed on the Brussels, Paris and Luxembourg stock exchanges. With a stock market capitalization of over 19 billion euros as of December 31, 2004, the Dexia Group ranks in the top third of the Euronext 100 companies.

Dexia specializes in the Dexia Group's first line of business – public and project finance and financial services for the public sector. Dexia has recognized expertise in local public sector financing and project finance. It is backed by a network of specialized banks, which employ over 3,000 professionals. Through this network of subsidiaries, affiliates and branches, Dexia is present in almost all of the countries of the European Union as well as Central Europe, the United States of America and Canada. Dexia also has operations in Latin America, the Asian-Pacific Region including Australia, and the countries around the Mediterranean.

Dexia is a bank with its principal office located in Paris, France. In issuing the facility, Dexia will act through its New York Branch, which is licensed by the Banking Department of the State of New York as an unincorporated branch of Dexia Credit Local, Paris. Dexia is the leading local authority lender in Europe, funding its lending activities in 2004 primarily through the issuance of euro and U.S. dollar-denominated bonds. In 2004, total funding raised by Dexia and Dexia Municipal Agency was 11.7 billion euros.

The Dexia Group is the owner of Financial Security Assurance Holdings Ltd. ("FSA Holdings"), the holding company for Financial Security Assurance Inc., a leading financial guaranty insurer.

As of December 31, 2004, Dexia had total consolidated assets of 206.0 billion euros, outstanding medium and long-term loans to customers of 168.13 billion euros and shareholders' equity of over 4.32 billion euros (Tier I plus Tier II), and for the year then ended had consolidated net income of 705 million euros. These figures were determined in accordance with generally accepted accounting principles in France. Dexia maintains its records and prepares its financial statements in euros. At December 31, 2004, the exchange rate was 1.0000 euro equals 1.3621 United States dollar. Such exchange rate fluctuates from time to time.

Dexia is rated Aa2 long-term and P-1 short-term by Moody's, AA long-term and A-1+ short-term by S&P, and AA+ long-term and F1+ short-term by Fitch.

Dexia will provide without charge a copy of its most recent publicly available annual report. Written requests should be directed to: Dexia Credit Local, New York Branch, 445 Park Avenue, 7th Floor, New York, New York 10022, Attention: General Manager. The delivery of this information shall not create any implication that the information contained or referred to herein is correct as of any time subsequent to its date.