

OFFICIAL STATEMENT DATED MAY 12, 2005

NEW ISSUE - Book-Entry-Only

RATING: STANDARD & POOR'S: "AAA"
MOODY'S: "Aaa"

(See "BOND INSURANCE" and "GENERAL - Ratings" herein.)

In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law subject to the matters described under "TAX EXEMPTION" herein including a description of the alternative minimum tax on corporations.

\$36,720,000

CITY OF AUSTIN, TEXAS

(Travis County, Texas)

Town Lake Park Community Events Center Venue Project Refunding Bonds, Series 2005

Dated: May 1, 2005

Due: November 15, as shown on the inside cover

The Bonds will bear interest from the dated date, May 1, 2005, at the rates set forth on the inside cover, calculated on the basis of a 360-day year composed of twelve 30-day months. Interest on the Bonds is payable on November 15, 2005 and semiannually thereafter on May 15 and November 15 of each year until maturity or earlier redemption. The Bonds will be registered initially in the name of Cede & Co., a nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Purchases will be made in book-entry-only form through DTC. Participants only in denominations of \$5,000 or any integral multiple thereof, and, while the book-entry-only system is utilized, no physical delivery of Bonds will be made to purchasers. Payments of principal, redemption premium, if any, and interest will be made to purchasers by DTC through its Participants. The City reserves the right to discontinue such book-entry-only system. See "DESCRIPTION OF THE BONDS" herein.

The Bonds are subject to optional redemption prior to maturity, in whole or in part, commencing November 15, 2015 and on any date thereafter at a price equal to the principal amount thereof plus accrued interest. See "DESCRIPTION OF THE BONDS" herein.

The Bonds are issued pursuant to V.T.C.A., Government Code, Chapter 1207, as amended ("Chapter 1207"), and other applicable laws of the State of Texas, and an ordinance (the "Ordinance") adopted by the City to refund a portion of the City's outstanding debt described in SCHEDULE I (the "Refunded Bonds") in order to lower the overall debt service requirements of the City's obligations payable from the Pledged Revenues and to pay costs of issuance. The Bonds are special obligations of the City that are equally and ratably payable from and secured by a first lien on certain Pledged Revenues and special funds described herein. The City reserves the right to issue additional parity revenue bonds for refunding purposes. The Pledged Revenues consist primarily of (i) the revenues received from the Special Motor Vehicle Rental Tax deposited to the credit of the Venue Project Fund, (ii) Parking Revenues deposited to the credit of the Venue Project Fund, (iii) Events Center Revenues deposited to the credit of the Venue Project Fund, (iv) interest and other income realized from the investment of amounts on deposit in the funds and accounts created by the Ordinance to the extent such interest and other income are required to be transferred or credited to the Venue Project Fund, and (v) any additional revenue, receipts or income hereafter pledged to the Bonds in accordance with the Ordinance. See "SECURITY FOR THE BONDS" herein.

AN INVESTMENT IN THE BONDS INVOLVES CERTAIN RISKS. A PROSPECTIVE BONDHOLDER IS ADVISED TO READ THIS ENTIRE OFFICIAL STATEMENT PRIOR TO MAKING AN INVESTMENT IN THE BONDS, PARTICULARLY THE SECTION HEREOF ENTITLED "BONDHOLDERS' RISKS."

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 REVENUES DERIVED FROM THE SPECIAL MOTOR VEHICLE RENTAL 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.



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 Financial Guaranty Insurance Company ("FGIC") simultaneously with the delivery of the Bonds. (See "BOND INSURANCE" herein).

MATURITY SCHEDULE

See Schedule on Inside of Cover Page

The Bonds are offered for delivery when, as, and if issued, subject to the opinion of the Attorney General of the State of Texas and Fulbright & Jaworski L.L.P., Bond Counsel, as to the validity of the issuance of the Bonds under the Constitution and laws of the State of Texas. Certain additional legal matters will be passed on for the City by McCall, Parkhurst & Horton L.L.P. Certain legal matters will be passed upon for the Underwriters by Bickerstaff, Heath, Smiley, Pollan, Keever & McDaniel, L.L.P. It is expected the Bonds will be available for delivery when issued, currently anticipated on or about May 24, 2005.

Apex Pryor Securities
Lehman Brothers
Ramirez & Co. Inc.

Siebert Brandford Shank & Co., LLC
First Southwest Company
Morgan Keegan & Company, Inc.

JPMorgan
Morgan Stanley
UBS Financial Services Inc.

MATURITY SCHEDULE

<u>Maturity</u> <u>(November 15)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u> <u>or Yield</u>	<u>Maturity</u> <u>(November 15)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u> <u>or Yield</u>
2011	\$ 580,000	3.300%	3.400%	2019	\$1,805,000	5.000%	4.130%*
2012	1,315,000	3.500%	3.540%	2020	1,890,000	5.000%	4.180%*
2013	1,370,000	4.000%	3.660%	2021	1,990,000	5.000%	4.230%*
2014	1,435,000	5.000%	3.780%	2022	2,085,000	5.000%	4.270%*
2015	1,510,000	5.000%	3.880%	2023	2,190,000	5.000%	4.310%*
2016	1,590,000	5.000%	3.940%*	2024	2,300,000	5.000%	4.350%*
2017	1,660,000	4.000%	4.125%	2025	2,410,000	5.000%	4.380%*
2018	1,725,000	4.000%	4.180%				

\$10,865,000 5.00% Term Bonds Due November 15, 2029; Priced to Yield 4.47%*

(Plus accrued interest from May 1, 2005)

*Priced to call date.

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CITY OF AUSTIN

Elected Officials

	<u>Term Expires June 15</u>
Will Wynn.....Mayor	2006
Daryl Slusher..... Councilmember Place 1	2005
Raul Alvarez..... Councilmember Place 2	2006
Jackie Goodman, Mayor Pro Tem..... Councilmember Place 3	2005
Betty Dunkerley..... Councilmember Place 4	2005
Brewster McCracken..... Councilmember Place 5	2006
Danny Thomas..... Councilmember Place 6	2006

Appointed Officials

Toby Hammett Futrell.....	City Manager
Joe Canales.....	Deputy City Manager
Rudy Garza.....	Assistant City Manager
Mike McDonald.....	Acting Assistant City Manager
John Stephens, CPA.....	Chief Financial Officer
Laura Huffman.....	Assistant City Manager
Vickie Schubert, 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

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

For additional information regarding the City, please contact:

Dennis Waley, CPA
Treasurer
City of Austin
700 Lavaca, Suite 1510
Austin, Texas 78701
(512) 974-7883
dennis.waley@ci.austin.tx.us

Bill Newman
Public Financial Management
700 Lavaca
Suite 1500
Austin, Texas 78701
(512) 472-7194
newmanb@pfm.com

This Official Statement does not constitute an offer to sell the Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, salesman, or any other person has been authorized to give any information or make any representation, other than those contained herein, in connection with the offering of these Bonds, and if given or made, such information or representation must not be relied upon. The information and expressions of opinion 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. See “GENERAL – Continuing Disclosure of Information” for a description of the City’s undertaking to provide certain information on a continuing basis.

The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE 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, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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

The agreements of the City and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the purchasers of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

NEITHER THE CITY, THE FINANCIAL ADVISOR, THE UNDERWRITER NOR BOND COUNSEL MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING DTC OR ITS BOOK-ENTRY-ONLY SYSTEM.

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OFFICIAL STATEMENT

relating to

\$36,720,000

CITY OF AUSTIN, TEXAS

(Travis County, Texas)

Town Lake Park Community Events Center Venue Project Refunding Bonds, Series 2005

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and the appendices hereto, is to set forth information in connection with the issuance and sale by the City of Austin, Texas (the "City") of its Town Lake Park Community Events Center Venue Project Refunding Bonds, Series 2005, in the original aggregate principal amount of \$36,720,000 (the "Bonds").

The Bonds are being issued pursuant to V.T.C.A., Government Code, Chapter 1207, as amended ("Chapter 1207"), and other applicable laws of the State of Texas and an ordinance of the City Council (the "Ordinance") scheduled for adoption on May 12, 2005.

Previously Issued Bonds and the Bonds, and any Additional Bonds hereafter issued for refunding purposes under the Ordinance, are special obligations of the City that are equally and ratably payable from and secured by a first lien on the Pledged Revenues (as hereinafter described) and special funds described herein. The Pledged Revenues consist primarily of (i) the revenues received from the Special Motor Vehicle Rental Tax deposited to the credit of the Venue Project Fund, (ii) Parking Revenues deposited to the credit of the Venue Project Fund, (iii) Events Center Revenues deposited to the credit of the Venue Project Fund, (iv) interest and other income realized from the investment of amounts on deposit in the funds and accounts created by the Ordinance to the extent such interest and other income are required to be transferred or credited to the Venue Project Fund, and (v) any additional revenue, receipts or income hereafter pledged to the Bonds in accordance with the Ordinance. See "SECURITY FOR THE BONDS" 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.

THE BONDS DO NOT CONSTITUTE OR CREATE AN INDEBTEDNESS OR GENERAL OBLIGATION OF THE CITY, AND NEITHER THE TAXING POWER OF THE CITY (EXCEPT WITH RESPECT TO THE PLEDGED SPECIAL MOTOR VEHICLE RENTAL TAX) NOR THE TAXING POWER OF THE STATE OF TEXAS IS PLEDGED AS SECURITY FOR THE BONDS. SEE "SECURITY FOR THE BONDS - PLEDGE" 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 Financial Guaranty Insurance Company ("FGIC") simultaneously with the delivery of the Bonds. See "BOND INSURANCE" herein.

Unless otherwise indicated, capitalized terms used in this Official Statement shall have the meanings established in the Ordinance. See APPENDIX B hereto for selected definitions of terms used in this Official Statement.

PLAN OF FINANCING

Purpose of Refunding Bonds

The Bonds are being issued to refund \$35,140,000 of the City's currently outstanding Parity Bonds, as described in SCHEDULE I attached hereto, (the "Refunded Bonds"), and to pay costs of issuance. The transaction results in a debt service savings to the City. See SCHEDULE I for a listing of the Refunded Bonds.

Refunded Bonds

The Refunded Bonds, and interest due thereon, are to be paid on the scheduled interest payment dates and the maturity or redemption date of such Refunded Bonds from funds to be deposited pursuant to a certain Special 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 "Escrowed 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 Underwriters the mathematical accuracy of the schedules that demonstrate that the Escrowed 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 Escrowed Securities, and other uninvested funds in the Escrow Fund, will not be available to pay the debt service on the Bonds.

By deposit of the Escrowed Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have entered into a firm banking and financial arrangement for the discharge and final payment of the Refunded Bonds, in accordance with applicable law. As a result of such firm banking and financial arrangements, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Escrowed Securities and cash held for such purpose by the Escrow Agent, and such Refunded Bonds will not be deemed as being outstanding for the purpose of any limitation on debt or the assessment of taxes.

The City has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund from lawfully available funds, or any additional amounts required to pay the principal of and interest on the Refunded 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 proceeds from the sale of the Bonds will be applied substantially as follows:

Sources of Funds:	
Principal Amount of the Bonds	\$36,720,000.00
Accrued Interest	112,371.93
Net Original Issue Premium	<u>1,772,600.10</u>
Total Sources	<u>\$38,604,972.03</u>
Uses of Funds:	
Deposit to Escrow Fund	\$37,752,017.15
Costs of Issuance, including Insurance Premium	537,292.44
Underwriter's Discount	203,290.51
Deposit to Debt Service	<u>112,371.93</u>
Total Uses	<u>\$38,604,972.03</u>

DESCRIPTION OF THE BONDS

General

The Bonds will be dated May 1, 2005 and will bear interest from such date at the rates set forth on the inside cover page hereof, calculated on the basis of a 360-day year composed of twelve 30-day months, payable on May 15 and November 15 of each year, commencing November 15, 2005. The Bonds shall be issued solely as fully registered bonds in the principal amount of \$5,000 or any integral multiple thereof.

Book-Entry-Only System

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

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

DTC will act as securities depository for 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 certificate will be issued for each maturity of the Securities, in the aggregate principal amount of the issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income 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 companies 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 City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

Optional Redemption

The Bonds having stated maturities on and after November 15, 2016, are subject to redemption prior to maturity, at the option of the City, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof (and if within a stated maturity by lot by the Paying Agent/Registrar), on November 15, 2015 or on any date thereafter at the redemption price of par plus accrued interest to the date of redemption.

Mandatory Redemption

The Bonds maturing November 15, 2029 (the "Term Bonds") are subject to mandatory redemption prior to maturity in part at random, by lot or other customary method selected by the Paying Agent/Registrar, at 100% of the principal amount thereof plus accrued interest to the date of redemption on the dates, in the years and principal amounts as follows:

Bonds due November 15, 2029	
Redemption Date	Amount
(November 15)	
2026	\$2,530,000
2027	2,650,000
2028	2,775,000
2029	2,910,000 (a)

(a) Maturity.

The principal amount of the Term Bonds required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced, at the option of the City, by the principal amount of Term Bonds which, at least 50 days prior to the mandatory redemption date, (1) shall have been acquired by the City at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

Notice of Redemption

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

Paying Agent/Registrar

The initial Paying Agent/Registrar is JPMorgan Chase Bank, National Association, Dallas, Texas. The City retains the right to replace the Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Bonds, the City will promptly cause written notice thereof to be given to each registered owner of the Bonds, which notice will also give the address of the new Paying Agent/Registrar. Any Paying Agent/Registrar selected by the City shall be a bank, trust company, financial institution or other entity duly qualified and legally authorized to act as and perform the duties of Paying Agent/Registrar for the Bonds.

Record Date for Interest Payment

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

Registration

In the event the Book-Entry-Only System should be discontinued, both principal and interest on the Bonds shall be payable only to the registered owners appearing on the registration books of the Paying Agent/Registrar at the times and in the manner described herein and in the Ordinance. The ownership of the Bonds may be transferred and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration shall be at the expense of the City, except for any tax or other governmental charge with respect thereto. A Bond may be assigned by execution of an assignment form on the Bonds or by other instruments of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar to the last assignee (the new registered owner) in exchange for such transferred and assigned Bonds not more than three days after receipt of the Bonds to be transferred in proper form. Such new Bond or Bonds must be in the denomination of \$5,000 or any integral multiple thereof within a maturity.

Neither the City nor the Paying Agent/Registrar shall be required to issue or transfer any Bond called for redemption within 45 days of the date fixed for redemption of the Bonds; such limitation on transfer is not applicable to an exchange by any bondholder of the unredeemed balance of the Bond called for redemption in part.

Owners' Remedies

The Ordinance provides that it constitutes a contract between the City and the registered owners of the Bonds from time to time outstanding and that the Ordinance is and remains irrevocable until the principal of, premium, if any, and interest on the Bonds is fully paid or discharged or provision therefor shall have been made as provided in the Ordinance. In the event of a default in the payment of the principal of, premium, if any, or interest on any of the Bonds or a default in the performance of any duty or covenant provided by law or in the Ordinance, the registered owner or owners of any of the Bonds may pursue all legal remedies afforded by the Constitution and laws of the State of Texas to compel the City to remedy such default and to prevent further default or defaults. Without in any way limiting the generality of the foregoing, it is expressly provided in the Ordinance that any registered owner of any of the Bonds may at law or in equity, by suit, action, mandamus, or other proceedings, enforce and compel performance of all duties required to be performed by the City under the Ordinance, including the application of the Pledged Revenues in the manner required in the Ordinance; provided, however, that the registered owners of the Bonds shall never have the right to demand payment of the principal of, premium, if any, or interest on the Bonds out of any funds raised or to be raised by taxation, other than the Special Motor Vehicle Rental Tax.

Defeasance

The Ordinance provides that the City may discharge its obligation to the registered owners of any or all of the Bonds to pay principal, premium, if any, and interest thereon, 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. Any moneys 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, 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 above and 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.

The Ordinance provides that "Government Obligations" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, such Bonds shall no longer be deemed outstanding obligations payable from the Pledged Revenues, but will be payable only from the funds and Government Obligations deposited in escrow and will not be considered debt of the City for purposes of applying any limitation on the City's ability to issue debt or for any other purpose. Furthermore, all rights of the City to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Amendments

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

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

SECURITY FOR THE BONDS

Pledge

The Bonds are special obligations of the City and, together with the Previously Issued Bonds, are payable from and are equally and ratably secured by a first lien on the Pledged Revenues, which consist of (i) the revenues received from the Special Motor Vehicle Rental Tax deposited to the credit of the Venue Project Fund, (ii) Parking Revenues deposited to the credit of the Venue Project Fund, (iii) Events Center Revenues deposited to the credit of the Venue Project Fund, (iv) interest and other income realized from the investment of amounts on deposit in the funds and accounts created by this Ordinance to the extent such interest and other income are required to be transferred or credited to the Venue Project Fund, and (v) any additional revenue, receipts or income hereafter pledged to the Bonds in accordance with the Ordinance.

Except for bonds issued to refund the Bonds, 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, unless such lien, pledge or encumbrance is junior and subordinate to the lien and pledge securing payment of the Bonds.

The City, pursuant to the Ordinance, further grants a first lien on the Venue Project Fund, the Debt Service Account and the Debt Service Reserve Account to secure the payment of principal of, premium, if any, and interest on the Bonds. The City does not grant any lien on or security interest in, or any mortgage of any of the physical properties of the City. See "Flow of Funds" herein.

THE BONDS DO NOT CONSTITUTE OR CREATE AN INDEBTEDNESS OR GENERAL OBLIGATION OF THE CITY, AND NEITHER THE TAXING POWER OF THE CITY (EXCEPT WITH RESPECT TO THE SPECIAL MOTOR VEHICLE RENTAL TAX) NOR THE TAXING POWER OF THE STATE OF TEXAS IS PLEDGED AS SECURITY FOR THE BONDS.

Levy of Special Motor Vehicle Rental Tax

Pursuant to the authority given the City through an election held November 3, 1998, the City levies and covenants that it shall continue to levy, while any Bonds remain Outstanding, a Special Motor Vehicle Rental Tax of 5% on the gross rental receipts from the rental in the City of a motor vehicle for a period of less than thirty days. The City further covenants that it shall enforce the provisions of all ordinances, including the Ordinance, relating to imposition, collection and expenditure of the Special Motor Vehicle Rental Tax.

Annual Budget/Rates and Fees

The City agrees that prior to the commencement of each Fiscal Year an annual budget for the Parking Garage and Town Lake Community Events Center shall be adopted and approved which identifies and provides (i) the amount of Special Motor Vehicle Rental Tax Revenues, Parking Revenues and Events Center Revenues allocated and budgeted to pay the Operation and Maintenance Expenses of the Parking Garage and Events Center for said Fiscal Year and (ii) the anticipated Operating and Maintenance Costs of the Parking Garage and Town Lake Community Events Center, and to the extent such annual budget contemplates and provides for Parking Revenues and Events Center Revenues to pay or cover such Operation and Maintenance Costs, the City shall assess and collect for the use of such Parking Garage and Town Lake Community Events Center a fee or charge sufficient to produce the revenues so allocated and budgeted for such purposes.

Special Funds

The City confirms in the Ordinance the establishment of the Venue Project Fund for the Town Lake Park Community Events Center Venue Project in accordance with Section 334.042 of the Act and pursuant to the ordinance imposing the Special Motor Vehicle Rental Tax and such Fund is to be maintained at an official depository of the City. The Ordinance confirms the establishment and maintenance of the following sub-accounts on the books of the City while any of the Parity Revenue Bonds remain Outstanding, to wit:

- (i) Town Lake Park Community Events Center Venue Project Special Motor Vehicle Rental Tax Account (“Tax Account”);
- (ii) Town Lake Park Community Events Center Parking Garage Account (“Parking Garage Account”);
- (iii) Town Lake Park Community Events Center Venue Gross Revenue Account (“Events Center Revenue Account”);
- (iv) Town Lake Park Community Events Center Venue Project Bond Debt Service Account (“Debt Service Account”);
- (v) Town Lake Park Community Events Center Venue Project Bond Debt Service Reserve Account (“Debt Service Reserve Account”);
- (vi) Town Lake Park Community Events Center Venue Project Repair and Replacement Account (“Repair and Replacement Account”); and
- (vii) Town Lake Park Community Events Center Venue Project Operating Account (“Operating Account”).

Flow of Funds

The City covenants and agrees in the Ordinance that all receipts and revenues collected and received by the City from the Special Motor Vehicle Rental Tax, the Parking Revenues and the Events Center Revenues shall be deposited to the credit of the Venue Project Fund and more particularly to the credit of the Tax Account, the Parking Garage Account and Events Center Revenue Account, respectively.

(a) Tax Account. Following the issuance of the Bonds and while the Parity Revenue Bonds remain Outstanding, moneys from time to time credited to the Tax Account shall be applied in the following order of priority:

First, to the payment of the amounts to be deposited to the credit of the Debt Service Account required by the Ordinance and any ordinance authorizing the issuance of Parity Revenue Bonds.

Second, to the payment of the amounts to be deposited to the credit of the Debt Service Reserve Account required by the Ordinance and any ordinance authorizing the issuance of Parity Revenue Bonds.

Third, to the payment of the amounts to be deposited to the credit of the Repair and Replacement Account required by the Ordinance and any ordinance authorizing the issuance of Parity Revenue Bonds.

Fourth, to pay amounts to be deposited to the credit of the Operating Account, including the establishment and maintenance of an operating reserve to operate and maintain the Town Lake Community Events Center and Parking Garage, as required by the Ordinance and any ordinance authorizing the issuance of Parity Revenue Bonds.

Fifth, for any lawful purpose under the Act and as authorized by the election held November 3, 1998.

(b) Parking Garage Account/Events Center Account. The City covenants and agrees that the Parking Revenues and the Events Center Revenues shall be deposited to the credit of the Venue Project Fund and more particularly to the credit of the Parking Garage Account and Events Center Revenue Account, respectively. Following the issuance of the Bonds and while any Parity Revenue Bonds remain Outstanding, moneys from time to time credited to the Parking Garage Account and Events Center Revenue Account shall be applied in the following order of priority:

First, to the payment of the amounts to be deposited to the credit of the Debt Service Account required by any ordinance authorizing the issuance of Parity Revenue Bonds.

Second, to the payment of the amounts to be deposited to the credit of the Debt Service Reserve Account required by any ordinance authorizing the issuance of Parity Revenue Bonds.

Third, to the payment of the amounts to be deposited to the credit of any special fund or account maintained for the payment of Subordinate Lien Bonds in the manner and to the extent required by the ordinance(s) authorizing their issuance.

Fourth, to the payment of the amounts to be deposited to the credit of the Repair and Replacement Account required by any ordinance authorizing the issuance of Parity Revenue Bonds.

Fifth, to pay amounts to be deposited to the credit of the Operating Account, including the establishment and maintenance of an operating reserve to operate and maintain the Town Lake Community Events Center and Parking Garage, as required by any ordinance authorizing the issuance of Parity Revenue Bonds.

Sixth, for any lawful purpose under the Act and as authorized by the election held November 3, 1998.

Debt Service Account

Moneys deposited to the credit of the Debt Service Account shall be used solely for the purpose of paying principal (at maturity or prior redemption or to purchase Parity Revenue Bonds in the open market to be credited against any mandatory redemption requirements), interest and redemption premiums on the Parity Revenue Bonds, plus all Paying Agent/Registrar charges and other costs and expenses relating to such payment, including those described above. On or before each principal and/or interest payment date for the Parity Revenue Bonds, the City shall transfer from the Debt Service Account to the appropriate paying agent/registrar amounts equal to the principal, interest and redemption premiums payable on the Parity Revenue Bonds on such date.

The City covenants and agrees that prior to each interest payment date, stated maturity date and mandatory redemption date for the Parity Revenue Bonds there shall be deposited into the Debt Service Account from the Pledged Revenues an amount equal to one hundred percentum (100%) of the amount required to fully pay the amount then due and payable on the Parity Revenue Bonds, and such deposits to pay the Bonds at maturity or redemption, as the case may be, and accrued interest thereon shall be made in substantially equal quarterly installments on or before each February 15, May 15, August 15 and November 15 (the "Transfer Dates") in each year, which payments began on the first Transfer

Date after the date of delivery of the Previously Issued Bonds.

In addition, on each Transfer Date, the City covenants and agrees to cause to be deposited into the Debt Service Account 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 Revenue Bonds in accordance with their terms, including without limitation, all fees charged or incurred by the Paying Agent/Registrar and for trustee services rendered in connection with the Parity Revenue Bonds.

Debt Service Reserve Account

(a) General Provisions. The Reserve Fund Requirement will be fully satisfied on the date of the delivery of the Bonds with a Surety Bond issued by the Surety Bond Issuer as described below (see “Debt Service Reserve Fund Policy”).

While the coverage afforded by a Surety Bond totals not less than the Reserve Fund Requirement, no deposits need be made to the credit of the Debt Service Reserve Account from the Pledged Revenues. Should the Debt Service Reserve Account at any time contain less than the Reserve Fund Requirement the City covenants and agrees to cause quarterly deposits to be made to the Debt Service Reserve Account on or before the Transfer Dates (beginning with the Transfer Date next following the date the deficiency in the Reserve Fund Requirement occurred) from Pledged Revenues in an amount equal to 1/20th of the Reserve Fund Requirement until the total Reserve Fund Requirement has been fully restored; provided, however, should the City be obligated to repay or reimburse the Surety Bond Issuer to replenish and restore the full amount of coverage provided by the Surety Bond, the City covenants and agrees to cause deposits to be made to the Debt Service Reserve Account from Pledged Revenues to fully restore the coverage afforded by the Surety Bond at the times, in the manner and in the amounts specified in the Reserve Fund Policy Agreement. The City further covenants and agrees that, subject only to the deposits to be made to the Debt Service Account, the Pledged Revenues shall be applied and appropriated and used to establish and maintain the Reserve Fund Requirement and to cure any deficiency in such amount as required by the terms of this Ordinance.

The amounts deposited to the credit of the Debt Service Reserve Account shall be used solely for the payment of (i) the principal of and interest on the Parity Revenue Bonds when (whether at maturity, upon a redemption date or any interest payment date) other funds available for such purposes are insufficient, (ii) the amounts required to restore or replenish in full the coverage afforded by a Surety Bond representing all or a portion of the Reserve Fund Requirement.

(b) Surety Bond Provisions. As noted above, the Reserve Fund Requirement is currently funded in full with a Surety Bond issued by Financial Guaranty Insurance Company (hereinafter referred to as the “Surety Bond Issuer”). In accordance with Surety Bond Issuer’s terms for the issuance of such Surety Bond, it is hereby expressly provided that notwithstanding any other provision of any ordinance pursuant to which Parity Revenue Bonds have been issued and under which the Surety Bond Issuer has provided a Surety Bond, the Paying Agent/Registrar shall ascertain the necessity for a claim upon the Surety Bond and provide notice in accordance with the terms of the Surety Bond at least two business days prior to each interest payment. Notwithstanding any provision in any ordinance pursuant to which Parity Revenue Bonds have been issued and under which the Surety Bond Issuer has provided a Surety Bond to the contrary, should there be a conflict between the provisions of such ordinance and the provisions of the Reserve Fund Policy Agreement with respect to the obligation of the City to restore or replenish the full amount of coverage provided by the Surety Bond, the provisions of the Reserve Fund Policy Agreement shall control with respect to such matters.

Repair and Replacement Account

For purposes of accumulating and maintaining funds as a reserve for the payment of repair, replacement and maintenance costs of the Parking Garage and Town Lake Community Events Center, the City has agreed in the ordinance authorizing the Previously Issued Bonds to accumulate and maintain in the Repair and Replacement Account an amount equal to \$1,000,000 (the “Repair and Replacement Reserve”) and all funds deposited therein shall be used solely for the payment of (i) costs and expenses which under generally accepted accounting principals are capital costs as opposed to Operation and Maintenance Expenses of the Parking Garage and Town Lake Community Events Center when other funds available for such purposes are insufficient, or (ii) to pay principal of and interest on Parity Revenue Bonds when funds deposited to the credit of the Debt Service Account and Debt Service Reserve Account are insufficient for such purpose. The Repair and Replacement Reserve is currently funded in the amount of \$400,000.

Beginning with the first Transfer Date to occur in the first full fiscal year the Parking Garage or Town Lake Community Events Center, either or both, are operational and on each Transfer Date thereafter, there shall be transferred from the Tax Account, Parking Garage Account and Events Center Account (to the extent amounts are available therein and after making all required transfers to the Accounts having a priority ahead of the Repair and Replacement Account) to the Repair and Replacement Account an amount equal to 1/20th of the Repair and Replacement Reserve.

While the cash and investments in the Repair and Replacement Account total not less than the Repair and Replacement Reserve, no deposits from the Pledged Revenues need be made to the credit of the Repair and Replacement Account; but, if and when such Account at any time contains less than the Repair and Replacement Reserve, the City covenants and agrees to cause deposits to be made to the Repair and Replacement Account on each Transfer Date following the date the deficiency in the Repair and Replacement Reserve occurred by reason of a draw on such Account or as a result of a reduction in the market value of investments held for said Account from the Pledged Revenues in an amount equal to 1/20th of the Repair and Replacement Reserve until such total amount required to be maintained in such Account has been fully restored. During such time as the Repair and Replacement Account contains the total Repair and Replacement Reserve, the City may, at its option, withdraw all surplus in the Repair and Replacement Account resulting from investments held for the Repair and Replacement Account and deposit such investment earnings to the credit of the Operating Account.

Operating Account

There shall be transferred from the Tax Account, Parking Garage Account and Events Center Account (to the extent amounts are available therein and after making all required transfers to the Accounts having a priority ahead of the Operating Account) an amount equal to one-fourth (1/4th) of the amounts allocated and budgeted to pay or cover such budgeted Operating and Maintenance Expenses of the Parking Garage and Town Lake Community Events Center for such Fiscal Year. In the preparation of the City's annual budget, the City's Chief Financial Officer (or other officer of the City having primary responsibility for the financial affairs of the City) shall at the time the recommended budget for the Parking Garage and Town Lake Community Events Center is first submitted to the City for consideration and approval identify the amount of Pledged Revenues allocated and budgeted to pay and cover Operation and Maintenance Expenses for the Parking Garage and Town Lake Community Events Center or the amount allocated and budgeted therefore in the then current Fiscal Year. Amounts from time to time credited to the Operating Account may be used at any time to pay for any Operation and Maintenance Expenses.

In addition to the amounts to be deposited into the Operating Account to provide for the payment of current Operating and Maintenance Expenses of the Parking Garage and Town Lake Community Events Center as provided above, there shall also be accumulated and maintained in the Operating Fund an Operation Reserve in an amount equal to six months of Operation and Maintenance Expenses for the Parking Garage and Town Lake Community Events Center (the "Operating Reserve"). There shall also be deposited on the Transfer Date occurring in November of each year, after making all required transfers at such time to the accounts having a priority ahead of any transfer to the Operating Account, an amount equal to one-twelfth (1/12th) of the Maintenance and Operation Expenses of the Parking Garage and Town Lake Community Events Center incurred for the most recent completed fiscal year and according to the books and records of the City maintained with respect to the operation and maintenance of such facilities until there has been accumulated in the Operating Account an Operating Reserve.

Deficiencies in Funds or Accounts

If on any Transfer Date there shall not be transferred into any fund or account maintained pursuant to any ordinance authorizing the issuance of Parity Revenue Bonds 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 moneys in the Tax Account, Parking Garage Account and Events Center Account, as the City shall determine, and such transfer shall be in addition to the amounts otherwise required to be transferred to such funds or accounts on any succeeding Transfer Date or Dates.

Investment of Funds; Transfer of Investment Income

Money in all funds or accounts shall, at the option of the City, be invested in the manner provided by Texas law (see "INVESTMENTS"); 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. Moneys in such funds may be

subjected to further investment restrictions imposed from time to time by ordinances authorizing the issuance of Additional Bonds or Subordinate Lien Bonds. 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 any funds and accounts may be transferred to the Events Center Revenue Account, except as provided in the following paragraph below; provided that at any time when the Debt Service Reserve Account has on deposit an amount less than the Reserve Fund Requirement, all interest and income on such fund shall remain therein.

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

While any Parity Revenue Bonds remain Outstanding, all uninvested moneys on deposit in, or credited to, the above described funds and accounts shall be secured by the pledge of security, as provided by Texas law.

Subordinate Lien Bonds

The City reserves the right to issue or incur, for any lawful purpose, bonds, notes or other obligations secured in whole or in part by a lien on and pledge of the Parking Revenues and Events Center Revenues junior and subordinate to the lien on and pledge of such Pledged Revenues securing payment of the Parity Revenue Bonds.

BOND INSURANCE

Financial Guaranty Insurance Company ("Financial Guaranty") has supplied the following information for inclusion in this Official Statement. No representation is made by the City, the Financial Advisor or the underwriters as to the accuracy or completeness of this information.

Payments Under the Policy

Concurrently with the issuance of the Bonds, Financial Guaranty will issue its Municipal Bond New Issue Insurance Policy for the Bonds (the "Policy"). The Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the issuer of the Bonds (the "City" or the "Issuer"). Financial Guaranty will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal, accreted value or interest (as applicable) is due or on the business day next following the day on which Financial Guaranty shall have received notice (in accordance with the terms of the Policy) from an owner of Bonds or the trustee or paying agent (if any) of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

Once issued, the Policy is non-cancellable by Financial Guaranty. The Policy covers failure to pay principal (or accreted value, if applicable) of the Bonds on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the Bonds may have been otherwise called for redemption, accelerated or advanced in maturity. The Policy also covers the failure to pay interest on the stated date for its payment. In the event that payment of the Bonds is accelerated, Financial Guaranty will only be obligated to pay principal (or accreted value, if applicable) and interest in the originally scheduled amounts on the originally scheduled payment dates. Upon such payment, Financial Guaranty will become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and will be fully subrogated to all of the Bondholder's rights thereunder.

The Policy does not insure any risk other than Nonpayment by the Issuer, as defined in the Policy. Specifically, the Policy does not cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (ii) payment of any redemption, prepayment or acceleration premium; or (iii) nonpayment of principal (or accreted value, if applicable) or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure Bonds, Financial Guaranty may be granted certain rights under the Bond documentation. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Bonds may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement, and reference should be made thereto.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

In the event that Financial Guaranty is unable to fulfill its obligations under the Policy, the policy holder or bondholder is not protected by an insurance guaranty fund or other solvency protection arrangement.

Financial Guaranty Insurance Company

Financial Guaranty, a New York stock insurance corporation, is a direct, wholly-owned subsidiary of FGIC Corporation, a Delaware corporation, and provides financial guaranty insurance for public finance and structured finance obligations. Financial Guaranty is licensed to engage in financial guaranty insurance in all 50 states, the District of Columbia and the Commonwealth of Puerto Rico and, through a branch, in the United Kingdom.

On December 18, 2003, an investor group consisting of The PMI Group, Inc. ("PMI"), affiliates of The Blackstone Group L.P. ("Blackstone"), affiliates of The Cypress Group L.L.C. ("Cypress") and affiliates of CIVC Partners L.P. ("CIVC") acquired FGIC Corporation (the "FGIC Acquisition") from a subsidiary of General Electric Capital Corporation ("GE Capital"). PMI, Blackstone, Cypress and CIVC acquired approximately 42%, 23%, 23% and 7%, respectively, of FGIC Corporation's common stock. FGIC Corporation paid GE Capital approximately \$284.3 million in pre-closing dividends from the proceeds of dividends it, in turn, had received from Financial Guaranty, and GE Capital retained approximately \$234.6 million in liquidation preference of FGIC Corporation's convertible participating preferred stock and approximately 5% of FGIC Corporation's common stock. Neither FGIC Corporation nor any of its shareholders is obligated to pay any debts of Financial Guaranty or any claims under any insurance policy, including the Policy, issued by Financial Guaranty.

Financial Guaranty is subject to the insurance laws and regulations of the State of New York, where it is domiciled, including Article 69 of the New York Insurance Law ("Article 69"), a comprehensive financial guaranty insurance statute. Financial Guaranty is also subject to the insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction, but generally require insurance companies to maintain minimum standards of business conduct and solvency, to meet certain financial tests, to comply with requirements concerning permitted investments and the use of policy forms and premium rates and to file quarterly and annual financial statements on the basis of statutory accounting principles ("SAP") and other reports. In addition, Article 69, among other things, limits the business of each financial guaranty insurer, including Financial Guaranty, to financial guaranty insurance and certain related lines.

For the three months ended March 31, 2005, and the years ended December 31, 2004, and December 31, 2003, Financial Guaranty had written directly or assumed through reinsurance, guaranties of approximately \$14.8 million, \$59.5

billion and \$42.4 billion par value of securities, respectively (of which approximately 71%, 56% and 79%, respectively, constituted guaranties of municipal bonds), for which it had collected gross premiums of approximately \$84.4, \$323.6 million and \$260.3 million, respectively. For the three months ended March 31, 2005, Financial Guaranty had reinsured, through facultative and excess of loss arrangements, approximately 0.5% of the risks it had written.

As of March 31, 2005, Financial Guaranty had net admitted assets of approximately \$3.215 billion, total liabilities of approximately \$2.040 billion, and total capital and policyholders' surplus of approximately \$1.175 billion, determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

The audited financial statements of Financial Guaranty as of March 31, 2005, the audited financial statements of Financial Guaranty as of December 31, 2004 and the audited financial statements of Financial Guaranty as of December 31, 2003, which have been filed with the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs"), are hereby included by specific reference in this Official Statement. Any statement contained herein under the heading "BOND INSURANCE," or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by Financial Guaranty with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. All financial statements of Financial Guaranty (if any) included in documents filed by Financial Guaranty with the NRMSIRs subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be included by specific reference into this Official Statement and to be a part hereof from the respective dates of filing of such documents.

Financial Guaranty also prepares quarterly and annual financial statements on the basis of generally accepted accounting principles. Copies of Financial Guaranty's most recent GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty's telephone number is (212) 312-3000.

Financial Guaranty's Credit Ratings

The financial strength of Financial Guaranty is rated "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., "Aaa" by Moody's Investors Service, and "AAA" by Fitch Ratings. Each rating of Financial Guaranty should be evaluated independently. The ratings reflect the respective ratings agencies' current assessments of the insurance financial strength of Financial Guaranty. Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the Bonds, and are 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. Financial Guaranty does not guarantee the market price or investment value of the Bonds nor does it guarantee that the ratings on the Bonds will not be revised or withdrawn.

Neither Financial Guaranty nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty or the Policy under the heading "BOND INSURANCE." In addition, Financial Guaranty makes no representation regarding the Bonds or the advisability of investing in the Bonds.

DEBT SERVICE RESERVE FUND POLICY

The Reserve Policy

Concurrently with the issuance of the Bonds, Financial Guaranty will issue its Municipal Bond Debt Service Reserve Fund Policy (the "Reserve Policy"). The Reserve Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the Parity Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the City, provided that the aggregate amount paid under the Reserve Policy may not exceed the maximum amount set forth in the Reserve Policy, \$3,041,900. Financial Guaranty will make such payments to the paying agent (the "Paying Agent") for the Parity Bonds on the later of the date on which such principal or accreted value (if applicable) and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice subsequently confirmed in writing or written notice by registered or certified mail from the Paying Agent of the nonpayment of such amount by the Issuer. The term "nonpayment" in respect of a Bond includes any payment of principal, accreted value or interest (as applicable) made to

an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final nonappealable order of a court having competent jurisdiction.

The Reserve Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Parity Bonds. The Reserve Policy covers failure to pay principal or accreted value (if applicable) of the Parity Bonds on their respective stated maturity dates, or dates on which the same shall have been called for mandatory sinking fund redemption, and not on any other date on which the Parity Bonds may have been accelerated, and covers the failure to pay an installment of interest on the stated date for its payment. The Reserve Policy shall terminate on the scheduled final maturity date of the bonds being issued to which the Reserve Policy relates.

Generally, in connection with its issuance of a Reserve Policy, Financial Guaranty requires, among other things, (i) that, so long as it has not failed to comply with its payment obligations under the Reserve Policy, it be granted the power to exercise any remedies available at law or under the authorizing document other than (A) acceleration of the Parity Bonds or (B) remedies which would adversely affect holders in the event that the issuer fails to reimburse Financial Guaranty for any draws on the Reserve Policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to Financial Guaranty's consent. The specific rights, if any, granted to Financial Guaranty in connection with its issuance of the Reserve Policy may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the issuer of the Parity Bonds is required to provide additional or substitute credit enhancement, and related matters.

The Reserve Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

In the event that Financial Guaranty is unable to fulfill its obligations under the Reserve Policy, the policy holder or bondholder is not protected by an insurance guaranty fund or other solvency protection arrangement.

THE TOWN LAKE PARK COMMUNITY EVENTS CENTER VENUE PROJECT

Alongside Town Lake in downtown Austin, the Lester E. Palmer Events Center (the "PEC" or the "Town Lake Community Events Center") opened its doors to the public in June, 2002. The PEC, which resembles a "Pavilion in the Park", is a 131,000 square foot multi-use events center.

The PEC is being used for public consumer shows, trade shows, conferences, receptions, banquets, concerts, society balls and dances.

The Building and Parking Garage

The PEC features 70,000 square feet of exhibit space that can be divided into two halls of 45,000 and 25,000 square feet. Two lobbies offer pre-function space and concessions. Upper level meeting rooms feature pre-function space and balconies that offer some of the best views of downtown Austin and Town Lake. With a combined square footage of 5,000 square feet, these meeting rooms are also ideal for receptions and special occasions.

The PEC also features an on-site 1,200-car Parking Garage, with entrances off of Riverside Drive and Barton Springs Road.

The PEC replaced the City Coliseum and Palmer Auditorium. The former Palmer site is being renovated into the Long Center for the Performing Arts.

Business

A convenient downtown Austin location and a workable floor plan, along with the beautiful park setting and spectacular views, make the PEC an ideal choice for many venues. Better than 90% of Palmer Auditorium and City Coliseum clients became PEC clients before it even opened its doors.

Today, the PEC attracts a variety of events for Austinites to attend. Popular consumer shows include the Junior Leagues' Christmas Affair, the Austin Book and Paper Show, City-Wide Garage Sales, the Custom Car & Hot Rod

Show, the Austin Doll and Toy Show, food shows, cat shows, bridal shows, book fairs, and Christmas bazaars.

The Women's Symphony League of Austin holds its Jewel Ball at the PEC. The Austin Symphony Orchestra concerts, including the Holiday Pops with The Kingston Trio, a concert featuring Olivia Newton John, and its 2003 Promenade Pops were performed at the PEC in its first year of operation. Other events include charity events, business trade shows, banquets, receptions, conferences, school science festivals, and public dances.

HISTORICAL SPECIAL MOTOR VEHICLE RENTAL TAX REVENUES
(5% Tax Levy Effective January 1, 1999)

Fiscal Year Ending September 30	Total Tax Levied (In Thousands)	Debt Service (In Thousands)	Debt Service Coverage Ratio
1999	\$2,160	\$ -	-
2000	5,251	1,213	4.33x
2001	5,727	2,427	2.36x
2002	4,756	2,427	1.96x
2003	4,463	2,427	1.84x
2004	4,368	2,765	1.58x

PROJECTED SPECIAL MOTOR VEHICLE RENTAL TAX REVENUES

Fiscal Year Ending September 30	Estimated Tax Levies	Existing and Refunding Debt Service Requirements	Debt Service Coverage Ratio
2005	\$4,528	\$2,886	1.57x
2006	4,664	2,825	1.65x
2007	4,897	2,677	1.83x
2008	5,044	2,669	1.89x
2009	5,196	2,658	1.95x
2010	5,351	2,654	2.02x
2011	5,512	2,078	2.65x
2012	5,677	3,027	1.88x
2013	5,847	3,031	1.93x
2014	6,023	3,036	1.98x
2015	6,204	3,037	2.04x

VEHICLE RENTAL TAX
Tax Levied Effective January 1, 1999 (Base Year is 2000)

Fiscal Year Ended September 30	(In thousands)					Percent Base Year	Annual Increase (Decrease)
	1 st Quarter Oct. – Dec.	2 nd Quarter Jan. – Mar.	3 rd Quarter Apr. – Jun.	4 th Quarter Jul. – Sept.	Total		
1999 (1)	\$ 0	\$ 0	\$ 983	\$1,177	\$2,160	N/A	N/A
2000	1,185	1,136	1,421	1,509	5,251	100.0%	0.0%
2001 (2)	1,468	1,460	1,379	1,420	5,727	109.1%	9.1%
2002	1,258	1,085	1,154	1,259	4,756	90.6%	(17.0%)
2003	1,130	1,127	1,044	1,162	4,463	85.0%	(6.2%)
2004	1,128	1,045	981	1,214	4,368	83.2%	(2.1%)

(1) 5% tax levied effective January 1, 1999. Ordinance No. 981219-A.

(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.

HOTEL-MOTEL OCCUPANCY TAX
Tax Levied Effective January 1, 1971 (Base Year is 1972)

Fiscal Year Ended	(In thousands)					Annual Increase (Decrease)
	1 st Quarter September 30 Oct. – Dec.	2 nd Quarter Jan. – Mar.	3 rd Quarter Apr. – Jun.	4 th Quarter Jul. – Sept.	Total	
1994	\$2,727	\$2,409	\$2,897	\$3,444	\$11,477	9.2%
1995	3,115	2,870	3,501	3,654	13,140	14.5%
1996	3,494	3,203	3,763	3,800	14,260	8.5%
1997	3,537	3,353	3,860	4,468	15,218	6.7%
1998 (1)	4,539	4,284	4,936	5,061	18,820	23.7%
1999	5,612	5,552	6,375	7,073	24,612	30.8%
2000	6,637	6,264	7,573	8,284	28,758	16.8%
2001 (2)	7,595	7,671	8,043	7,836	31,145	8.3%
2002	5,832	5,355	6,350	7,222	24,759	(20.5%)
2003	5,766	5,874	7,045	6,823	25,508	3.0%
2004	6,136	5,413	6,537	7,292	25,378	(0.5%)

- (1) 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.
- (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.

DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 30-Sep	Outstanding Debt (1)			The Bonds			Total Requirements	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total		
2005	\$ -	\$ 1,184,714	\$ 1,184,714	\$ -	\$ -	\$ -	\$ 1,184,714	
2006	710,000	246,713	956,713	-	1,827,265	1,827,265	2,783,978	
2007	755,000	197,269	952,269	-	1,758,865	1,758,865	2,711,134	
2008	800,000	144,788	944,788	-	1,758,865	1,758,865	2,703,653	
2009	845,000	89,269	934,269	-	1,758,865	1,758,865	2,693,134	
2010	900,000	30,375	930,375	-	1,758,865	1,758,865	2,689,240	9.85%
2011	-	-	-	-	1,758,865	1,758,865	1,758,865	
2012	-	-	-	580,000	1,749,295	2,329,295	2,329,295	
2013	-	-	-	1,315,000	1,716,713	3,031,713	3,031,713	
2014	-	-	-	1,370,000	1,666,300	3,036,300	3,036,300	
2015	-	-	-	1,435,000	1,603,025	3,038,025	3,038,025	21.38%
2016	-	-	-	1,510,000	1,529,400	3,039,400	3,039,400	
2017	-	-	-	1,590,000	1,451,900	3,041,900	3,041,900	
2018	-	-	-	1,660,000	1,378,950	3,038,950	3,038,950	
2019	-	-	-	1,725,000	1,311,250	3,036,250	3,036,250	
2020	-	-	-	1,805,000	1,231,625	3,036,625	3,036,625	41.74%
2021	-	-	-	1,890,000	1,139,250	3,029,250	3,029,250	
2022	-	-	-	1,990,000	1,042,250	3,032,250	3,032,250	
2023	-	-	-	2,085,000	940,375	3,025,375	3,025,375	
2024	-	-	-	2,190,000	833,500	3,023,500	3,023,500	
2025	-	-	-	2,300,000	721,250	3,021,250	3,021,250	67.41%
2026	-	-	-	2,410,000	603,500	3,013,500	3,013,500	
2027	-	-	-	2,530,000	480,000	3,010,000	3,010,000	
2028	-	-	-	2,650,000	350,500	3,000,500	3,000,500	
2029	-	-	-	2,775,000	214,875	2,989,875	2,989,875	
2030	-	-	-	2,910,000	72,750	2,982,750	2,982,750	100.00%

(1) As of May 1, 2005. Excludes the Refunded Bonds.

BONDHOLDERS' RISKS

General

In considering the matters set forth in this Official Statement, prospective investors should carefully review all investment considerations and bondholders' risks set forth throughout this Official Statement, and should specifically consider certain risks associated with the Bonds. There follows a discussion of some, but not necessarily all, of the possible risk factors which should be carefully evaluated by prospective purchasers of the Bonds prior to purchasing any Bonds. The Bonds may not be suitable investments for all persons, and prospective purchasers should be able to evaluate the risks and merits of an investment in the Bonds, and confer with their own legal and financial advisors before considering a purchase of the Bonds.

Bond Insurer

The ability of Financial Guaranty to provide funds to make principal and interest payments on the Bonds in accordance with the Policy is based solely upon Financial Guaranty's general credit, and is not secured or otherwise guaranteed by any other entity. The City is under no obligation to supply, or cause to be supplied, an alternate insurance policy if Financial Guaranty fails to pay as required under the Policy or becomes insolvent or bankrupt, or if the ratings on the Bonds are reduced or withdrawn. If Financial Guaranty becomes insolvent or bankrupt while the Policy is outstanding, the owners of the Bonds may become general unsecured creditors of Financial Guaranty. Prospective purchasers of the Bonds should analyze the financial condition of Financial Guaranty carefully to determine whether it has the ability to make payments required under the Policy. For a description of Financial Guaranty, see "BOND INSURANCE" herein.

Achievement of Projections

The collection of Pledged Revenues in amounts sufficient to pay debt service on the Bonds when due is affected by and subject to conditions which may change in the future to an extent and with effects that cannot be determined at this time. No representation or assurance is given or can be made that Pledged Revenues will be realized in amounts sufficient to pay debt service when due on the Bonds.

The receipt of Pledged Revenues is subject to, among other factors, the origin and destination passenger activity levels at the Airport, the renting of cars in general in the City in the future, the level of rental car activity at the Airport and in the City in the future, future economic conditions, and other conditions which are impossible to predict. The future collection and remittance of the Special Motor Vehicle Rental Tax will have a direct impact upon the payment of principal of and interest on the Bonds.

Airline Industry and Airport Factors

The factors affecting aviation activity with respect to the Airport and the resulting impact on the rental of motor vehicles at the airport include: American Airlines, Southwest Airlines and other airline's service and route networks; the financial health and viability of the airline industry; national and international economic and political conditions; the availability and price of aviation fuel; levels of air fares; alternate competing technologies for communication and transportation; the capacity of the national air traffic control system and capacity at the Airport and elsewhere.

Since the events of September 11, 2001, ABIA, as well as the rest of the aviation industry, has faced numerous challenges. Following the terrorist events, the aviation industry continued to face obstacles as airline traffic and revenue remained soft, the economy weakened, air traffic demand continued to decrease, and airlines' expenses continued to increase. The aviation industry continues to face obstacles including hostilities in Iraq, elevated oil prices, increased fare discounting and escalating security costs. All of this has had an impact on the operational levels at airports across the country, resulting in decreases in gross revenues derived from operations, including ABIA. Passenger activity and Rental Car gross revenues have been increasing at ABIA since March, 2004.

Airport Enplaned and Deplaned Statistics

Austin-Bergstrom International Airport

Year	Airline Passengers			Cargo Statistics (in millions of pounds)
	Enplanements	Deplanements	Total	
1995	2,668,447	2,676,240	5,344,687	156
1996	2,853,225	2,838,008	5,691,233	184
1997	2,957,553	2,946,752	5,904,305	199
1998	3,037,566	3,028,407	6,065,973	240
1999	3,363,069	3,307,782	6,670,851	276
2000	3,938,644	3,720,027	7,658,671	357
2001	3,690,835	3,508,487	7,199,322	321
2002	3,439,302	3,281,366	6,720,668	286
2003	3,436,944	3,270,137	6,707,081	252
2004	3,707,864	3,530,781	7,238,645	254

Competition and Alternate Modes of Transportation and Communication

There are alternative forms of ground transportation at the Airport and other airports which compete with the Airport for air travelers, which could reduce the demand for renting motor vehicles at the Airport. These alternate forms which compete with rental cars include taxis, buses, shuttle services, limousines, and a proposed commuter rail project by Capital Metro. Technological improvements in communication could reduce the need for business travel.

Rental Car Companies

The projections of the Special Motor Vehicle Rental Tax revenues are dependent on the ability of the rental car companies to provide a competitive product to potential customers over the life of the Bonds. That ability is affected by factors beyond their control, including the cost and resale value of cars. Competitive factors have limited the profitability of rental car companies in the past several years and some companies and franchises have ceased operations or been acquired by other companies. The investors should consider the potential affects of the rental car industry as a whole upon the ability of the Special Motor Vehicle Rental Tax to assure repayment.

Limitation of Remedies

Various State laws, constitutional provisions, and federal laws and regulations apply to the obligations created by the issuance of the Bonds. There can be no assurance that there will not be any change in, interpretation of, or addition to the applicable laws and provisions will not be changed, interpreted, or supplemented in a manner that would have a material adverse effect, directly or indirectly, on the affairs of the City, or the rental car industry.

In the event of a default in the payment of principal of or interest on the Bonds, the remedies available to the Owners of the Bonds upon a default are in many respects dependent upon judicial action, which is often subject to discretion and delay under existing constitutional law, statutory law, and judicial decisions, including the federal Bankruptcy Code. Bond Counsel's opinion to be delivered concurrently with delivery of the Bonds will be qualified as to enforceability of the various legal instruments by certain limitations, including limitations imposed by bankruptcy, reorganization, insolvency, and equity principles. See APPENDIX D hereto.

Secondary Market

No assurance can be given concerning the existence of any secondary market in the Bonds or its creation or maintenance by the initial purchasers. Thus, purchasers of Bonds should be prepared, if necessary, to hold their Bonds until their respective maturity dates.

INVESTMENTS

The City invests funds in instruments authorized by Texas law 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, including letters of credit, of the United States or its agencies and instrumentalities; (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; and (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. If specifically authorized in the authorizing document, bond proceeds may be invested 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 in the next succeeding paragraph.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or Aaa or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers 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 up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. 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.

Effective September 1, 2003, governmental bodies in the State are authorized to implement securities lending programs if (i) the securities loaned under the program are 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) of the first paragraph under this subcaption, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than "A" or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (6) and (10) through (12) of the first paragraph under this subcaption, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the governmental body, held in the name of the governmental body 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.

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

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

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 entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (3) require the registered principal 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; (5) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (7) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

Current Investments

As of March 31, 2005, the City's investable funds were invested in the following categories:

<u>Type of Investment</u>	<u>Percentage</u>
U.S. Treasury Notes	9.7%
U.S. Agencies	58.6%
Money Market Funds	0.1%
Local Government Investment Pools	31.6%

The dollar weighted average maturity for the combined City investment portfolios is 1.02 years. The City prices the portfolios weekly and at month end utilizing a market pricing service.

TAX EXEMPTION

The delivery of the Bonds is subject to the opinions 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 statute, regulations, rulings, and court decisions on which such opinion is based are subject to change.

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 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 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 tax-exempt obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the City 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 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.

Tax Accounting Treatment of Discount and Premium Bonds

The initial public offering price to be paid for certain maturities of the Bonds (the “Discount Bonds”) may be less than the principal amount payable on such Bond at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the principal amount payable at maturity constitutes interest to the initial purchaser of such Discount Bond. A portion of such interest, allocable to the holding period of such Discount Bond by the initial purchaser, will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the

semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

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

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

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

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

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

GENERAL

Ratings

The City has received an underlying rating for the Bonds of "A-" from Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("S&P"). The City anticipates that S&P and Moody's Investors Service, Inc. will assign their municipal bond ratings of "AAA" and "Aaa", respectively, to the Bonds with the understanding that upon delivery of the Bonds, a municipal bond guaranty insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by FGIC (see "BOND INSURANCE"). An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations, and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

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 financial information and operating data to be updated will be a table regarding Special Motor Vehicle Rental Tax Collections. The City will update and provide this information as of the end of such fiscal year or for the twelve month period then ended within six months after the end of each fiscal year ending in or after 2005. 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 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 C 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 and in each succeeding year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each NRMSIR and any SID of the change.

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

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) nonpayment 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”). The foregoing notwithstanding, notices may be made solely by transmitting such filing to the MAC at <http://www.disclosureusa.org>, unless the SEC has withdrawn the interpretive advice stated in its letter to the MAC dated September 7, 2004.

Availability of Information from NRMSIRs and SID . . . The City has agreed to provide the foregoing information to NRMSIRs and any SID only. The information will be available to holders of 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.

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 Special Motor Vehicle Rental Tax, 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 . . . The City is in compliance with all prior undertakings under Rule 15c2-12.

Certain Legal Matters

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 obligations of the City payable from the sources and in the manner described herein and in the Ordinance, and the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under “TAX EXEMPTION” herein, including the alternative minimum tax on corporations. The form of Bond Counsel’s opinion is attached hereto as APPENDIX D. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the City by McCall, Parkhurst & Horton L.L.P. and for the Underwriters by Bickerstaff, Heath, Smiley, Pollan, Keever & McDaniel, L.L.P. The legal fees of such firms are contingent upon the sale and delivery of the Bonds.

Bond Counsel was engaged by, and only represents, the City. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under the captions or subcaptions “PLAN OF FINANCING”, “DESCRIPTION OF THE BONDS” (except under the subcaptions “Book-Entry-Only System” and “Owner Remedies”), “SECURITY FOR THE BONDS”, “TAX EXEMPTION”, “GENERAL - Continuing Disclosure Of Information” and “GENERAL - Certain Legal Matters”, and such firm is of the opinion that the information relating to the Bonds and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Ordinance.

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.

Litigation

As of the date hereof, there is no litigation pending or, to the knowledge of the City, threatened against the City to restrain or enjoin the issuance, sale, execution or delivery of the Bonds or the application of the proceeds thereof as described herein, or in any way contesting or affecting the validity of the Bonds or any proceedings of the City taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security for the Bonds or the existence or powers of the City.

Source of 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. This Official Statement includes descriptions and summaries of certain events, matters, and documents. Such descriptions and summaries do not purport to be complete and all such descriptions, summaries and references thereto are qualified in their entirety by reference to this Official Statement in its entirety and to

each such document, copies of which may be obtained from the City or from Public Financial Management, Financial Advisor to the City.

Verification of Arithmetical and Mathematical Calculations

The Arbitrage Group, Inc. (the “Verification Agent”), a firm of independent certified public accountants, upon delivery of the Bonds, will deliver to the City its report indicating that they have examined the mathematical accuracy of computations prepared by Public Financial Management relating to (a) the sufficiency of the anticipated receipts from the Federal Securities and on the Bonds and (b) language regarding yields.

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.

Financial Advisor

Public Financial Management is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor’s fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds.

Public Financial Management, 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 documents with respect to the federal income tax status of interest on the Bonds.

Underwriting

The Underwriters have agreed, subject to certain customary conditions to delivery, to purchase the Bonds from the City at a purchase price of \$38,289,309.59 (which includes an underwriting discount of \$203,290.51). The Underwriters 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 Underwriters. The representative of the Underwriters is Siebert Brandford Shank & Co., LLC.

Forward-Looking Statements

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

Additional Information

This Official Statement was approved, and the execution and delivery of this Official Statement authorized, by the City Council on May 12, 2005.

/s/Will Wynn

Mayor
City of Austin, Texas

ATTEST:

/s/Shirley A. Brown

City Clerk
City of Austin, Texas

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SCHEDULE I

SUMMARY OF REFUNDED BONDS

Series 1999 Bonds	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
Serial Bonds	11/15/2010	5.30%	\$ 955,000	11/15/2009	100.000
	11/15/2011	5.40%	1,010,000	11/15/2009	100.000
	11/15/2012	5.50%	1,070,000	11/15/2009	100.000
	11/15/2013	5.60%	1,135,000	11/15/2009	100.000
	11/15/2014	5.75%	1,205,000	11/15/2009	100.000
	11/15/2015	5.80%	1,275,000	11/15/2009	100.000
	11/15/2016	5.80%	1,355,000	11/15/2009	100.000
	11/15/2017	6.00%	1,435,000	11/15/2009	100.000
	11/15/2018	6.00%	1,520,000	11/15/2009	100.000
	11/15/2019	6.00%	1,615,000	11/15/2009	100.000
	11/15/2020	6.00%	1,710,000	11/15/2009	100.000
	11/15/2021	6.00%	1,815,000	11/15/2009	100.000
	11/15/2022	6.00%	1,920,000	11/15/2009	100.000
	11/15/2023	6.00%	2,040,000	11/15/2009	100.000
	11/15/2024	6.00%	2,160,000	11/15/2009	100.000
	11/15/2025	6.00%	2,290,000	11/15/2009	100.000
Term Bonds Maturing 2029	11/15/2026	6.20%	2,430,000	11/15/2009	100.000
	11/15/2027	6.20%	2,575,000	11/15/2009	100.000
	11/15/2028	6.20%	2,730,000	11/15/2009	100.000
	11/15/2029	6.20%	2,895,000	11/15/2009	100.000
Total Refunded Par Amount			<u>\$ 35,140,000</u>		

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

The following information has been presented for informational purposes only.

AUSTIN'S GOVERNMENT, ECONOMY AND OUTLOOK

The City of Austin, chartered in 1839, has a Council-Manager form of government with a Mayor and six 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:

<u>Type</u>	<u>Previous</u>	<u>Revised</u>
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

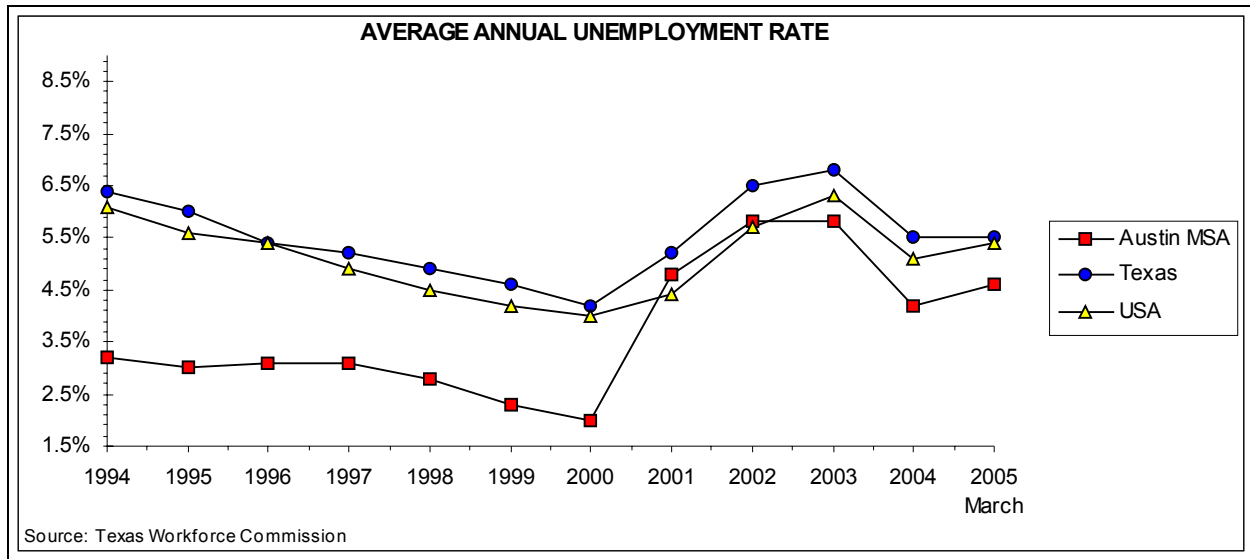
Industrial Classification	1990	2000	2003	2004	March 31, 2005
	Number of Employees	Number of Employees	Number of Employees	Number of Employees	Number of Employees
Manufacturing	49,300	84,662	60,483	57,000	57,200
Government	110,400	137,171	148,433	144,900	149,800
Trade, transportation & utilities	90,500	171,771	113,183	114,200	137,200
Services and miscellaneous	97,200	190,048	265,342	263,800	254,900
Finance, insurance and real estate	23,400	32,031	37,850	40,900	40,200
Natural resources, mining & construction	12,700	40,487	38,784	38,700	39,100
Total	383,500	656,170	664,075	659,500	678,400

(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 2004 & 2005 are an estimate based on Texas Workforce Commission, Bureau of Labor Statistics and U.S. Department of Labor data as of January 31, 2005.

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

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Average Annual Unemployment Rate



	<u>Austin MSA</u>	<u>Texas</u>	<u>U.S.</u>
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 March	4.6%	5.5%	5.4%

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)

<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>
1-1-01	\$ 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		
6-1-01	9.199	6-1-02	9.253	6-1-03	8.519	6-1-04	9.384		
7-1-01	9.605	7-1-02	9.287	7-1-03	7.908	7-1-04	8.980		
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		

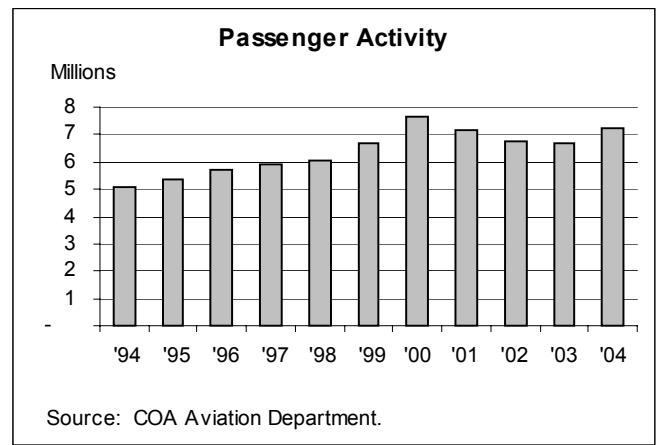
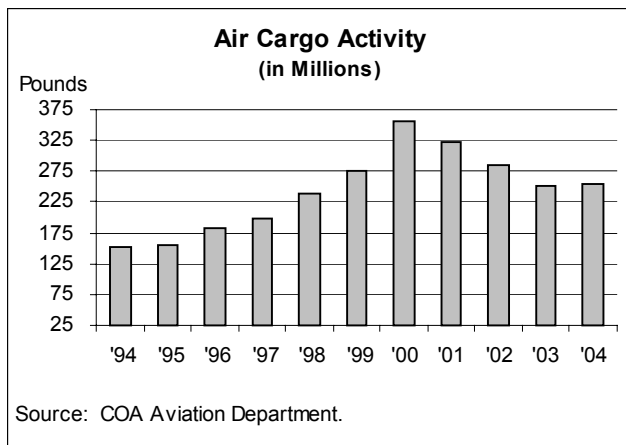
Source: City of Austin, Budget Office.

Ten Largest Employers (As of September 30, 2004)

<u>Employer</u>	<u>Product or Service</u>	<u>Employees</u>
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



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 nine major 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), Mexicana (includes Aerocaribe), Northwest (includes Pinnacle Air), Southwest, and United (includes SkyWest, Wisconsin Air, and Atlantic Coast Airlines). Non-stop service is available to 29 U.S. destinations and 2 international destinations.

Growth Indicators

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

Population

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

- (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

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

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

<u>Area</u>	<u>Median Household EBI</u>	<u>Per Capita EBI</u>	<u>% of Households by EBI Group*</u>				<u>Per Capita Retail Sales</u>
			<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	
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 \$760 per month, with an occupancy rate of 90.89% for the third quarter 2004.

Residential Sales Data

<u>Year</u>	<u>Number of Sales</u>	<u>Total Volume</u>	<u>Average Price</u>
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	22,476	4,472,211,716	198,977
2005 March	5,307	1,056,502,423	199,077

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

City-Wide Austin Office Occupancy Rate

<u>Year</u>	<u>Occupancy Rate</u>
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 (4 th 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.

<u>School Year</u>	<u>Average Daily Membership</u>	<u>Average Daily Attendance</u>
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.

APPENDIX B

EXCERPTS FROM THE ANNUAL FINANCIAL REPORT

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111 Congress Avenue
Suite 1100
Austin, TX 78701



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



KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is a member of KPMG International, a Swiss association.

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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	<u>659,781</u>	<u>660,365</u>	<u>1,343,717</u>	<u>1,447,371</u>	<u>2,003,498</u>	<u>2,107,736</u>
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	<u>600,968</u>	<u>626,601</u>	<u>1,355,120</u>	<u>1,239,738</u>	<u>1,956,088</u>	<u>1,866,339</u>
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	<u>90,377</u>	<u>100,690</u>	<u>(53,667)</u>	<u>140,707</u>	<u>36,710</u>	<u>241,397</u>
Beginning net assets	1,348,127	1,247,437	2,297,411	2,156,704	3,645,538	3,404,141
Ending net assets	<u>\$ 1,438,504</u>	<u>1,348,127</u>	<u>2,243,744</u>	<u>2,297,411</u>	<u>3,682,248</u>	<u>3,645,538</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

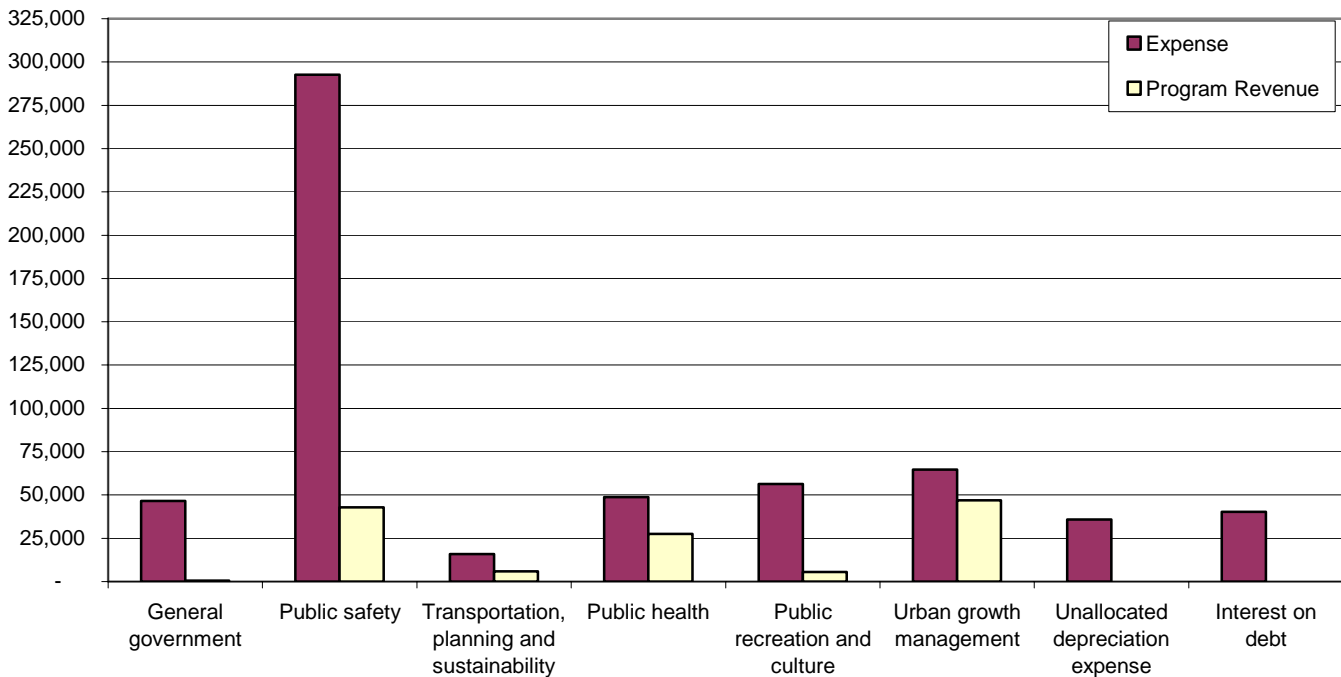
c -- Program Revenues and Expenses -- Governmental Activities

Governmental activities increased the City's net assets by \$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.

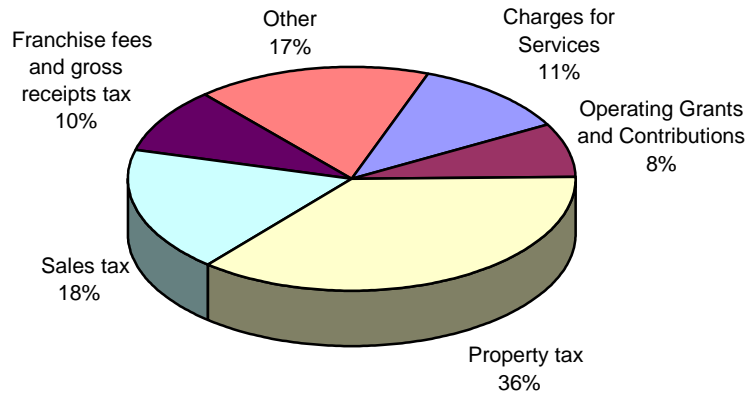
**Government-wide Program Expenses and Revenues – Governmental Activities
(in thousands)**



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

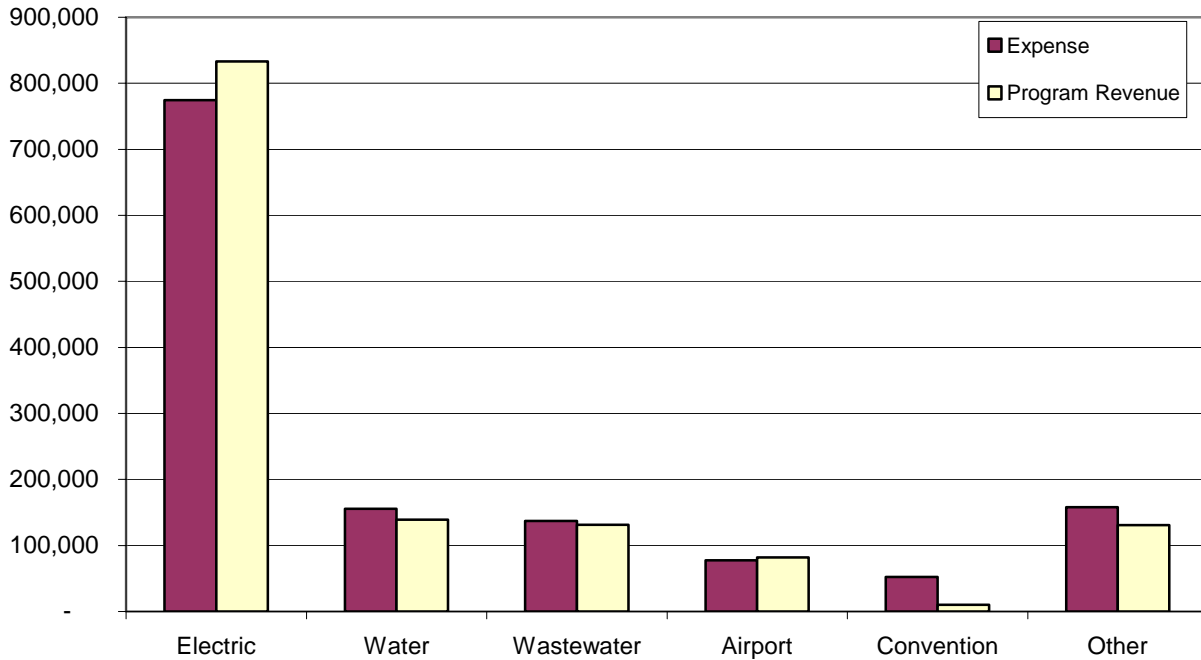
Business-type activities decreased the City's net assets by \$53.7 million, accounting for a 1.5% decrease in the City's total net assets and a 2.3% decrease in business-type net assets. Key factors include:

- 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.

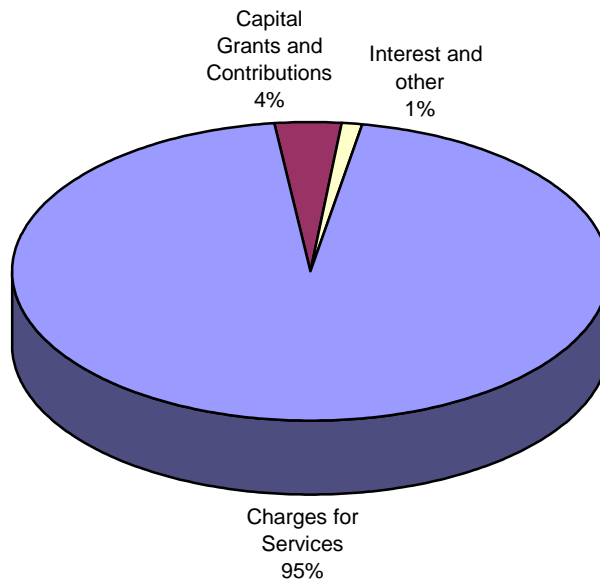
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

**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/>.



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

City of Austin, Texas
Exhibit A-1

	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.

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

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

	Governmental	Business-type	2004
	Activities	Activities	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.

**Statement of Activities
For the year ended September 30, 2004
(In thousands)**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	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)
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.



**Governmental Funds
Balance Sheet
September 30, 2004
(In thousands)**

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

	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	<u>143,209</u>	<u>292,592</u>	<u>435,801</u>
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	<u>36,922</u>	<u>89,688</u>	<u>126,610</u>
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	<u>106,287</u>	<u>202,904</u>	<u>309,191</u>
Total liabilities and fund balances	<u>\$ 143,209</u>	<u>292,592</u>	<u>435,801</u>

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

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

City of Austin, Texas
Exhibit B-1.1

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	<u>\$ 1,438,504</u>

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

Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the year ended September 30, 2004
(In thousands)

City of Austin, Texas
Exhibit B-2

	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	<u>377,764</u>	<u>229,980</u>	<u>607,744</u>
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	<u>404,745</u>	<u>342,603</u>	<u>747,348</u>
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)	<u>47,762</u>	<u>63,278</u>	<u>111,040</u>
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	<u>\$ 106,287</u>	<u>202,904</u>	<u>309,191</u>

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

Governmental Funds
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For the Year Ended September 30, 2004
(In thousands)

City of Austin, Texas
 Exhibit B-2.1

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	<u>\$ 90,377</u>

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	<u>138,100</u>	<u>391,200</u>	<u>88,783</u>
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	<u>11,093</u>	<u>175,715</u>	<u>1,117</u>
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	<u>158,386</u>	<u>929,560</u>	<u>93,154</u>
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	<u>319,297</u>	<u>4,164,897</u>	<u>33,292</u>
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	<u>430,570</u>	<u>5,174,870</u>	<u>40,524</u>
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	<u>434,076</u>	<u>5,804,395</u>	<u>40,531</u>
Total assets	<u>592,462</u>	<u>6,733,955</u>	<u>133,685</u>

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

(Continued)

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

	<u>Electric</u>	<u>Water and Wastewater</u>	<u>Airport</u>
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	<u>242,377</u>	<u>107,038</u>	<u>22,223</u>
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	<u>1,529,090</u>	<u>1,869,695</u>	<u>377,718</u>
Total liabilities	<u>1,771,467</u>	<u>1,976,733</u>	<u>399,941</u>
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	<u>\$ 1,271,840</u>	<u>392,193</u>	<u>329,319</u>
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	<u>\$ 1,274,245</u>	<u>394,534</u>	<u>330,061</u>

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

(Continued)

	<u>Nonmajor Enterprise Funds</u>	<u>2004 Total</u>	<u>Governmental Activities- Internal Service Funds</u>
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	<u>45,155</u>	<u>416,793</u>	<u>37,907</u>
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	<u>304,549</u>	<u>4,081,052</u>	<u>35,138</u>
Total liabilities	<u>349,704</u>	<u>4,497,845</u>	<u>73,045</u>
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	<u>242,758</u>	<u>2,236,110</u>	<u>60,640</u>
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	2,146	7,634	
Total net assets - Business-type activities	<u>244,904</u>	<u>2,243,744</u>	

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)

	<u>Electric</u>	<u>Water and Wastewater</u>	<u>Airport</u>
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	<u>829,018</u>	<u>233,964</u>	<u>65,361</u>
OPERATING EXPENSES			
Operating expenses before depreciation	516,857	109,555	38,517
Depreciation and amortization	95,525	52,808	16,054
Total operating expenses	<u>612,382</u>	<u>162,363</u>	<u>54,571</u>
Operating income (loss)	<u>216,636</u>	<u>71,601</u>	<u>10,790</u>
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)	<u>(150,536)</u>	<u>(130,502)</u>	<u>(10,781)</u>
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	<u>(6,290)</u>	<u>(44,474)</u>	<u>6,126</u>
Special items - hospital district reserve payment	--	--	--
Net change in net assets	<u>(6,290)</u>	<u>(44,474)</u>	<u>6,126</u>
Total net assets - beginning	1,278,130	436,667	323,193
Total net assets - ending	<u>\$ 1,271,840</u>	<u>392,193</u>	<u>329,319</u>
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	<u>\$ (5,551)</u>	<u>(43,302)</u>	<u>6,408</u>

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)

	<u>Electric</u>	<u>Water and Wastewater</u>	<u>Airport</u>
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	<u>113,901</u>	<u>51,236</u>	<u>936</u>
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	<u>116,496</u>	<u>56,606</u>	<u>88,292</u>
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	<u>153,317</u>	<u>53,036</u>	<u>15,239</u>
Net cash provided (used) by operating activities	<u>\$ 369,953</u>	<u>124,637</u>	<u>26,029</u>

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

(Continued)

	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)

	<u>Electric</u>	<u>Water and Wastewater</u>	<u>Airport</u>
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)

City of Austin, Texas
Exhibit D-1

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

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

Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
For the year ended September 30, 2004
(In thousands)

City of Austin, Texas
Exhibit D-2

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Austin, Texas (the City) is a municipal corporation incorporated under Article XI, Section 5 of the Constitution of the State of Texas (Home Rule Amendment). The City operates under a Council-Manager form of government. The City Council is composed of a Mayor and six Councilmembers, all of whom are elected at large for three-year staggered terms, and 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			Other Govern- ments	Other	Total
	Services	Fines	Taxes			
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	<u>\$ 8,246</u>	<u>12,450</u>	<u>34,911</u>	<u>8,467</u>	<u>10,034</u>	<u>74,108</u>

Municipal Court fines in the governmental activities, because of the nature of the fines, have a collection period greater than one year. Fines recognized that will not be collected during the subsequent year are estimated to be approximately \$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
	<u>\$ 246,108</u>	<u>89,377</u>	<u>119,229</u>	<u>91,828</u>	<u>546,542</u>

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):

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

(1) Includes internal service funds

Depreciation of assets is classified by functional 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	<u>(584,734)</u>	
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	<u>3,226</u>	
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	<u>(23,466)</u>	
Total		(930,484)
Internal service funds		53,006
Total net assets - Governmental activities		<u><u>\$ 1,438,504</u></u>

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	<u>(1,672)</u>	
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	<u>63,398</u>	
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	<u>(12,728)</u>	
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	<u>(24)</u>	
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	<u>6,403</u>	
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		<u><u>\$ 90,377</u></u>

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.

<u>Nonmajor Governmental</u>	<u>Deficit</u>		<u>Deficit</u>
<u>Special Revenue Funds:</u>	<u>(in thousands)</u>	<u>Internal Service Funds:</u>	<u>(in thousands)</u>
Fiscal Surety - Land Development	\$ 77	CTECC	384
		Liability Reserve	775
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		

4 – POOLED INVESTMENTS AND CASH

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

	<u>Pooled Investments and Cash</u>	
	<u>Unrestricted</u>	<u>Restricted</u>
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	<u>493,054</u>	<u>275,255</u>
Total pooled investments and cash	<u>\$ 768,309</u>	

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).

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
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	<u>13,477</u>	<u>428,232</u>	<u>--</u>	<u>441,709</u>
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)	<u>377,201</u>	<u>393,525</u>	<u>4,120</u>	<u>774,846</u>
Total investments	<u>\$ 390,678</u>	<u>821,757</u>	<u>4,120</u>	<u>1,216,555</u>

(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:

Investment Type	Fair Value (in thousands)				Weighted Average Maturity (days)
	Governmental Activities	Business-type Activities	Fiduciary Funds	Total	
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
	<u>\$ 377,201</u>	<u>393,525</u>	<u>4,120</u>	<u>774,846</u>	<u>315</u>

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

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

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	<u>\$ 170,135</u>	<u>788</u>

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	<u>\$ 99,372</u>	<u>2.46</u>

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):

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
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	<u>396,595</u>	<u>832,193</u>	<u>4,142</u>	<u>1,232,930</u>
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	<u>\$ 396,595</u>	<u>832,193</u>	<u>4,142</u>	<u>1,232,930</u>

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):

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
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	<u>\$ 5,917</u>	<u>10,436</u>	<u>22</u>	<u>16,375</u>

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	<u>250,649</u>	<u>281,736</u>	<u>532,385</u>
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	<u>2,061,643</u>	<u>6,470,604</u>	<u>8,532,247</u>
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	<u>(607,422)</u>	<u>(2,305,707)</u>	<u>(2,913,129)</u>
Net property, plant and equipment in service	<u>1,454,221</u>	<u>4,164,897</u>	<u>5,619,118</u>
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	<u>\$ 2,032,289</u>	<u>5,174,870</u>	<u>7,207,159</u>

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	<u>212,939</u>	<u>37,710</u>	<u>--</u>	<u>250,649</u>
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	<u>1,851,742</u>	<u>222,588</u>	<u>(12,687)</u>	<u>2,061,643</u>
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	<u>(549,922)</u>	<u>(63,332) (2)</u>	<u>5,832</u>	<u>(607,422)</u>
Net property, plant and equipment in service	<u>1,301,820</u>	<u>159,256</u>	<u>(6,855)</u>	<u>1,454,221</u>
Other capital assets not depreciated				
Construction in progress	353,951	154,798	(181,330)	327,419
Total capital assets	<u>\$ 1,868,710</u>	<u>351,764</u>	<u>(188,185)</u>	<u>2,032,289</u>

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

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

Governmental activities:

General government	\$ 2,043
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	<u>\$ 63,332</u>

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	<u>34,942</u>	<u>2,670</u>	<u>--</u>	<u>37,612</u>
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	<u>2,951,409</u>	<u>308,669</u>	<u>(20,039)</u>	<u>3,240,039</u>
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	<u>(1,288,675)</u>	<u>(96,027) (1)</u>	<u>10,429</u>	<u>(1,374,273)</u>
Net property, plant and equipment in service	<u>1,662,734</u>	<u>212,642</u>	<u>(9,610)</u>	<u>1,865,766</u>
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	<u>\$ 2,110,609</u>	<u>375,382</u>	<u>(312,356)</u>	<u>2,173,635</u>

(1) Components of accumulated depreciation increases:

Current year depreciation	\$ 95,525
Adjustment to accumulated depreciation	502
Total accumulated depreciation	<u>\$ 96,027</u>

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	<u>136,173</u>	<u>1,007</u>	<u>(443)</u>	<u>136,737</u>
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	<u>2,121,656</u>	<u>149,389</u>	<u>(103,953)</u>	<u>2,167,092</u>
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	<u>(658,184)</u>	<u>(50,308) (2)</u>	<u>1,237</u>	<u>(707,255)</u>
Net property, plant and equipment in service	<u>1,463,472</u>	<u>99,081</u>	<u>(102,716)</u>	<u>1,459,837</u>
Other capital assets not depreciated				
Construction in progress	232,170	161,901	(22,898)	371,173
Total capital assets	<u>\$ 1,831,815</u>	<u>261,989</u>	<u>(126,057)</u>	<u>1,967,747</u>

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

(2) Components of accumulated depreciation increases:

Current year depreciation	
Water	\$ 24,412
Wastewater	25,896
Total accumulated depreciation	<u>\$ 50,308</u>

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	<u>59,149</u>	<u>296</u>	<u>--</u>	<u>59,445</u>
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	<u>615,235</u>	<u>26,229</u>	<u>(19,400)</u>	<u>622,064</u>
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	<u>(86,583)</u>	<u>(16,054) (1)</u>	<u>570</u>	<u>(102,067)</u>
Net property, plant and equipment in service	<u>528,652</u>	<u>10,175</u>	<u>(18,830)</u>	<u>519,997</u>
Other capital assets not depreciated				
Construction in progress	19,368	11,883	(7,775)	23,476
Total capital assets	<u>\$ 607,169</u>	<u>22,354</u>	<u>(26,605)</u>	<u>602,918</u>

(1) Components of accumulated depreciation increases:

Current year depreciation	\$ 16,054
Total accumulated depreciation	<u>\$ 16,054</u>

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	<u>41,063</u>	<u>6,937</u>	<u>(58)</u>	<u>47,942</u>
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	<u>435,625</u>	<u>20,054</u>	<u>(14,270)</u>	<u>441,409</u>
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	<u>(110,282)</u>	<u>(14,142) (1)</u>	<u>2,312</u>	<u>(122,112)</u>
Net property, plant and equipment in service	<u>325,343</u>	<u>5,912</u>	<u>(11,958)</u>	<u>319,297</u>
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	<u>\$ 416,276</u>	<u>41,306</u>	<u>(27,012)</u>	<u>430,570</u>

(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	<u>\$ 14,142</u>

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	<u>271,327</u>	<u>10,910</u>	<u>(501)</u>	<u>281,736</u>
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	<u>6,123,925</u>	<u>504,406</u>	<u>(157,727)</u>	<u>6,470,604</u>
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	<u>(2,143,724)</u>	<u>(176,531) (2)</u>	<u>14,548</u>	<u>(2,305,707)</u>
Net property, plant and equipment in service	<u>3,980,201</u>	<u>327,875</u>	<u>(143,179)</u>	<u>4,164,897</u>
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	<u>\$ 4,965,869</u>	<u>701,096</u>	<u>(492,095)</u>	<u>5,174,870</u>

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

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

Business-type activities:

Electric	\$ 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	<u>175,998</u>
Adjustment to accumulated depreciation	533
Total increases in accumulated depreciation	<u>\$ 176,531</u>

8 – RETIREMENT PLANS

a -- Description

The City participates in funding three contributory, defined benefit retirement plans: City of Austin Employees' Retirement and Pension Fund, City of Austin Police Officers' Retirement and Pension Fund, and Fire Fighters' Relief and Retirement Fund of Austin, Texas. An independent board of trustees administers each plan. These plans are City-wide single employer funded plans that cover substantially all full-time employees. The fiscal year of each pension fund ends December 31. The most recently available financial statements of the pension funds are for the year ended December 31, 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	<u>11,051</u>	<u>1,744</u>	<u>1,361</u>	<u>14,156</u>

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:

	<u>City Employees</u>	<u>Police Officers</u>	<u>Fire Fighters</u>
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	<u>\$ 35,128</u>

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
	<u>182,893</u>	<u>657,842</u>	<u>840,735</u>
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
			<u>\$ 960,032</u>			

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

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

(3) Interest is paid 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
			<u>\$ 1,182,549</u>

Combined Utility Systems Debt -- Commercial Paper Notes - The City is authorized by ordinance to issue commercial paper notes in an aggregate principal amount not to exceed \$350,000,000 outstanding at any one time. Proceeds from the notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 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
			<u>\$ 228,140</u>

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements

Fiscal Year Ended September 30	Governmental Activities (in thousands)					
	General Obligation Bonds		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	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	--	--
	<u>730,021</u>	<u>313,193</u>	<u>91,021</u>	<u>37,752</u>	<u>33,970</u>	<u>3,393</u>
Less: Unamortized bond discounts	(382)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(1,041)	--	--	--	--	--
Add: Unamortized bond premiums	9,935	--	--	--	--	--
Net debt service requirements	<u>738,533</u>	<u>313,193</u>	<u>91,021</u>	<u>37,752</u>	<u>33,970</u>	<u>3,393</u>

Fiscal Year Ended September 30	Capital Lease Obligations		Total Governmental Debt Service Requirements		
	Principal	Interest	Principal	Interest	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
	<u>813</u>	<u>15</u>	<u>855,825</u>	<u>354,353</u>	<u>1,210,178</u>
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	<u>\$ 813</u>	<u>15</u>	<u>864,337</u>	<u>354,353</u>	<u>1,218,690</u>

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Fiscal Year Ended September 30	Electric Business-Type Activities (in thousands)					
	General Obligation Bonds		Contractual Obligations		Commercial Paper Notes (1)	
	Principal	Interest	Principal	Interest	Principal	Interest
	2005	\$ 5	69	485	47	94,984
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
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		Contractual Obligations		Tax Supported Debt	
	Principal	Interest	Principal	Interest	Principal	Interest
	2005	\$ 1,473	413	1,779	207	1,095
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	--	--	--	--
	<u>7,980</u>	<u>2,109</u>	<u>7,787</u>	<u>739</u>	<u>10,408</u>	<u>5,450</u>
Less: Unamortized bond discounts	(28)	--	--	--	(67)	--
Unamortized gain(loss) on bond refundings	(2,283)	--	--	--	--	--
Add: Unamortized bond premiums	375	--	--	--	28	--
Net debt service requirements	<u>6,044</u>	<u>2,109</u>	<u>7,787</u>	<u>739</u>	<u>10,369</u>	<u>5,450</u>

Fiscal Year Ended September 30	Commercial Paper Notes (1)		Revenue Bonds		Municipal Utility District Contract Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
	2005	220,632	222	40,796	54,053	2,035
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	--	--
	<u>220,632</u>	<u>222</u>	<u>1,178,822</u>	<u>927,394</u>	<u>13,785</u>	<u>2,345</u>
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	<u>\$ 220,632</u>	<u>222</u>	<u>1,135,860</u>	<u>927,394</u>	<u>13,740</u>	<u>2,345</u>

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Fiscal Year Ended September 30	Water and Wastewater Business-Type Activities (in thousands)				
	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
	<u>4,823</u>	<u>793</u>	<u>1,444,237</u>	<u>939,052</u>	<u>2,383,289</u>
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	<u>\$ 4,823</u>	<u>793</u>	<u>1,399,255</u>	<u>939,052</u>	<u>2,338,307</u>

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Airport Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation					
	Bonds		Contractual Obligations		Revenue Notes (1)	
	Principal	Interest	Principal	Interest	Principal	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	--	--	--	--
	<u>448</u>	<u>162</u>	<u>115</u>	<u>6</u>	<u>28,000</u>	<u>6,539</u>
Less: Unamortized bond discounts	(1)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	9	--	--	--	--	--
Add: Unamortized bond premiums	9	--	--	--	--	--
Net debt service requirements	<u>465</u>	<u>162</u>	<u>115</u>	<u>6</u>	<u>28,000</u>	<u>6,539</u>

Fiscal Year Ended September 30	Revenue Bonds		Capital Lease Obligations		Total Airport Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
	2005	7,650	21,169	173	13	7,932	21,693
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
	<u>360,125</u>	<u>287,432</u>	<u>494</u>	<u>26</u>	<u>389,182</u>	<u>294,165</u>	<u>683,347</u>
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	<u>\$ 351,646</u>	<u>287,432</u>	<u>494</u>	<u>26</u>	<u>380,720</u>	<u>294,165</u>	<u>674,885</u>

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Fiscal Year Ended September 30	Nonmajor Business-Type Activities (in thousands)					
	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	--	--
	<u>12,826</u>	<u>3,532</u>	<u>57,463</u>	<u>29,653</u>	<u>5,111</u>	<u>554</u>
Less: Unamortized bond discounts	(35)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(921)	--	--	--	--	--
Add: Unamortized bond premiums	541	--	1,153	--	--	--
Net debt service requirements	<u>12,411</u>	<u>3,532</u>	<u>58,616</u>	<u>29,653</u>	<u>5,111</u>	<u>554</u>

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
	<u>228,140</u>	<u>186,900</u>	<u>250</u>	<u>4</u>	<u>303,790</u>	<u>220,643</u>	<u>524,433</u>
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	<u>\$ 223,551</u>	<u>186,900</u>	<u>250</u>	<u>4</u>	<u>299,939</u>	<u>220,643</u>	<u>520,582</u>

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Fiscal Year Ended September 30	Business-Type Activities (in thousands)					
	General Obligation Bonds		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	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	--	--
	<u>22,574</u>	<u>6,412</u>	<u>57,463</u>	<u>29,653</u>	<u>14,575</u>	<u>1,428</u>
Less: Unamortized bond discounts	(64)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(3,195)	--	--	--	--	--
Add: Unamortized bond premiums	925	--	1,153	--	--	--
Net debt service requirements	<u>20,240</u>	<u>6,412</u>	<u>58,616</u>	<u>29,653</u>	<u>14,575</u>	<u>1,428</u>

Fiscal Year Ended September 30	Tax Supported Debt		Commercial Paper Notes (1)		Revenue Notes (2)	
	Principal	Interest	Principal	Interest	Principal	Interest
	2005	1,095	1,223	315,616	313	--
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
	<u>10,408</u>	<u>5,450</u>	<u>315,616</u>	<u>313</u>	<u>28,000</u>	<u>6,539</u>
Less: Unamortized bond discounts	(67)	--	--	--	--	--
Add: Unamortized bond premiums	28	--	--	--	--	--
Net debt service requirements	<u>\$ 10,369</u>	<u>5,450</u>	<u>315,616</u>	<u>313</u>	<u>28,000</u>	<u>6,539</u>

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Fiscal Year Ended September 30	Business-Type Activities (in thousands)					
	Revenue Bonds		Municipal Utility District Contract Revenue Bonds		Capital Lease Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
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
	<u>3,100,484</u>	<u>2,192,525</u>	<u>13,785</u>	<u>2,345</u>	<u>12,753</u>	<u>2,671</u>
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	<u>2,969,758</u>	<u>2,192,525</u>	<u>13,740</u>	<u>2,345</u>	<u>12,753</u>	<u>2,671</u>

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
	<u>3,575,658</u>	<u>2,247,336</u>	<u>5,822,994</u>
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	<u>\$ 3,443,667</u>	<u>2,247,336</u>	<u>5,691,003</u>

11 – CONDUIT DEBT

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	
		<u>Current</u>	<u>Long-Term</u>
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	--
		<u>\$ 31,073</u>	<u>11,515</u>

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):

<u>Transfers Out</u>	<u>Transfers In</u>				<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Governmental</u>	<u>Nonmajor Enterprise</u>	<u>Internal Service Funds</u>	
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	<u>\$ 95,894</u>	<u>32,980</u>	<u>61,101</u>	<u>17</u>	<u>189,992</u>

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:

	<u>2004</u>
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:

<u>Brokerage</u>	<u>Credit Rating</u>
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.

<u>Futures</u>	
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

<u>Options</u>	
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.

<u>Swaps</u>	
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.

<u>Related Bonds</u>	<u>Maturity</u>	<u>Counterparty</u>	<u>CP Rating by Moody's/S&P/Fitch</u>	<u>Variable Rate Received</u>	<u>Fixed Rate Paid</u>	<u>Market Value</u>
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)		Interest Rate Swaps, Net	Total
	Principal	Interest		
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 September 15	May 15 and November 15
Maturity dates	September 15 1988 - 2007	November 15 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):

Governmental Activities	Business-type Activities			Total
	Electric	Wastewater	Nonmajor	
\$ 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):

	<u>Cost</u>	<u>Accumulated Depreciation</u>
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:

<u>Fund name</u>	<u>Description</u>
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	<u>\$ 4,940</u>	<u>5,541</u>	<u>13,158</u>	<u>20,080</u>	<u>9,342</u>	<u>9,127</u>

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):

Assets	Governmental Activities	Business-type Activities				Total
		Electric	Water and Wastewater	Airport	Nonmajor	
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:

<u>Years of Service</u>	<u>Retiree only</u>	<u>Dependent only</u>
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
Schedule of Revenues, Expenditures and Changes in
Fund Balances--Budget and Actual-Budget Basis
For the year ended September 30, 2004
(In thousands)

City of Austin, Texas
RSI-1

	2004					Variance Positive (Negative) (3)
	Actual	Adjustments (1) (2)	Actual- Budget Basis	Budget		
				Original	Final	
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	<u>\$ 18,167</u>

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

SELECTED DEFINITIONS

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“Act” - V.T.C.A., Local Government Code, Chapter 334.

“Additional Bonds” - the additional parity revenue bonds permitted to be issued by the City pursuant to Section 23 of this Ordinance.

“Bond Year” - 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.

“Bonds” - the “CITY OF AUSTIN, TEXAS TOWN LAKE PARK COMMUNITY EVENTS CENTER VENUE PROJECT REFUNDING BONDS, SERIES 2005”, dated May 1, 2005, authorized by this Ordinance.

“City” - the City of Austin, Texas, and, where appropriate, the City Council thereof, or any successor thereto.

“Debt Service Account” - the Account so designated in Section 14 which heretofore has been established by the City and maintained in accordance with Section 16 of this Ordinance.

“Debt Service Requirements” - for any particular Bond Year, an amount equal to the sum of the principal of and interest and any redemption premium on the Bonds then Outstanding which will become due and owing during such Bond Year.

“Debt Service Reserve Account” - the Account so designated in Section 14 which heretofore has been established by the City and which shall be maintained in accordance with Section 17 of this Ordinance.

“Events Center Revenues” - all income and revenues derived directly or indirectly by the City from the operation and use of and otherwise pertaining to the Town Lake Community Events Center, or any part thereof, whether resulting from extensions, enlargements, repairs, betterments or other improvements to the Town Lake Community Events Center, or otherwise, including all rentals, rates, fees and other charges for the use of the Town Lake Community Events Center, or for any service rendered by the City in the operation thereof, but expressly excluding: (i) any monies received as grants, appropriations, or gifts, the use of which is limited by the grantor or donor; (ii) insurance proceeds other than loss of use or business interruption insurance proceeds; and (iii) sales and other taxes collected by the Town Lake Community Events Center on behalf of the State of Texas and any other taxing entities.

“Fiscal Year” - the City’s fiscal year as from time to time designated by the City, which is currently October 1 to September 30.

“Government Obligations” - (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.

“Legal Holiday” - a day on which a Paying Agent/Registrar for the Bonds is authorized by law to close.

“Operation and Maintenance Expenses” - all reasonable and necessary current expenses of the City, paid or accrued, of operating, maintaining and repairing the Parking Garage and Town Lake Community Events Center, including, without limitation, those reasonably allocated City overhead expenses relating to their administration, operation and maintenance; insurance and fidelity bond premiums; payments to pension and other funds and to any self-insurance fund; any general and excise taxes or other governmental charges imposed by entities other than the City; costs of contractual and professional services, labor, materials and supplies for current operations, including the costs of such direct City services as are reasonably necessary for the operation of the Parking Garage or Town Lake Community Events Center; utility costs; and all other administrative, general and commercial expenses, but excluding: (i) any allowance for depreciation; (ii) costs of capital improvements; and (iii) liabilities based upon the City’s negligence or other ground not based on contract.

“Operating Account” - the Account so designated in Section 14 which heretofore has been established by the City and which shall be maintained in accordance with Section 19 of this Ordinance.

“Operating Reserve” - the six month reserve amount to be accumulated and maintained in the Operating Account in accordance with Section 19 of this Ordinance.

“Ordinance” - this Ordinance No. 050-515 and all amendments hereof and supplements hereto.

“Outstanding” - when used with reference to any Bonds means, as of a particular date, all Bonds theretofore and thereupon delivered except: (i) any such Bond paid, discharged or canceled by or on behalf of the City at or before said date; (ii) any such Bond defeased pursuant to the defeasance provisions of the ordinance authorizing its issuance, or otherwise defeased as permitted by applicable law; and (iii) any such Bond in lieu of or in substitution for which another Bond shall have been delivered pursuant to the ordinance authorizing the issuance of such Bonds.

“Owner” or “Holder” - when used with respect to any Bond shall mean the person or entity in whose name such Bond is registered in the Security Register. Any reference to a particular percentage or proportion of the owners shall mean the Owners at a particular time of the specified percentage or proportion in aggregate principal amount of all Bonds then Outstanding under this Ordinance.

“Parking Garage Account” - the Account so designated in Section 14 which heretofore has been established by the City, and which shall be maintained pursuant to Section 15 of this Ordinance.

“Parking Revenues” - all income and revenues derived directly or indirectly by the City from the operation and ownership of the Parking Garage, or any part thereof, including all rentals, rates, fees and other charges for the use of the Parking Garage, or for any service rendered by the City in the operation thereof, but expressly excluding: (i) any monies received as grants, appropriations, or gifts, the use of which is limited by the grantor or donor; (ii) insurance proceeds other than loss of use or business interruption insurance proceeds; and (iii) sales and other taxes collected by the Parking Garage on behalf of the State of Texas and any other taxing entities.

“Parking Garage” - the multi-story parking garage facility constructed adjacent to, in the vicinity of, or as a part of the Town Lake Community Events Center for approximately 1200 automobiles.

“Parity Revenue Bonds” - the Previously Issued Bonds, the Bonds and Additional Bonds permitted to be issued by the City pursuant to this Ordinance.

“Pledged Revenues” - collectively, (i) the revenues received from the Special Motor Vehicle Rental Tax deposited to the credit of the Venue Project Fund, (ii) Parking Revenues deposited to the credit of the Venue Project Fund, (iii) Events Center Revenues deposited to the credit of the Venue Project Fund, (iv) interest and other income realized from the investment of amounts on deposit in the funds and accounts referenced in this Ordinance to the extent such interest and other income are required to be transferred or credited to the Venue Project Fund, and (v) any additional revenue, receipts or income hereafter pledged to the Bonds in accordance with Section 11 of this Ordinance.

“Previously Issued Bonds” - the “CITY OF AUSTIN, TEXAS TOWN LAKE PARK COMMUNITY EVENTS CENTER VENUE PROJECT BONDS, SERIES 1999”, dated November 15, 1999, originally issued in the aggregate principal amount of \$40,000,000 and currently outstanding in the aggregate principal amount of \$39,150,000.

“Repair and Replacement Account” - the Account so designated in Section 14 which heretofore has been established by the City and which shall be maintained in accordance with Section 18 of this Ordinance.

“Reserve Fund Requirement” - the amount required to be maintained in the Debt Service Reserve Account. Such amount shall be the lesser of (i) 10% of the principal amount or (ii) the maximum annual Debt Service Requirement scheduled to occur in the then current and each future Fiscal Year for all Parity Revenue Bonds then 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. Upon issuance of the Bonds, the Reserve Fund Requirement shall initially be \$3,041,900.

“Special Motor Vehicle Rental Tax” - the 5% motor vehicle rental tax approved at the election held November 3, 1998 to finance the Town Lake Park Community Events Center Venue Project and imposed by the City pursuant to Ordinance No. 981210-A, adopted by the City Council of the City on December 10, 1998, on the gross rental receipts from the rental in the City of a motor vehicle, as authorized by subchapter E of Chapter 334 of the Local Government Code and the aforesaid election.

“Subordinate Lien Bonds” - each series of bonds, notes or other obligations permitted to be issued by the City pursuant to Section 25 of this Ordinance as Subordinate Lien Bonds secured in whole or in part by liens on the Parking Revenues and Town Lake Community Events Center Revenues that are junior and subordinate to the lien on Pledged Revenues securing payment of the Parity Revenue Bonds.

“Surety Bond” - any surety bond, insurance policy, letter of credit or other guaranty issued to the City for the benefit of the Holders of the Parity Revenue Bonds to satisfy any part of the Reserve Fund Requirement as provided in Section 17 of this Ordinance.

“Town Lake Community Events Center” - the multi-purpose events building located at the corner of Barton Springs Road and South First Street and comprised of approximately 125,000 square feet, to be available and used for local public events including concerts, sales events, trade show, and public meetings, and the support areas for building operations, lobbies, concessions, restrooms and mechanical and electrical equipment, and any additions or improvements to such building.

“Town Lake Park Community Events Center Venue Project” - the capital improvement project described generally of consisting of constructing a new town lake park community events center, including parkland development and constructing parking facilities, incidental concessions compatible with the use of the facility, and related infrastructure and being a venue project within the meaning of the Act approved at an election held in the City on November 3, 1998, and designated by Resolution No. 980902-017.

“Venue Project Fund” - the Fund so designated created and established pursuant to Ordinance No. 981210-A, adopted by the City Council on December 10, 1998, providing for the levy, assessment and collection of the Special Motor Vehicle Rental Tax.

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APPENDIX D

FORM OF BOND COUNSEL'S OPINION

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FULBRIGHT & JAWORSKI L.L.P.

A REGISTERED LIMITED LIABILITY PARTNERSHIP

2200 ROSS AVENUE, SUITE 2800

DALLAS, TEXAS 75201-2784

WWW.FULBRIGHT.COM

TELEPHONE: (214) 855-8000

FACSIMILE: (214) 855-8200

WE HAVE ACTED as Bond Counsel in connection with the issuance by City of Austin, Texas (the "City") of the "City of Austin, Texas Town Lake Park Community Events Center Venue Project Refunding Bonds, Series 2005" (the "Bonds") in the aggregate principal amount of \$36,720,000, dated May 1, 2005, solely to express legal opinions as to the validity of the Bonds, the defeasance and discharge of the City's outstanding obligations being refunded by the Bonds and the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the City, the disclosure of any financial or statistical information or data pertaining to the City and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

THE BONDS are issued in fully registered form only and in denominations of \$5,000 or any integral multiple thereof within a maturity. The Bonds mature on November 15 in each of the years 2011 through 2025 and 2029, unless redeemed in accordance with applicable redemption provisions. Interest accrues on the Bonds from their date at the rates per annum stated in the ordinance adopted by the City Council of the City authorizing the issuance of the Bonds (the "Ordinance"), and such accrued interest is payable on May 15 and November 15 in each year, commencing November 15, 2005, to the registered owners appearing on the registration books of the Paying Agent/Registrar on the Record Date (identified in the Ordinance and the Bonds).

IN RENDERING THE OPINIONS herein we have examined and rely upon original or certified copies of the proceedings had in connection with the issuance of the Bonds, including the Ordinance, an Escrow Agreement (the "Escrow Agreement") between the City and Deutsche Bank Trust Company Americas, New York, New York (the "Escrow Agent"), a special report of The Arbitrage Group, Inc., Certified Public Accountants (the "Accountants") and an executed initial Bond; certifications of officers of the City relating to the expected use and investment of proceeds of the sale of the Bonds and certain other funds of the City and to certain other facts within the knowledge and control of the City; and such other material and such matters of law as we deem relevant. In the examination of the proceedings relating to the issuance of the Bonds, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such documents and certifications.

Based on our examination and the above assumption, 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 duly authorized by the City and, when issued in compliance with the provisions of the Ordinance, are valid, legally binding, and enforceable special obligations of the City, payable solely from and, together with the Previously Issued Bonds, equally and ratably secured by a lien on and pledge of the Pledged Revenues (as defined in the Ordinance), including the receipts from the collection of a Special Motor Vehicle Rental Tax (as defined in the Ordinance), except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency,

reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity.

2. The Escrow Agreement has been duly authorized, executed and delivered and is a binding and enforceable agreement in accordance with its terms and the outstanding obligations refunded, discharged, paid and retired with the proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in a trust clearing account with the Escrow Agent, pursuant to the Escrow Agreement and in accordance with the provisions of V.T.C.A., Government Code, Chapter 1207. In rendering this opinion, we have relied upon the verification by the Accountants of the sufficiency of cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

3. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance relating to sections 141 through 150 of the Code, interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, and such interest will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals for federal income tax purposes. Interest on all tax-exempt obligations, such as the Bonds, owned by a corporation (other than an "S" corporation or a qualified mutual fund, real estate mortgage investment conduit, real estate investment trust, or a financial asset securitization investment trust) will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code is computed.

We express no other 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, 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, owners of interests in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement benefits, 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

FORM OF SPECIMEN INSURANCE POLICY

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Financial Guaranty Insurance Company
 125 Park Avenue
 New York, NY 10017
 T 212-312-3000
 T 800-352-0001

Municipal Bond New Issue Insurance Policy

Issuer:	Policy Number:
	Control Number: 0010001
Bonds:	Premium:

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all



Financial Guaranty Insurance Company
 125 Park Avenue
 New York, NY 10017
 T 212-312-3000
 T 800-352-0001

Municipal Bond New Issue Insurance Policy

principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

SPECIMEN

President

Effective Date:

Authorized Representative

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer



Financial Guaranty Insurance Company
 125 Park Avenue
 New York, NY 10017
 T 212-312-3000
 T 800-352-0001

Endorsement
To Financial Guaranty Insurance Company
Insurance Policy

Policy Number: _____ **Control Number:** 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent



Financial Guaranty Insurance Company
 125 Park Avenue
 New York, NY 10017
 T 212-312-3000
 T 800-352-0001

Municipal Bond Debt Service Reserve Fund Policy

Issuer:	Policy Number:
	Control Number: 0010001
Bonds:	Premium:
	Maximum Amount:
Paying Agent:	

Financial Guaranty Insurance Company (“Financial Guaranty”), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay the paying agent named above or its successor, as paying agent for the Bonds (the “Paying Agent”), for the benefit of Bondholders, that portion (not to exceed the Maximum Amount set forth above) of the amount required to pay principal and interest (but not any prepayment premium) on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payment to the Paying Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. Upon such disbursement, Financial Guaranty shall become entitled to reimbursement therefor (together with interest thereon) all as provided in the Debt Service Reserve Fund Policy Agreement between the Issuer and Financial Guaranty dated as of the Effective Date of this Policy. The Maximum Amount shall be automatically reinstated when and to the extent that the Issuer repays amounts disbursed hereunder, but shall not be reinstated to the extent of amounts received by Financial Guaranty constituting interest on amounts disbursed to the Paying Agent pursuant to this Policy. Financial Guaranty shall provide Notice to the Paying Agent of any reinstatement of any portion of the Maximum Amount within one Business Day of such reinstatement.

This Policy is non-cancellable for any reason, including the failure of the Issuer to reimburse Financial Guaranty for any payment made hereunder.

As used herein, the term “Bondholder” means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. “Due for Payment” means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. “Nonpayment” in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the Paying Agent for payment in full of all



Financial Guaranty Insurance Company
 125 Park Avenue
 New York, NY 10017
 T 212-312-3000
 T 800-352-0001

Municipal Bond Debt Service Reserve Fund Policy

principal and interest Due for Payment on such Bond and includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from the Paying Agent for the Bonds to Financial Guaranty or from Financial Guaranty to the Paying Agent, as the case may be. "Business Day" means any day other than a Saturday, Sunday or a day on which the Paying Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.



President

Effective Date:

Authorized Representative

U.S. Bank Trust National Association acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.



Authorized Officer



Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212-312-3000
T 800-352-0001

Endorsement
To Financial Guaranty Insurance Company
Insurance Policy

Policy Number: _____ **Control Number:** 0010001

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the term "Bondholder" shall not include the _____ [Conduit Obligor] (as such term is defined in the bond documentation).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

