OFFICIAL STATEMENT DATED AUGUST 24, 2006

Ratings: Moody's: "Aa3"
Standard & Poor's: "AA"
Fitch: "AA"
(See "OTHER RELEVANT INFORMATION – Ratings")

NEW ISSUE – Book-Entry-Only

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

$12,000,000
MUELLER LOCAL GOVERNMENT CORPORATION
(A not-for-profit local government corporation acting on behalf of the City of Austin, Texas)
Contract Revenue Bonds, Series 2006

Dated: August 1, 2006 — Due: September 1, as shown below

Interest on the $12,000,000 Mueller Local Government Corporation Contract Revenue Bonds, Series 2006 (the "Bonds"), will accrue from the dated date as shown above and will be payable March 1 and September 1 of each year, commencing March 1, 2007, and will be calculated on the basis of a 360–day year consisting of twelve 30–day months. The Mueller Local Government Corporation (the "Corporation") intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on the behalf of DTC to discontinue such system. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer (see "BOND INFORMATION – Book-Entry-Only System").

The Bonds are being issued pursuant to a resolution adopted by the Board of Directors of the Corporation authorizing the issuance of the Bonds and an Indenture of Trust, dated as of August 1, 2006 (the "Indenture"), by and between the Corporation and Deutsche Bank Trust Company Americas, as trustee (the "Trustee"). The Bonds are payable solely from the "Pledged Revenues" as hereinafter defined, which Pledged Revenues include payments to be made under a grant agreement between the City of Austin, Texas (the "City") and the Corporation, pursuant to which the City will make available to the Corporation grant funds in amounts sufficient to pay debt service on the Bonds and related costs of administering the Bonds, including ongoing fees and expenses to be paid to the Trustee. The grant payments are to be funded from available moneys in the City's general fund received from all sources, including specifically sales and use taxes received by the City from taxable sales within the Zone (as defined below). The Bonds are being issued to provide funds for certain public infrastructure improvements within the Zone and to pay costs of issuance. THE OBLIGATION OF THE CITY TO MAKE GRANT PAYMENTS IS A CURRENT EXPENSE, PAYABLE SOLELY FROM FUNDS TO BE ANNUALLY APPROPRIATED BY THE CITY FOR SUCH USE. THE BONDS ARE A LIMITED OBLIGATION OF THE CORPORATION, PAYABLE SOLELY OUT OF THE TRUST ESTATE (AS DEFINED IN THE INDENTURE), WHICH IS THE SOLE ASSET OF THE CORPORATION PLEDGED THEREFOR.

The Corporation was established by the City under the provisions of Chapter 431, Texas Transportation Code, and the general laws of the State of Texas, to aid, assist, and act on behalf of the City in the performance of the City's governmental functions and to provide a means of financing certain project costs in connection with Reinvestment Zone Number Sixteen, City of Austin, Texas (the "Zone"). The Zone was created by the City pursuant to the provisions of the Tax Increment Financing Act, Chapter 311, Texas Tax Code (the "TIF Act") to facilitate development of the land within the boundaries of the Zone, a parcel containing approximately 700 acres located entirely within the City.

MATURITY SCHEDULE

CUSIP Prefix: 624757

Maturity (September 1)	Amount	Interest Rate	Price or Yield	Maturity (September 1)	Amount	Interest Rate	Price or Yield
2009	$450,000	4.250%	3.650%	2017	$630,000	4.250%	4.120%*
2010	470,000	4.125%	3.690%	2018	660,000	4.250%	4.220%*
2011	490,000	4.125%	3.730%	2019	690,000	4.250%	4.320%
2012	510,000	4.125%	3.790%	2020	720,000	4.250%	4.380%
2013	530,000	4.125%	3.850%	2021	755,000	4.375%	4.420%
2014	555,000	4.250%	3.910%	2022	790,000	4.375%	4.460%
2015	580,000	6.000%	4.000%	2023	830,000	4.375%	4.490%
2016	605,000	4.250%	4.070%	2026	955,000	4.000%	4.800%

$1,780,000 5.000% Term Bonds due September 1, 2025; Priced to Yield 4.410%*
(Plus Accrued Interest from August 1, 2006)

*Priced to call date

The initial reoffering yields were supplied to the Corporation by the Purchaser. The initial reoffering yields shown above will produce compensation to the Purchaser of approximately $106,974.05.

The Corporation reserves the right, at its option, to redeem Bonds having stated maturities on and after September 1, 2017, in whole or in part in the principal amounts of $5,000 or any integral multiple thereof, on September 1, 2016, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see "BOND INFORMATION – Optional Redemption"). The Bonds maturing on September 1, 2025 are also subject to mandatory redemption (see "BOND INFORMATION – Mandatory Redemption").

The Bonds are offered for delivery when, as and if issued, subject to the approving opinions of the Attorney General of the State of Texas and of McCall, Parkhurst & Horton L.L.P., Bond Counsel. The opinion of Bond Counsel will be printed on or attached to the Bonds (see APPENDIX E – "Form of Bond Counsel's Opinion").

It is expected that the Bonds will be delivered through the facilities of DTC on or about September 20, 2006.

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

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939 IN RELIANCE ON EXEMPTIONS CONTAINED IN SUCH ACTS.

The information set forth herein has been furnished by the Corporation and includes information obtained from other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Purchasers. The information and expressions of the opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Corporation or the other matters described herein since the date hereof. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau for the convenience of the owners of the Bonds.

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 Corporation or from The PFM Group, the Financial Advisor to the Corporation. Any statements made in this Official Statement or the Appendices hereto involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE PURCHASERS OF ANY OR ALL OF SUCH BONDS MAY OVER ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE 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.

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CITY OF AUSTIN/MUELLER LOCAL GOVERNMENT CORPORATION*

Elected Officials

		Term Expires June 15
Will Wynn	Mayor	2009
Lee Leffingwell	Councilmember Place 1	2008
Mike Martinez	Councilmember Place 2	2009
Jennifer Kim	Councilmember Place 3	2008
Betty Dunkerley, Mayor Pro Tem	Councilmember Place 4	2008
Brewster McCracken	Councilmember Place 5	2009
Sheryl Cole	Councilmember Place 6	2009

Appointed Officials

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

* The Austin City Council acts as the Board of Directors of the Corporation; and members of the City staff serve as officers of the Corporation. Toby Futrell serves as President of the Board of Directors and Sue Edwards serves as Secretary of the Board of Directors.

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

FINANCIAL ADVISOR
The PFM Group
Austin, Texas

AUDITORS
KPMG LLP and Richard Mendoza, CPA
Austin, Texas

For additional information regarding the Corporation, please contact:

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(512) 974–7882
art.alfaro@ci.austin.tx.us

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waleyd@pfm.com

SELECTED DATA FROM THE OFFICIAL STATEMENT

The selected data on this page is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this data page from this Official Statement or to otherwise use it without the entire Official Statement.

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

The Corporation.................. The Mueller Local Government Corporation (the "Corporation") is a non-profit local government corporation created by the City of Austin, Texas (the "City"), a political subdivision located in Travis and Williamson Counties, operating as a home–rule city under the laws of the State of Texas and a charter approved by the voters in 1953, as amended, to aid, assist and act on behalf of the City in the performance of its governmental functions to promote the common good and general welfare of the City, including, without limitation, the development of the geographic area included or to be included in Reinvestment Zone Number Sixteen, City of Austin, Texas, a tax increment reinvestment zone created by the City (the "Zone"), and neighboring areas, for the promotion, development, encouragement and maintenance of employment, commerce, economic development and public facility development. The Zone is approximately 700 acres in area (see "THE CORPORATION AND THE ZONE").

The Bonds.............................. The Bonds are being issued in the principal amount of $12,000,000 pursuant to the general laws of the State of Texas, particularly Subchapter D, Chapter 431, Texas Government Code, a resolution passed by the Board of Directors of the Corporation, and the terms of an Indenture of Trust between the Corporation and Deutsche Bank Trust Company Americas, dated as of August 1, 2006 (the "Indenture"). The Bonds are being issued to provide funds for certain public infrastructure improvements within the Zone and to pay costs of issuance.

Security.................................... The Bonds are secured by a first lien on and pledge of the "Pledged Revenues", which Pledged Revenues include payments to be made under a grant agreement between the City and the Corporation, pursuant to which the City will make available to the Corporation grant funds in amounts sufficient to pay debt service on the Bonds and related costs of administering the Bonds, including ongoing fees and expenses to be paid to the Trustee. The grant payments are to be funded from available moneys in the City's general fund received from all sources, including specifically sales and use taxes received by the City from taxable sales within the Zone. The obligation of the City to make grant payments is a current expense, payable solely from funds to be annually appropriated by the City for such use.

Redemption .... The Corporation reserves the right, at its option, to redeem the Bonds having stated maturities on and after September 1, 2017, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on September 1, 2016, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see "BOND INFORMATION – Optional Redemption"). In addition, the Bonds maturing September 1, 2025 are subject to mandatory sinking fund redemption prior to their scheduled maturity (see "BOND INFORMATION – Mandatory Redemption").

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

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OFFICIAL STATEMENT

Relating to

$12,000,000

MUELLER LOCAL GOVERNMENT CORPORATION

(A not-for-profit local government corporation acting on behalf of the City of Austin, Texas)
Contract Revenue Bonds, Series 2006

INTRODUCTION

This Official Statement, which includes the cover pages, the summary statement and the appendices hereto, provides certain information regarding the issuance by the Mueller Local Government Corporation (the "Corporation"), of $12,000,000 Mueller Local Government Corporation Contract Revenue Bonds, Series 2006 (the "Bonds").

There follows in this Official Statement descriptions of the Bonds, the Bond Resolution, the Indenture, certain other information about the Corporation, Reinvestment Zone Number Sixteen, City of Austin, Texas ("Reinvestment Zone Sixteen" or the "Zone"), the current and proposed future development of the Zone, Catellus Austin, LLC (the "Developer" or "Catellus"), and certain agreements among the City of Austin, Texas (the "City"), the Corporation, Reinvestment Zone Sixteen, and the Developer. All capitalized terms used herein which are not defined in the text of this Official Statement shall have the meanings set forth in the Bond Resolution (see APPENDIX C) or in the Summary of Certain Provisions of the Indenture (see APPENDIX D), except as otherwise indicated herein. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the Financial Advisor.

SECURITY AND SOURCE OF PAYMENT

Authority for Issuance

The Bonds are issued pursuant to the Texas Constitution, the general laws of the State of Texas, and the resolution authorizing the issuance of the Bonds (the "Bond Resolution") adopted by the Board of Directors of the Corporation (the "Board"), and an indenture of trust, dated as of August 1, 2006 (the "Indenture"), by and between the Corporation and Deutsche Bank Trust Company Americas, as trustee (the "Trustee"). The Bonds are the first series of bonds issued pursuant to the terms of the Indenture.

Security for the Bonds

The Bonds are payable solely from the "Pledged Revenues", which Pledged Revenues include payments to be made under a grant agreement between the City and the Corporation, pursuant to which the City will make available to the Corporation grant funds in amounts sufficient to pay debt service on the Bonds and related costs of administering the Bonds, including ongoing fees and expenses to be paid to the Trustee. The grant payments are to be funded from available moneys in the City's general fund received from all sources including specifically sales and use taxes received by the City from taxable sales within Reinvestment Zone Sixteen.

The Grant Program and the Grant Agreement

Section 52-a of Article III of the Texas Constitution ("Article III, Section 52-a") authorizes the Texas Legislature to provide for the creation of programs and the making of loans and grants of public money for the public purposes of development and diversification of the economy of the state, the elimination of unemployment and underemployment in the state, the stimulation of agricultural innovation, the fostering of the growth of enterprises based on agriculture, or the development or expansion of transportation or commerce in the state. Article III, Section 52-a further provides that a program created or loan or grant made that is not secured by a pledge of ad valorem taxes of the political subdivision does not constitute or create a debt for the purpose of any provision of the Texas Constitution. Chapter 380, Texas Local Government Code ("Chapter 380"), provides that the governing body of a municipality may establish and provide for the administration of one or more programs, including programs for making loans and grants of public money and providing personnel and services of the municipality, to promote state or local economic development and to stimulate business and commercial activity in the municipality. In 2003 and 2005, the City Council of the City adopted resolutions establishing a program to provide for economic development grants to promote and foster economic development in the City. With respect to development within the Zone, the City entered into a Master Development Agreement with Catellus Austin, LLC, effective as of December 2, 2004 (the "Development Agreement"), and in the Development Agreement, the City agreed to issue debt to finance certain "Public Finance Reimbursable Project Costs" either directly or through the auspices of a local government corporation to be created by the City. The Corporation was created in response to the provisions of the Development Agreement.

The City Council of the City adopted a resolution on April 27, 2006 authorizing the establishment of a specific program under Chapter 380 to provide economic assistance in an effort to achieve the economic development objectives of the geographic area included or to be included in the Zone and neighboring areas. The grant to be made to the Corporation is in furtherance of this program. Pursuant to said resolution, the City Council authorized the execution and delivery of an Economic Development and Grant Agreement (the "Grant Agreement") with the Corporation to enable the Corporation to timely pay annual debt service and on-going administrative expenses on the Bonds. Grant funds are expected to come primarily from municipal sales and use taxes generated within the Zone, and to the extent that such sales tax revenue is insufficient to fully fund the grant, it is anticipated that the balance of the grant amount shall be funded from the City's general fund.

THE OBLIGATION OF THE CITY TO MAKE GRANT PAYMENTS IS A CURRENT EXPENSE, PAYABLE SOLELY FROM FUNDS TO BE ANNUALLY APPROPRIATED BY THE CITY FOR SUCH USE. THE BONDS ARE A LIMITED OBLIGATION OF THE CORPORATION, PAYABLE SOLELY OUT OF THE TRUST ESTATE (AS DEFINED IN THE INDENTURE), WHICH IS THE SOLE ASSET OF THE CORPORATION PLEDGED THEREFOR. THE BONDS ARE SOLELY THE OBLIGATION OF THE CORPORATION, AND DO NOT CONSTITUTE, EITHER WITHIN THE MEANING OF ANY STATUTORY OR CONSTITUTIONAL PROVISION, AN INDEBTEDNESS, AN OBLIGATION OR A LOAN OF CREDIT OF THE CITY, THE STATE OF TEXAS, OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE OF TEXAS. IF THE CITY DOES NOT APPROPRIATE FUNDS TO MAKE GRANT PAYMENTS, SUCH OCCURRENCE WOULD CONSTITUTE AN EVENT OF DEFAULT UNDER THE INDENTURE. SEE "INVESTMENT CONSIDERATIONS" BELOW.

Pledged Revenues; Pledged Revenue Fund

The Indenture creates a fund to be held by the Trustee designated as the "Pledged Revenue Fund". Money in the Pledged Revenue Fund is held in trust by the Trustee and applied on February 15, 2007, and each August 15 and February 15 thereafter for so long as the Indenture is in effect (a "Transfer Date") in the following manner and order of priority:

> First, to the Interest Account within the Debt Service Fund amounts necessary to make the amounts on deposit therein equal to the interest due on the Contract Revenue Bonds on the next succeeding Interest Payment Date;
>
> Second, to the Principal Account within the Debt Service Fund amounts necessary to make the amounts on deposit therein equal to one-half of the Principal Installments, and premium, if any, due on the Bonds on the next succeeding Principal Installment Payment Date;
>
> Third, to the payment of the fees and expenses of the Trustee and Paying Agent/Registrar due and owing, for the next six (6) month period;
>
> Fourth, to any fund or account created for the benefit of any Subordinate Lien Obligations issued or incurred by the Corporation; provided that immediately prior to any such transfers the deposits required by clauses First through Third above have been made or provided for; and
>
> Fifth, as directed by the Corporation, for any lawful purpose as may be approved by the City for the payment of Project Costs; provided that immediately prior to any such transfers the deposits required by clauses First through Fourth above have been made or provided for.

Debt Service Fund

Money in the Debt Service Fund shall be held in trust by the Trustee. Within the Debt Service Fund, the "Interest Account" and the "Principal Account" are created and established with the Trustee. The Corporation shall deposit or cause to be deposited into the Debt Service Fund accrued interest on the Bonds, transfers from the Pledged Revenue Fund as provided in the Indenture, and, to the extent necessary, other Pledged Revenues in such amounts and at such times to provide that amounts necessary to pay all Bonds when due, including specifically to pay interest and principal due on the Bonds in the twelve month period following a Transfer Date. The Trustee shall transfer to the Paying Agent/Registrar on or before each date interest on and principal of the Bonds is due and payable such amounts in the Debt Service Fund to pay interest on and principal of the Bonds as the same becomes due.

Public Finance Fund

The Public Finance Fund shall initially be funded as provided in the Bond Resolution. The money and securities in the Public Finance Fund shall be held in trust by the Trustee and applied as provided below, and until such application, the money and securities in such fund shall be subject to a lien and charge in favor of the Owners of the Bonds.

1) The Trustee is authorized and directed to make disbursements from the Public Finance Fund upon receipt of requisition signed by an Authorized Representative of the Corporation. The Trustee shall keep and maintain adequate records pertaining to the Public Finance Fund and all disbursements therefrom.

2) The Trustee shall use money in the Public Finance Fund solely to pay or reimburse the Corporation for Project Costs including Costs of Issuance and the repayment of any advances, loans, notes or other obligations, including costs paid or incurred by the Developer on behalf of the Corporation used to finance Project Costs.

Before any payment shall be made from the Public Finance Fund, there shall be filed with the Trustee a completed requisition, signed by an Authorized Representative of the Corporation. Upon receipt of such requisition, the Trustee shall make payment from the Public Finance Fund in accordance with such requisition.

Additional Parity Bonds

The Corporation reserves the right to issue, for any lawful purpose (including the refunding of any previously issued or incurred Parity Bonds), one or more series of Additional Parity Bonds payable from and secured by a first lien on the Pledged Revenues, on a parity with the Bonds; provided, however, that no Additional Parity Bonds may be issued unless:

1) The Additional Parity Bonds mature on, and interest is payable on, the Principal Installment Payment Dates and Interest Payment Dates, respectively, and

2) The Corporation is not in material default with the terms of the Indenture, any Bond Resolution, the Grant Agreement or any other agreement to which it is a party and has so certified.

The foregoing notwithstanding, the aggregate principal amount of Bonds and Additional Parity Bonds that may be issued secured by a first lien on and pledge of the Pledged Revenues shall not exceed $15,000,000.

INVESTMENT CONSIDERATIONS

The following is a discussion of certain investment considerations that should be considered by any prospective purchaser of the Bonds prior to an investment in the Bonds. Such discussion is not, and is not intended to be, exhaustive and should be read in conjunction with the other provisions of this Official Statement, including the Appendices hereto.

General

The Bonds are special, limited obligations of the Corporation, payable solely from the lien on a pledge of the Pledged Revenues. Pledged Revenues include payments to be made under the Grant Agreement between the City and the Corporation (see "SECURITY AND SOURCE OF PAYMENT – The Grant Program and the Grant Agreement"), pursuant to which the City will make available to the Corporation grant funds in amounts sufficient to pay debt service on the Bonds and related costs of administering the Bonds, including ongoing fees and expenses to be paid to the Trustee. The primary source of City funds intended to fund the grant will be sales and use taxes to be levied and collected on taxable sales within the Zone. Currently, there are no commercial enterprises operating within the Zone from which sales and use taxes can be generated, and no assurances can be made that commercial development will occur within the Zone, or when the commercial development will occur. Should commercial development within the Zone occur as is anticipated (see "REDEVELOPMENT OF MUELLER"), the sales and use taxes the City expects to be available to fund the grant payments shall be received from a limited number of commercial businesses in the Zone and accordingly, if any of these businesses are closed, become uneconomical to operate, or seek protection under federal bankruptcy laws, the City may receive substantially less sales and use tax revenues than are currently anticipated, and therefore place a greater demand on the City's general revenue funds as the source to fund the grant payments. Furthermore, there is no current history of sales and use tax collections within the Zone, and projections relating to the anticipated collection of sales and use tax revenues may prove to be overly optimistic.

Nonappropriation

Except to the extent that excess Bond proceeds are legally available, the Bonds and the interest thereon are payable solely from the Grant Payments received by the Corporation from the City. The obligation of the City to make Grant Payments is limited to those funds appropriated by the City. If funds sufficient to pay the Grant Payments in amounts sufficient to pay debt service on the Bonds are not appropriated by the City, an Event of Nonappropriation shall be deemed to have occurred, which would result in an Event of Default occurring under the Indenture.

There can be no assurance that the City will annually appropriate sufficient funds to pay the Grant Payments in any given year. THE CITY HAS NO OBLIGATION TO ADOPT OR MAINTAIN A BUDGET TO MAKE GRANT PAYMENTS OR TO MAKE GRANT PAYMENTS SUBSEQUENT TO THE OCCURRENCE OF AN EVENT OF NONAPPROPRIATION. IF THE CITY FAILS TO APPROPRIATE SUFFICIENT FUNDS TO MAKE GRANT PAYMENTS, IT IS HIGHLY UNLIKELY THAT THERE WILL BE SUFFICIENT FUNDS TO PAY THE BONDS, WHEN DUE.

Other Obligations of the City

The obligation of the City to make Grant Payments will be satisfied from the funds of the City which are appropriated for such use. To the extent that the City's ad valorem tax revenues are used by the City to make the Grant Payments, the City has outstanding debt obligations secured by, and may enter into other obligations which may constitute additional charges against, such funds from which the Grant Payments may be appropriated and, therefore, such funds available for appropriation for Grant Payments may be decreased.

Project Development

Neither the City nor the Corporation has any direct ability to influence development within the Zone. As further described under "REDEVELOPMENT OF MUELLER", the Developer anticipates that major components of the commercial and residential development planned to occur within the Zone will not be completed until late 2007 at the earliest. General economic conditions, demand by retailers for commercial space within the Zone, competition from other developments in the City and the Austin metropolitan region, and other factors relating to the cost of the construction of the development within the Zone, may cause delays in or cancellation of some or all proposed elements of the development within the Zone, thereby affecting the ability of the City to realize sales and use tax revenues from commercial activity within the Zone, and therefore place a greater demand on the City's general revenue funds as the source to fund the grant payments.

Change in State Law Affecting City Economic Development Program

The Constitution of the State of Texas, including specifically Article III, Section 52-a, could be amended in the future in a manner that would restrict or eliminate the ability of a future City Council to fund a grant for economic development within the Zone as provided for in the resolutions of the City approving the economic development program. State law, including Chapter 380, could be amended or, in the case of Chapter 380, repealed prior to the funding of any economic development grant by the City, in such a manner that the ability to fund such a grant may be restricted or eliminated.

BOND INFORMATION

General

The Bonds will be dated August 1, 2006 and shall bear interest on the unpaid principal amounts from such date, at the per annum rates shown on the cover page. Principal is payable, upon presentation thereof, at the Designated Payment/Transfer Office of the Paying Agent/Registrar (see "Paying Agent/Registrar" herein). Interest thereon is payable by the Paying Agent/Registrar to the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined) and shall be paid by the Paying Agent/Registrar by check mailed by United States mail, first class postage prepaid, to the address of such person as it appears on the registration books of the Paying Agent/Registrar on or before each interest payment date or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the bondholder. The Bonds are issued only as fully registered obligations in denominations of $5,000 or any integral multiple thereof within a maturity.

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

Optional Redemption

The Corporation reserves the right, at its option, to redeem the Bonds having stated maturities on and after September 1, 2017, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on September 1, 2016, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption. If less than all of the Bonds are to be redeemed, the Corporation shall determine the respective maturities and amounts to be redeemed and, if less than all of a maturity is to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed.

Mandatory Redemption

The Bonds maturing on September 1, 2025 (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 September 1, 2025

Redemption Date (September 1)	Amount
2024	$870,000
2025	$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 Corporation, 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 Corporation 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, (2) shall have been purchased and cancelled by the Paying Agent/Registrar at the request of the Corporation with monies in the Debt Service Fund at a price not excluding the principal amount of the Bonds plus accrued interest to the date of purchase thereof, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

Notice of Redemption

At least thirty days prior to a redemption date, the Corporation shall cause a written notice of such redemption to be sent by United States mail, first class postage prepaid, to the registered owners of each Bond to be redeemed at the address shown on the registration books maintained by the Paying Agent/Registrar and subject to the terms and provisions relating thereto contained in the Indenture. If a Bond (or a portion of its principal sum) shall have been duly called for redemption and notice of such redemption duly given, then upon such redemption date such Bond (or the portion of its principal sum to be redeemed) shall become due and payable, and interest thereon shall cease to accrue from and after the redemption date thereof, provided moneys for the payment of the redemption price and the interest on the principal amount to be redeemed to the date of redemption are held for the purpose of such payment by the Paying Agent/Registrar.

Defeasance of Bonds

The Indenture provide for the defeasance of the Bonds when the payment of the principal of and premium, if any on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agency, in trust (1) money sufficient to make such payment or (2) Defeasance Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds. The Indenture provides that "Defeasance Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or it equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The Corporation has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the Corporation moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. The Corporation has reserved the option, however, to be exercised at the time of the defeasance of the Bonds, to call for redemption at an earlier date, Bonds which have been defeased to their maturity date, if the Corporation (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.

Book-Entry-Only System

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

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC.

DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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 Corporation as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Corporation 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 Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Corporation 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 Corporation 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 Corporation may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered.

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

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Bonds is Deutsche Bank Trust Company Americas. Interest on and principal of the Bonds will be payable, and transfer functions will be performed at the corporate trust office of the Paying Agent/Registrar in New York, New York (the "Designated Payment/Transfer Office"). In the Bond Resolution, the Corporation retains the right to replace the Paying Agent/Registrar. The Corporation covenants to maintain and provide a Paying Agent/Registrar at all times while the Bonds are outstanding and any successor Paying Agent/Registrar shall be a commercial bank, trust company or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Bonds, the Corporation agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Transfer, Exchange and Registration

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar at the Designated Payment/Transfer Office and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. A Bond may be assigned by the execution of an assignment form thereon or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond will be delivered by the Paying Agent/Registrar, in lieu of the Bond being transferred or exchanged, at the Designated Payment/Transfer Office, or sent by United States mail, first class postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt thereof to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Limitation on Transfer of Bonds Called for Redemption

Neither the Corporation nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled principal of a Bond.

Events of Default

An Event of Default under the Indenture shall consist of any of the following acts or occurrences:

(A) failure to pay when due principal of or interest on any Bond; or

(B) failure to deposit to the Debt Service Fund money sufficient for the payment of any principal or interest payable on the Bonds by no later than the date when such principal or interest becomes due and payable; or

(C) an Event of Nonappropriation shall have occurred and is continuing; or

(D) failure by the Corporation to observe or perform any other covenant, agreement or obligation on its part to be observed or performed contained in the Indenture or in the Bonds, which failure shall have continued for a period of thirty (30) days after written notice, either by registered or certified mail, to the Corporation specifying the failure and requiring that it be remedied, which notice may be given by the Trustee in its discretion and shall be given by the Trustee at the written request of the holders of not less than 25 percent (25%) in aggregate principal amount of the Bonds then outstanding.

See APPENDIX D, Summary of Certain Provisions of the Indenture.

Bondholder Remedies

If an Event of Default shall occur and be continuing, then, in addition to all of the other rights and remedies granted to the Trustee under the Indenture, the Trustee in its discretion, subject to the provisions of the Indenture, may proceed to protect and enforce its rights and the rights of the Owners of the Bonds by suit, action or proceeding in equity or at law or otherwise, whether for the specific performance of any covenant or agreement contained in the Indenture, the Bond Resolution or the Bonds or in aid of the execution of any power granted in the Indenture or for the enforcement of any other legal, equitable or other remedy, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce any of the rights of the Trustee or such Owners of the Bonds, including, without limitation, the right to seek a writ of mandamus issued by a court of competent jurisdiction compelling the members of the Board or other officers of the Corporation to observe and perform such covenant, obligations or conditions of the Indenture.

THE CITY HAS NO OBLIGATION TO ADOPT OR MAINTAIN A BUDGET TO MAKE GRANT PAYMENTS OR TO MAKE GRANT PAYMENTS SUBSEQUENT TO THE OCCURRENCE OF AN EVENT OF NONAPPROPRIATION. IF THE CITY FAILS TO APPROPRIATE SUFFICIENT FUNDS TO MAKE GRANT PAYMENTS, IT IS HIGHLY UNLIKELY THAT THERE WILL BE SUFFICIENT FUNDS TO PAY THE BONDS, WHEN DUE.

Registered Owners' Remedies After Default

Remedies available to Registered Owners of Bonds in the event of a default by the Corporation in one or more of its obligations under the Bonds, the Bond Resolution or the Indenture are limited. Although Texas law and the Bond Resolution provide that the Registered Owners may obtain a writ of mandamus requiring performance of such obligations, such remedy may prove time-consuming, costly and difficult to enforce. Neither the Bond Resolution nor the Indenture provides for acceleration of maturity of the Bonds, or for the foreclosure of any property or assets other than applying the Pledged Revenues in the manner provided in the Indenture. See "—Bankruptcy Limitation to Registered Owners' Rights" below, "APPENDIX C—Bond Resolution" and "APPENDIX D—Summary of Certain Provisions of the Indenture".

Bankruptcy Limitation to Registered Owners' Rights

As is true with many entities that issue debt, there is a risk that the Corporation may file for bankruptcy and afford itself the protection of the Federal Bankruptcy Code. In that case, the Corporation receives the benefit of the automatic stay and creditors, such as the holders of the Bonds, cannot pursue their remedies against it without the permission of the Bankruptcy Court. The Corporation has a right to reorganize and adjust its debts with the approval of the Bankruptcy Court. While the relevant law on this point is not clear, it may be possible for the Corporation to be forced into involuntary bankruptcy by one or more creditors. A bankruptcy filing by or against the Corporation could adversely affect the payment of principal and interest on the Bonds.

Future Debt

The Corporation has reserved the right in the Indenture to issue Parity Bonds (which include the Bonds) in an aggregate principal amount not to exceed $15,000,000. The Corporation does not anticipate any additional Parity Bonds prior to January 2008. See "SECURITY AND SOURCE OF PAYMENT- Additional Parity Bonds".

Marketability of the Bonds

The Corporation has no understanding with the Purchasers regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price may be greater than the bid and asked price of bonds of comparable maturity and quality issued by more traditional issuers as such bonds are more generally bought, sold or traded in the secondary market.

Continuing Compliance with Certain Covenants

Failure of the Corporation to comply with certain covenants contained in the Bond Resolution and the Indenture on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactive to the date of original issuance. See "TAX MATTERS".

Sources and Uses of Funds

The proceeds of the Bonds will be applied substantially as follows:

Sources of Funds:	
Principal Amount of the Bonds	$12,000,000.00
Original Issue Premium	106,974.05
Accrued Interest	72,354.11
Total Available Funds	$12,179,328.16
Uses of Funds:	
Deposit to Public Finance Fund	$11,875,000.00
Cost of Issuance	125,000.00
Underwriter's Discount	106,974.05
Deposit to the Debt Service Fund	72,354.11
Total Available Funds	$12,179,328.16

THE CORPORATION AND THE ZONE

The Corporation

The creation of the Corporation, a not-for-profit local government corporation, was authorized by the City on December 2, 2004, by Resolution No. 041202-60 of the City Council of the City. The Corporation operates pursuant to Articles of Incorporation filed with the Secretary of State and Bylaws approved by the City, and under the provisions of Chapter 431, Texas Transportation Code, and the general laws of the State of Texas applicable to nonprofit corporations. The Corporation was created to aid, assist and act on behalf of the City in the performance of its governmental functions to promote the common good and general welfare of the City, including, without limitation, the development of the geographic area included or to be included in the Zone and neighboring areas, for the promotion, development, encouragement and maintenance of employment, commerce, economic development and public facility development, including the redevelopment of the property within the City formerly known as Robert Mueller Municipal Airport ("Mueller" or "RMMA"), which is located within the boundaries of the Zone.

Reinvestment Zone Sixteen

On December 16, 2004, the City Council authorized an ordinance (the "Creation Ordinance") which established Reinvestment Zone Sixteen, a tax increment financing zone which encompasses the Mueller area. The Zone includes approximately 700 acres which will be developed as an urban in-fill mixed-used project with extensive amenities including open space, parks, trails, greenways and ball fields. The development will include an array of residential housing options ranging from owner-occupied single family housing to apartments to live-work shop houses. Inclusion of affordable housing is also a key component of the residential development. Commercial uses will include office, retail, and a children's hospital. In order to develop the property, extensive deconstruction of runways and facilities must occur and infrastructure must be constructed. It is estimated that full build-out of the project will occur in 10 to 20 years. See "REDEVELOPMENT OF MUELLER."

The goals of the development in the Zone include creation of a revenue stream to help fund onsite infrastructure as well as increase the City's tax base for the benefit of all citizens, to increase Austin's role in an increasingly global marketplace and create a wide range of employment opportunities for the community's citizens, and to promote economic development opportunities within East Austin. Other key goals include compatibility with and linkage to surrounding neighborhoods, economic and ethnic diversity and sustainability.

Under the terms of the Creation Ordinance, the Zone shall terminate on December 31, 2045.

REDEVELOPMENT OF MUELLER

General

Located in the heart of Austin, the redevelopment of Mueller, Austin's previous municipal airport site, includes approximately 700 acres of land that have been carefully planned to bring to life the community's vision to create a new district for the City.

Mueller is strategically located three miles northeast of downtown Austin. It is within three miles of the state capitol, two miles of the campus of The University of Texas at Austin, and it is near three additional accredited institutions of higher learning, three regional shopping destinations, and a belt of technology centers that runs along U.S. Highways 183 and 290.

The Reuse and Redevelopment Plan for Mueller was adopted by the Austin City Council in 2000. This plan was the product of many years of community involvement, serving as the springboard for more detailed development planning with the Developer.

The Mueller Redevelopment Project Master Plan includes up to 4,600 single-family homes and multi-family units with a diverse range of housing opportunities including:

- Single-family yard houses with front porches and rear garages, some of which could include carriage houses above the garage
- Attached residential row houses
- Attached live-work shop houses that provide a workspace at street level
- Apartments and condominiums – some of which will be in mixed-use buildings with ground-level retail and small businesses

At least 25 percent of the residential units expected at Mueller will be affordable to low-income households, or approximately 1,150 affordable units distributed throughout the community. Further, the goal is to have equal distribution of owner-occupied and rental residential units.

The project will also include approximately four million square feet of commercial space with a wide range of uses including:

- The Dell Children's Medical Center of Central Texas (currently 450,000 square feet) which is under construction,
- 650,000 square feet of retail, including both regional retail and the Town Center,

- Office space, and
- Approximately 20 acres for the Austin Film Studios complex.

Buildout is expected to occur in ten to twenty years. Upon completion, the redevelopment will be one of the largest urban infill redevelopment projects in the country, providing 10,000 permanent job opportunities for the community. The total value of new buildings at final buildout of the Mueller redevelopment is estimated to be approximately $1 billion in today's dollars, which at current tax rates will generate roughly $4.5 million in annual property tax revenues to the City.

With more than 140 acres of parks/open space and a planned elementary school, Mueller is designed as a model for responsible urban planning and development and will result in the creation of a community that is compact and pedestrian-scaled, supportive of transit, and compatible and complementary with the surrounding fabric of single-family neighborhoods.

- Transit – Transit is essential to the goal of achieving a compact, pedestrian-oriented community. The Mueller Master Plan accounts for possible commuter rail service in the future, as well as Bus Rapid Transit (BRT) and expanded local bus service.

- Open Space – The Mueller Master Plan incorporates approximately 140 acres of open space usable by the public, including neighborhood parks, a new lake, sports fields, greenways with hike/bike paths and 15,000 new trees.

- Pedestrian-Friendly – The streets at Mueller have been designed to provide a network of pedestrian ways throughout the community.

- Bicycle-Friendly – Mueller will host a comprehensive network of bicycle facilities to extend the existing system of bike lanes adjacent to the property. Overall, a total of 13 miles of new bike routes, lanes and paths are planned for the redevelopment.

- Sustainability – Mueller's design promotes sustainability at three levels: Green Community Design, Green Buildings and Green Infrastructure. The creation of a compact, walkable, transit-oriented development provides an alternative to the automobile-dominant patterns of development. The Mueller redevelopment also incorporates principles based on the U.S. Green Building Council's LEED (Leadership in Energy and Environmental Design) program and the City's own Green Building Program.

The City had a number of goals in mind while the redevelopment plan was being formulated. The development as planned meets all these goals which include:

- Fiscal Responsibility – The redevelopment must create a revenue stream that will substantially fund onsite infrastructure and increase the City's tax base for the benefit of all citizens.

- Economic Development - The redevelopment will reinforce Austin's role in an increasingly global marketplace and create a wide range of employment opportunities for the community's citizens.

- East Austin Revitalization - The redevelopment must promote economic development opportunities within East Austin, giving local residents a direct stake in redevelopment.

- Compatibility with Surrounding Neighborhoods - Development must maintain and enhance the quality of life in adjacent neighborhoods, providing complementary linkages, land uses and transportation patterns.

- Diversity - Mueller will offer a wide range of housing choices in order to create a new community of ethnically and economically diverse residents.

- Sustainability - Development has been planned in a way that promotes energy efficiency, reduced auto dependency, watershed protection and green space preservation.

Project Status

Construction on the project has begun with most activity occurring in the northwest quadrant of the property. All critical roads and backbone infrastructure in this segment of the project have been completed including Barbara Jordan Boulevard, Lancaster Drive, and a portion of Philomena Street. Dell Children's Medical Center of Central Texas is under construction and is expected to open in Summer 2007.

The following sites are expected to break ground this year: a 127,000 sq. ft. medical office building, the Ronald McDonald House, a 56,000 sq. ft. office building, a multi-family site, the regional retail site, infrastructure construction for the first phase of single-family residential, the Northwest Greenway Park and the Lake Park Pond. The estimated completion dates range from May 2007 to November 2007. The first phase of single-family lots is anticipated to break ground in Spring/Summer 2007 with expected completion by 2008.

Retail Description

The regional retail site, located along I-35 between 51st Street and Philomena Street in the northwest quadrant of the overall project, will accommodate up to 338,000 square feet of regional retail space on two parcels totaling 36.153 acres. The Regional Retail Development Project will be built in two phases – Phase I on the South Parcel (22.357 acres) is planned for a Spring 2007 opening with approximately 224,000 square feet, and Phase II on the North Parcel (13.796 acres) is planned for a Fall 2007 opening with approximately 114,000 square feet.

The tenant mix will include large-format "power" retailers, as well as complementary small-shop retailers and restaurants. To date, retailer interest has been strong, and the Developer is currently in negotiations with several anchor tenants and a number of national/regional small-shop retailers.

THE DEVELOPMENT AGREEMENT

In December 2004, the City and Catellus executed the Development Agreement setting forth the terms and conditions relating to the development of the Mueller property. Both the City and Catellus have committed to fund the cost of constructing the Mueller Master Plan and each will realize financial gains from the successful redevelopment of Mueller. The developer bears the bulk of the risk in the Development Agreement. Catellus is directly responsible for financing, constructing infrastructure, and marketing the development, and will be investing a significant amount of equity into the project.

Due to the lack of infrastructure in place, the cost to demolish existing buildings and runways and the high level of amenities, the City has always anticipated that public financing would be required to fulfill the vision. This infrastructure to be constructed consists primarily of streets and intersections, bicycle and pedestrian infrastructure, backbone for water, wastewater, electric, gas and telecommunications, street lighting, parks and greenways, drainage and water quality features.

At the beginning of the project, Catellus will mostly use its own money to finance demolition of existing structures and early infrastructure construction. The City will defer its return from land-sale proceeds and issue debt that is supported by project-generated tax revenues for the first few years of the development, providing "seed money" that can help finance the costly infrastructure improvements.. This debt will be issued by the Corporation which was established to contribute to the successful completion of this project.

Once land sales begin, the proceeds from those sales will be used to repay Catellus' previous infrastructure investments and future infrastructure costs. The City or the Corporation may issue more tax-based financing later in the project if the land-sale proceeds are not sufficient to cover the various costs of redevelopment.

At the end of the redevelopment, after all costs and land-sale proceeds are known, there will be a final accounting, and Catellus will realize its investment returns through the money generated by land sales. While the City may also share in land-sale proceeds, the City's primary source of financial gain will be the ongoing property and sales tax revenues generated by the project.

THE DEVELOPER

Catellus Development Group

Catellus Austin, LLC, a Delaware limited liability company, was created on December 2, 2004, to fully execute the Master Development Agreement with the City of Austin. Its parent company, Catellus Development Group operates as a subsidiary of ProLogis. Catellus specializes in the management and development of complex mixed-use real estate projects in locations across North America. Sample projects include:

– **Mission Bay – San Francisco, California**

Mission Bay comprises approximately 300 acres of land in the City of San Francisco. The land, located between the San Francisco Bay and Interstate 80, was part of the legacy real estate holdings of Catellus' predecessor company, the Southern Pacific Railroad. Catellus completed full entitlement for the project in 1998 and since then has been managing development at the site. At full build-out, Mission Bay will include 5 million square feet of office space, 6,500 apartments and condominiums, 750,000 square feet of retail and a biotech research campus for the University of California at San Francisco. Over the past several years, Catellus has completed a number of transactions at the site, including sales and ground leases. In November 2004, it sold the vast majority of its remaining assets in Mission Bay to Farallon Capital Management, but it continues to manage development at the site on behalf of Farallon.

– **Pacific Commons – Fremont, California**

Pacific Commons comprises 330 acres of land along Interstate 80 in San Francisco's East Bay area, midway between Oakland and San Jose. Catellus has signed a 34-year ground lease with Cisco for a 3.4-million-square-foot campus at the site, and completed construction of another 1.1 million square feet of space designated for industrial use and research and development. Most of the remainder of land at the site has been entitled for retail development, and agreements have been signed with companies like Costco, Lowes, Kohl's and Circuit City. The retail component of the project will total 880,000 square feet at full buildout; more than 600,000 square feet has been completed to date.

– **Los Angeles Air Force Base – El Segundo, California**

Catellus has entered into a joint venture with Kearney/Morgan Stanley to conduct redevelopment at the Los Angeles Air Force Base in El Segundo, which is home to U.S. Air Force administrative offices. Under an agreement with the military, the Catellus joint venture has constructed two new office buildings for base personnel on nearby property totaling approximately 545,000 square feet, along with a child care center. In exchange, the joint venture has received title to three parcels of land owned by the Air Force, including the site of the old administrative facilities. The Catellus joint venture has sold some of the land already to a residential developer; the balance is under contract and is also slated for residential use.

– **Alameda Bayport and Alameda Landing – Alameda, California**

Located in San Francisco's East Bay, the Alameda Bayport and Alameda Landing projects comprise about 230 acres of property combined. The site was formerly the home of a U.S. Navy fleet industrial supply center, in addition to other Navy facilities. Phase I of the project – called Alameda Bayport – is slated for 485 single-family homes under a joint venture. Plans for Phase II – dubbed Alameda Landing – envision 300,000 square feet of retail, 400,000 square feet of office space and 300 single-family residential units.

Catellus-ProLogis Merger

Catellus formerly operated as a Real Estate Investment Trust (REIT) and traded publicly on the New York Stock Exchange. In addition to its mixed use projects, Catellus operated a substantial portfolio of industrial property throughout North America.

In June 2005, Catellus and ProLogis announced a merger under which a subsidiary of ProLogis would acquire Catellus for a combination of cash and ProLogis stock. The transaction, which closed in September 2005, was valued at approximately $5.3 billion.

Catellus now operates as a subsidiary of ProLogis specializing in the development of mixed-use projects in North America.

ProLogis

ProLogis is one of the world's largest developers of industrial distribution facilities. It owns, operates or has under development more than 377 million square feet of industrial space in key markets across North America, Asia and Europe, with a total asset value of more than $22 billion. Its customers include large manufacturers, retailers, transport companies and third-party logistics providers. Headquartered in Denver, Colorado, ProLogis employs more than 1,000 people worldwide, and its stock trades on the New York Stock Exchange under the ticker PLD. ProLogis is a member of the Fortune 1000 and the S&P 500.

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GENERAL FUND REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE

(in 000's)

	Fiscal Year Ended September 30				
	2001	2002	2003	2004	2005
Revenues:					
Taxes (1)	$251,750	$262,190	$264,511	$281,720	$264,786
Franchise Fees	31,453	29,589	28,962	29,018	28,973
Fines, Forfeitures and Penalties	17,000	17,704	16,966	16,976	17,529
Licenses, Permits and Inspections	17,631	14,670	14,737	15,317	17,399
Charges for Services	14,984	15,579	15,403	15,565	23,064
Interest and Other	10,584	6,028	19,815	19,168	10,691
Total Revenues	$343,402	$345,760	$360,394	$377,764	$362,442
Expenditures:					
Administration	$ 9,426	$ 9,282	$ 8,909	$ 8,199	$ 8,699
Urban Growth Management	11,569	10,882	11,638	10,246	15,205
Public Safety	210,281	237,590	254,684	262,086	296,335
Public Services and Utilities	9,520	9,191	9,380	8,669	473
Public Health	41,437	43,655	46,061	15,728	26,715
Public Recreation and Culture	47,460	46,696	45,193	43,255	45,145
Social Services Management	8,071	10,448	9,985	9,579	0
Nondepartmental Expenditures	57,857	62,493	47,029	46,983	52,044
Total expenditures	$395,621	$430,237	$432,879	$404,745	$444,616
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	$ (52,219)	$ (84,477)	$ (72,485)	$ (26,981)	$ (82,174)
Other Financing Sources (Uses):					
Capital Leases	$ 0	$ 0	$ 785	$ 634	$ 932
Transfers from Other Funds	86,283	137,084	92,417	95,894	94,451
Transfers to Other Funds	(29,992)	(9,424)	(21,129)	(48,766)	(14,154)
Net Other Financing Sources	$ 56,291	$127,660	$ 72,073	$ 47,762	$ 81,229
Excess (Deficiency) of Total Revenues and Other Services Over Expenditures and Other Uses	$ 4,072	$ 43,183	$ (412)	$ 20,781	$ (945)
Residual Equity Transfer In (Out)	(500)	0	0	(7,700)	0
Fund Balances at Beginning of Year	44,510	50,435 (2)	93,618	93,206	106,287
Fund Balances at End of Year	$ 48,082	$ 93,618	$ 93,206	$106,287	$105,342

(1) Consists of property, sales and mixed drinks tax.
(2) Beginning fund balance adjusted for implementation of new accounting principle.

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CERTAIN GENERAL FUND RECEIPTS OTHER THAN AD VALOREM TAXES

Municipal Sales Tax

At an election held on September 30, 1967, the citizens of Austin voted a 1% retail sales and use tax to become effective on January 1, 1968. This tax provides an additional revenue source to the General Fund of the City. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts of the State of Texas, who currently remits the proceeds of the tax to the City monthly. Revenue from this source has been:

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

(1) Estimate.
(2) Proposed Budget.

Transfers From Utility Funds

The City owns and operates a Waterworks and Wastewater System and an Electric Light and Power System, the financial operations of which are accounted for in the Utility Funds. Transfers from the Utility Funds to the General Fund have historically provided a significant percentage of the receipts for operation of the General Fund. The following sets forth the amount of such transfers.

Fiscal Year Ended 9–30	(in 000's) Transfers	% of General Fund Requirements
1995	$71,111	28.5%
1996	73,583	26.0%
1997	71,450	24.6%
1998	72,721	23.4%
1999	74,204	21.7%
2000	78,352	21.5%
2001	85,824	21.7%
2002	88,924	21.7%
2003	92,417	20.3%
2004	95,894	21.1%
2005	94,117	20.9%
2006 (1)	97,658	20.4%
2007 (2)	106,471	20.6%

(1) Estimate.
(2) Proposed Budget.

TAX INFORMATION

Ad Valorem Tax Law

The appraisal of property within the City is the responsibility of the Travis Central Appraisal District (the "Appraisal District"). Excluding agricultural and open–space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under Title 1, V.T.C.A. Tax Code (commonly known as the "Property Tax Code") to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. State law further limits the appraised value of a residence homestead for a tax year (the "Homestead 10% Increase Cap") to an amount not to exceed the lesser of (1) the market value of the property, or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

Reference is made to the Property Tax Code for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII of the State Constitution ("Article VIII") and State Law provide for certain exemptions from property taxes, the valuation of agricultural and open–space lands at productivity value, and the exemption of certain personal property from ad valorem taxation.

Under Section 1–b, Article VIII, and the laws of the State of Texas, the governing body of a political subdivision, at its option, may grant:

(1) An exemption of not less than $3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision;
(2) An exemption of up to 20% of the market value of residence homesteads; minimum exemption $5,000.

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from $5,000 to a sum of $12,000.

In a statewide election held on September 13, 2003, voters approved an amendment to Section 1-b, Article VIII, that authorizes a county, city, town or junior college district to establish an ad valorem tax freeze on residence homesteads of the disabled and of the elderly and their spouses. The City is now authorized to freeze ad valorem taxes on residence homesteads of persons who are disabled or sixty-five years of age or older. If the City Council does not take action to establish the tax limitation, voters within the City may submit a petition signed by five percent of the registered voters of the City requiring the City Council to call an election to determine by majority vote whether to establish the tax limitation.

If the tax limitation is established, the total amount of ad valorem taxes imposed by the City on a homestead that receives the exemption may not be increased while it remains the residence homestead of that person or that person's spouse who is disabled or sixty-five years of age or older, except to the extent the value of the homestead is increased by improvements other than repairs. If a disabled or elderly person dies in a year in which the person received a residence homestead exemption, the total amount of ad valorem taxes imposed on the homestead by the taxing unit may not be increased while it remains the residence homestead of that person's surviving spouse if the spouse is fifty-five years of age or older at the time of the person's death. In addition, the Texas Legislature by general law may provide for the transfer of all or a proportionate amount of the tax limitation applicable to a person's homestead to be transferred to the new homestead of such person if the person moves to a different residence within the taxing unit. Once established, the governing body of the taxing unit may not repeal or rescind the tax limitation.

The City Council has not determined at this time what action, if any, it will take regarding this constitutional amendment. The City can make no representations or predictions concerning the impact such a tax limitation would have on the taxing rates of the City or its ability to make debt service payments.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and 1-d-1.

Personal property not used in the business of a taxpayer, such as automobiles or light trucks, is exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property.

Section 1-j, Article VIII provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. The City grants such exemption.

The City grants an exemption to the appraised value of the residence homestead of persons 65 years of age or older and to the disabled of $51,000.

The City may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. The City has adopted criteria for granting tax abatements which establish guidelines regarding the number of jobs to be created and the amount of new value to be added by the taxpayer in return for the abatement. The City has entered into several such abatement agreements in recent years.

Tax Valuation

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

(1) 2006 Certified Appraised Value includes $4,623,806,542 in property in the appeals process.
(2) Exemptions or adjustments to assessed valuation granted in 2006 include (a) exemptions of $51,000 for resident homestead property of property owners over 65 years of age; (b) exemptions for residents homestead property exceeding a 10 percent increase in valuation from the previous year; (c) exemptions ranging from $5,000 to $12,000 for property of disabled veterans or certain surviving dependents of disabled veterans; (d) certain adjustments to productive agricultural lands; (e) exemptions to the land designated as historically significant sites by certain public bodies; (f) exemptions of $51,000 to disabled resident homestead property owners; (g) exemption of freeport property detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication of exported finished goods from Texas.

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

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

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

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

(1) Excludes the ad valorem tax supported bonds anticipated to be sold on August 31, 2006.
(2) Represents bonds of utility districts annexed by the City.
(3) Ad valorem tax supported bonds anticipated to be sold August 31, 2006 with delivery October 4, 2006.
(4) Airport, Austin Energy, Communications and Technology Management, Convention Center, Financial Services, Fleet Management, Golf, One Texas Center, Solid Waste, Transportation, Water, Wastewater and Watershed Protection represent a portion of the City's Outstanding Public Improvement Bonds, Certificates of Obligation and/or Contractual Obligations. Debt service for Airport, Austin Energy, Communications & Technology Mgmt., Convention Center, Financial Services, Fleet Management, Golf, One Texas Center, Solid Waste, Transportation, Water, Wastewater and Watershed Protection is paid from revenue of the respective enterprises. The City plans to continue to pay these obligations from each respective enterprise. Communications and Technology Management, Fleet Management and One Texas Center are internal service funds that generate revenue through charges to user departments.

(5) The City entered into an interlocal agreement with Capital Metro Transit Authority (CMTA), whereby CMTA will pay the required debt service to the City through a transfer of funds 30 days prior to each debt service payment date.
(6) Represents estimate of cash plus investments at cost on September 30, 2006.
(7) Various general fund departments have issued debt which is supported by a transfer into the debt service fund from the issuing department. These departments budget the required debt service which reduces the debt service tax requirement. If excluded, these obligations would lower net debt by $9,740,101.
(8) Source: City of Austin Planning/Growth Department. This figure does not include areas annexed for limited purposes.

Revenue Debt

In addition to the above, on a pro forma basis, the City had outstanding (as of August 31, 2006) $987,093,647 Combined Utility Systems Revenue Bonds payable from a prior and subordinate lien on the combined net revenue of the Electric System and the Water and Wastewater System; $649,550,000 Electric Utility Obligations payable from a subordinate lien on the net revenues of the Electric Utility System; $1,026,525,000 Water and Wastewater Obligations payable from a subordinate lien on the net revenue of the Water and Wastewater System, and $207,522,000 Combined Utility Systems Commercial Paper payable from a subordinate lien on the combined net revenue of the Electric System and the Water and Wastewater System.

The City also has outstanding (as of August 31, 2006) $383,100,000 Airport System Revenue Bonds payable from revenue of the City's Airport System. The City also has outstanding (as of August 31, 2006) $235,660,000 in Convention Center Bonds, payable from hotel/motel occupancy and rental car tax collections.

Grant Payments

The City adopted an economic development program in 2006 to provide economic assistance in an effort to achieve the economic development objectives of the geographic area which includes the former Robert Mueller Municipal Airport as well as surrounding areas, which property is in an area of the City designated as Reinvestment Zone Sixteen, City of Austin, Texas, a tax increment reinvestment zone created by the City pursuant to Chapter 311, Texas Tax Code. The City and Mueller Local Government Corporation, a non-profit local government corporation acting on behalf of the City, have entered into an Economic Development and Grant Agreement, pursuant to which the City will make annual grants to fund debt service on the Bonds offered by this Official Statement and ongoing administrative expenses related thereto.

Obligations Currently Subject to Annual Appropriation

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

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Valuation and Funded Debt History

Fiscal Year Ended 9-30	Estimated City Population (1)	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	(000's) Net Funded Tax Debt (2)	Per Capita Net Funded Tax Debt	Ratio of Net Funded Tax Debt to Taxable Valuation	% of Tax Collections
1995	523,352	$20,958,589,300	$40,046.83	$436,868	$ 834.75	2.08%	100.10%
1996	541,889	23,303,015,047	43,003.30	443,247	817.97	1.90%	99.91%
1997	560,939	25,823,385,257	46,036.00	476,148	848.84	1.84%	99.47%
1998	608,214	27,493,058,735	45,202.94	500,027	822.12	1.82%	99.37%
1999	619,038	32,458,349,755	52,433.53	509,759	823.47	1.57%	99.57%
2000	628,667	35,602,840,326	56,632.27	540,283	859.41	1.52%	99.85%
2001	661,639	41,419,314,286	62,601.08	546,211	825.54	1.32%	99.60%
2002	671,044	47,782,873,096	71,206.77	762,624	1,136.47	1.60%	99.23%
2003	674,719	50,759,650,668	75,230.80	788,366	1,168.44	1.55%	99.60%
2004	683,551	48,964,275,008	71,632.22	810,273	1,185.39	1.65%	98.90%
2005	695,881	49,702,906,522	71,424.43	784,396	1,127.20	1.58%	100.23%
2006	707,952	52,405,611,874	74,024.24	688,809	972.96	1.31%	100.67% (3)
2007	720,522	60,230,045,084 (4)	83,592.24 (5)	661,890 (5)	918.63 (5)	1.10% (5)	N/A

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

Tax Rate, Levy and Collection History

Fiscal Year Ended 9-30	Total Tax Rate	Distribution General Fund	Distribution Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
1995	$0.5625	$0.3132	$0.2493	$117,892,065	99.00%	100.10%
1996	0.5446	0.3177	0.2269	126,908,220	99.03%	99.91%
1997	0.5251	0.3117	0.2134	135,598,596	98.96%	99.47%
1998	0.5401	0.3304	0.2097	148,490,010	98.80%	99.37%
1999	0.5142	0.3265	0.1877	166,900,834	98.89%	99.57%
2000	0.5034	0.3222	0.1812	179,224,698	99.08%	99.85%
2001	0.4663	0.3011	0.1652	193,138,262	98.98%	99.60%
2002	0.4597	0.3041	0.1556	219,657,867	98.81%	99.23%
2003	0.4597	0.2969	0.1628	233,342,114	98.84%	99.60%
2004	0.4928	0.3236	0.1692	241,295,947	99.06%	98.90%
2005 (2)	0.4430	0.2747	0.1683	220,183,876	99.03%	100.23%
2006	0.4430	0.2841	0.1589	232,156,861	99.48%	100.67% (1)
2007 (3)	0.3986	0.2620	0.1366	240,076,960	N/A	N/A

(1) Estimated Collections as of June 30, 2006.
(2) The total tax rate decreased by 6.35¢ as a result of the voters of Travis County (which includes the City) approving in May 2004 the creation of a new County wide hospital district, which resulted in public health services previously provided by the City to be provided by the hospital district.
(3) Proposed Budget.

Ten Largest Taxpayers (1)

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

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

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

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

Source: Travis Central Appraisal District.

Property Tax Rate Distribution

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

(1) The City approved a tax rate of $0.5065 which is the effective tax rate. The total tax rate was amended and reduced by 6.35¢ to the level shown as a result of the voters of Travis County (which includes the City) approving in May 2004 the creation of a new County wide hospital district, resulting in public health services previously provided by the City to be provided by the hospital district (see "DEBT INFORMATION – Estimated Direct and Overlapping Funded Debt Payable from Ad Valorem Taxes).

(2) Proposed Budget recommendation.

Net Taxable Assessed Valuations, Tax Levies and Collections

Fiscal Year Ended 9-30	Valuation Date	Real Property Amount	Real Property % of Total	Personal Property Amount	Personal Property % of Total	Net Taxable Assessed Valuation	Total Tax Levy	% Current Collections	% Total Collections
1995	1-1-94	$17,350,805,301	82.79%	$3,607,783,999	17.21%	$20,958,589,300	$117,892,065	99.00%	100.10%
1996	1-1-95	19,478,990,278	83.59%	3,824,024,769	16.41%	23,303,015,047	126,908,220	99.03%	99.91%
1997	1-1-96	21,488,717,069	83.21%	4,334,668,188	16.79%	25,823,385,257	135,598,596	98.96%	99.47%
1998	1-1-97	22,693,966,978	82.54%	4,799,091,757	17.46%	27,493,058,735	148,490,010	98.80%	99.37%
1999	1-1-98	27,225,077,724	83.88%	5,233,272,031	16.12%	32,458,349,755	166,900,834	98.89%	99.57%
2000	1-1-99	30,114,175,223	84.58%	5,488,665,103	15.42%	35,602,840,326	179,224,698	99.08%	99.85%
2001	1-1-00	35,257,000,679	85.23%	6,110,383,576	14.77%	41,419,314,286	193,138,262	98.98%	99.60%
2002	1-1-01	40,775,710,666	85.34%	7,007,162,430	14.66%	47,782,873,096	219,657,867	98.81%	99.23%
2003	1-1-02	44,261,013,540	87.20%	6,498,637,128	12.80%	50,759,650,668	233,342,114	98.84%	99.60%
2004	1-1-03	42,832,762,815	87.48%	6,131,512,193	12.52%	48,964,275,008	241,295,947	99.06%	98.90%
2005	1-1-04	43,662,323,952	87.85%	6,040,582,570	12.15%	49,702,906,522	220,183,876 (1)	99.03%	100.23%
2006	1-1-05	46,542,536,446	88.18%	5,863,075,428	11.19%	52,405,611,874	232,156,861	99.48% (2)	100.67% (2)
2007	1-1-06	53,473,676,409	88.78%	6,756,368,675	11.22%	60,230,045,084	240,076,960	N/A	N/A

(1) The City approved a tax rate of $0.5065 which is the effective tax rate. As a result of the voter approved new Hospital District the tax rate was amended and reduced by $0.0635 to $0.4430 (see "DEBT INFORMATION – Estimated Direct and Overlapping Funded Debt Payable from Ad Valorem Taxes").
(2) Estimated collections through June 30, 2006.

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Tax Rate Limitation

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

By each September 1 or as soon thereafter as practicable, the City Council adopts a tax rate per $100 taxable value for the upcoming fiscal year beginning October 1. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Section 26.05 of the Property Tax Code provides that the governing body of a taxing unit is required to adopt the annual tax rate for the unit before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit for the tax year to be the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. Furthermore, Section 26.05 provides the City Council may not adopt a tax rate that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings are held on the proposed tax rate following a notice of such public hearing (including the requirement that notice be posted on the City's website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate, the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

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CITY OF AUSTIN, TEXAS
DEBT INFORMATION*

Debt Service Requirements

Fiscal Year Ending 09/30	Public Improvement Bonds	Certificates of Obligation	Contractual Obligations	Assumed MUDs	Grand Total Requirements	Less Self-Supporting Requirements (a)	Net Total Requirements	Percent Principal Payout
2007	84,970,734	15,765,928	11,160,882	1,261,653	113,159,195	29,436,188	83,723,008	
2008	79,501,459	15,787,140	11,637,529	1,111,385	108,037,513	29,978,326	78,059,187	
2009	76,117,221	15,864,735	11,547,893	991,463	104,521,312	29,310,576	75,210,736	
2010	77,006,860	14,640,770	10,568,931	997,573	103,214,134	29,117,374	74,096,760	
2011	75,277,141	14,693,885	9,089,038	1,001,480	100,061,544	27,407,568	72,653,976	36.40%
2012	71,726,284	14,425,049	6,742,518	1,003,240	93,897,091	24,760,146	69,136,945	
2013	67,002,299	15,058,699	3,547,888	1,017,960	86,626,845	21,933,263	64,693,582	
2014	64,012,480	12,403,839	1,184,650	1,214,635	78,815,604	16,853,401	61,962,203	
2015	60,599,543	12,070,419		1,213,546	73,883,508	15,496,733	58,386,774	
2016	56,269,490	12,141,544		1,229,024	69,640,058	14,928,859	54,711,198	67.33%
2017	52,816,288	12,189,990		1,011,643	66,017,920	14,567,148	51,450,772	
2018	49,275,256	10,085,438		716,688	60,077,381	10,367,235	49,710,146	
2019	47,748,090	8,116,865			55,864,955	8,831,050	47,033,905	
2020	39,948,378	10,484,635			50,433,013	10,555,949	39,877,063	
2021	32,794,650	9,350,735			42,145,385	8,924,772	33,220,613	91.21%
2022	24,749,551	7,554,144			32,303,695	7,182,693	25,121,002	
2023	17,560,188	4,828,864			22,389,051	4,440,461	17,948,590	
2024	12,222,863	4,477,324			16,700,186	4,136,293	12,563,893	
2025	6,149,225	2,524,330			8,673,555	2,182,036	6,491,519	
2026	10,090,500	1,937,250			12,027,750	1,775,948	10,251,802	100.00%

* As of September 30, 2006. Includes the issuance of $69,855,000 ad valorem tax supported bonds anticipated to be sold on August 31, 2006.
(a) Includes principal and interest on all self-supporting debt (see "Statement of Debt", p. 20).

Estimated Direct and Overlapping Funded Debt Payable From Ad Valorem Taxes (As of 9-30-05) (in 000's)

Expenditures of the various taxing bodies within the territory of the City are paid out of ad valorem taxes levied by these taxing bodies on properties within the City. These political taxing bodies are independent of the City and may incur borrowings to finance their expenditures. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the date stated above, and such entities may have programs requiring the issuance of substantial amounts of additional bonds the amount of which cannot be determined. The following table reflects the estimated share of overlapping funded debt of these various taxing bodies.

Taxing Jurisdiction (1)	Total Funded Debt	Estimated % Applicable (2)	Overlapping Funded Debt
City of Austin	$784,396	100.00%	$ 784,396
Austin Independent School District	427,200	79.21%	338,385
Travis County	425,637	71.00%	302,202
Round Rock Independent School District	400,335	5.81%	23,259
Leander Independent School District	482,454	1.33%	6,417
Pflugerville Independent School District	264,717	3.94%	10,430
Eanes Independent School District	100,170	1.96%	1,963
Williamson County	426,350	3.46%	14,752
Del Valle Independent School District	105,927	2.74%	2,902
Manor Independent School District	58,940	1.73%	1,020
Austin Community College	98,410	81.70%	80,401
North Austin Municipal Utility District No. 1	7,476	100.00%	7,476
Northwest Austin Municipal Utility District No. 1	11,695	100.00%	11,695
Northwest Travis County Road District No. 3	4,680	100.00%	4,680
TOTAL DIRECT AND OVERLAPPING FUNDED DEBT			$1,589,978
Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation (2)			3.20%
Per Capita Overlapping Funded Debt (3)			$2,284.84

(1) Source: Taxing jurisdiction.
(2) Based on assessed valuation of $49,702,906,522.
(3) Based on 2005 estimated population of 695,881.

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

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Authorized City of Austin General Obligation Bonds

Purpose	Date Authorized	Amount Authorized	Amount Previously Issued	Amount Being Issued on August 31, 2006	Unissued Balance
Brackenridge 2000	10-22-83	$ 50,000,000	$40,785,000	$ 0	$ 9,215,000
Parks Improvements	09-08-84	9,975,000	9,648,000	0	327,000
Cultural Arts	01-19-85	20,285,000	14,890,000	0	5,395,000
Park and Recreation Facilities	11-03-98	75,925,000	66,255,000	9,670,000	0
Library, Cultural Arts and Museum	11-03-98	46,390,000	39,475,000	6,915,000	0
Street Improvements	11-07-00	150,000,000	75,000,000	15,000,000	60,000,000
TOTAL				$31,585,000	$74,937,000

Anticipated Issuance of General Obligation Bonds

The City expects to issue general obligation bonds on August 31, 2006. The City continues to review opportunities for refunding certain previously issued general obligation bonds and assumed debt.

Funded Debt Limitation

No direct funded debt limitation is imposed on the City under current State law or the City's Home Rule Charter. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $2.50 per $100 assessed valuation for all City purposes. The City operates under a Home Rule Charter which adopts the constitutional provisions and also contains a limitation that the total tax which may be levied annually by the City for municipal general operating purposes may not exceed $1.00 per $100 assessed valuation.

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MUNICIPAL SALES AND USE TAX

Source and Authorization

The City is authorized to levy and collect against the receipts from the sale at retail of taxable items within the City a municipal sales and use tax (sometimes referred to herein as the "Sales Tax"). The City currently levies the Sales Tax totaling 1% in accordance with State law and the use of the Sales Tax is restricted by current State law. The imposition, computation, administration, governance, abolition and use of the Sales Tax is governed by the Texas Limited Sales, Excise, and Use Tax Act, and reference is made thereto for a more complete description of the Sales Tax.

In general, as applied to the Sales Tax, a taxable item includes any tangible personal property (including a telephone prepaid calling card) and certain taxable services. "Taxable Services" include certain amusement services, cable television services, personal services, motor vehicle parking and storage services, the repair, remodeling, maintenance and restoration of most tangible personal property, certain telecommunication services, credit reporting services, debt collection services, insurance services, information services, real property services, data processing services, real property repair and remodeling, security services, telephone answering services and Internet access services. Certain items are exempted by State law from sales and use taxes, including items purchased for resale or in an occasional sale, coin-operated machine sales, food products (except food products which are sold for immediate consumption, e.g., by restaurants, lunch counter, etc.), waterboats and their motors, health care supplies (including medicines, corrective lens and various therapeutic appliances and devices), agricultural items (if the item is to be used exclusively on a farm or ranch or in the production of agricultural products), items purchased with food stamps, gas, electricity purchased for residential use (unless a city has taken steps to repeal the exemption), certain telecommunications services, newspapers and magazines, certain property directly used or consumed in manufacturing, the fabrication of certain property necessary or essential to manufacturing, certain items used elsewhere for mineral exploration or production, certain sales of aircraft, certain component parts of certain ships or vessels, and certain materials and labor related thereto, and certain types of water-related equipment. In addition, items which are taxed under other State laws are generally exempted from sales taxes. These items include certain natural resources, cement, motor vehicles and insurance premiums. Alcohol and tobacco products are taxed under both State alcohol and tobacco taxes. Tobacco is also subject to sales tax. With respect to mixed alcoholic beverages, such beverages are exempt from sales or use taxes if taxable by the Texas Alcoholic Beverage Code. In addition, purchases made by various exempt organizations are not subject to the sales and use taxes. Such organizations include the federal and state governments, political subdivisions, Indian tribes, religious institutions and certain charitable organizations and non-profit corporations. Also, State law provides an exemption from sales taxes on items purchased under a contract in effect when the legislation authorizing such tax (or the increase in the rate thereof) is enacted, up to a maximum of three years.

In general, a sale of a taxable item is deemed to occur within the municipality, county or special district in which the sale is consummated. Generally, a sale is consummated regardless of where transfer of title or possession occurs. The tax levied on the use, storage or consumption of tangible personal property is considered to be consummated at the location where the item is first stored, used or consumed. Thus, the use is considered to be consummated in a municipality, and the tax is levied there if the item is shipped from outside the state to a point within the municipality.

Capital Metro Transit Authority ("Capital Metro"), a local transit authority that serves the City, levies and collects a 1% sales and use tax to fund transit services provided by Capital Metro. This local transit authority tax is not a general revenue of the City.

In addition to the taxes levied by the City, as described above (including the local transit authority tax), the State levies and collects a 6 ¼% sales and use tax against essentially the same tax base as the Sales Tax. Under current State law, the maximum aggregate sales and use tax which may be levied by the State, the City and the counties within the City's boundary, is 8 ¼%. The current aggregate sales and use tax levied in the City is 8 ¼% of which 6 ¼% is levied by the State, 1% is levied by the City, and 1% is levied by the local transit authority.

The Comptroller of Public Accounts of the State of Texas (the "Comptroller") administers and enforces all sales tax laws and collects all sales and use taxes levied by the State, and levying counties, municipalities and other special districts having sales tax powers. Certain limited items are taxed for the benefit of the State under nonsales tax statutes, such as certain natural resources and other items described above, and are not subject to the sales tax base available to municipalities and counties, including the tax base against which the Sales Tax is levied. Municipalities may by local option determine to tax certain telecommunication services on the same basis as the State taxes such services (some aspects of telecommunication services, such as interstate telephone calls and broadcasts regulated by the FCC are not subject to either State or local taxation). The City has opted to repeal the local telecommunications services exemption. With respect to the taxation of the residential use of gas and electricity, the State is not authorized to collect a sales tax, while municipalities, on a local option basis, may tax such use. The City has opted to tax the residential use of gas and electricity.

In recent years, several changes in the State sales tax laws have contributed to the growth of local sales tax revenues. The changes have added additional goods and services to the list of taxable items, or limited exemptions from the tax. Other items have been subjected to sales tax on an interim basis or have been taxed pursuant to legislation which includes planned phase-outs of the tax. Prior to its amendment in May of 1997, the State Tax Code provided generally for a total exemption of the tax for tangible personal property used or consumed in manufacturing, processing or fabrication operations, and for the fabrication of tangible personal property for ultimate sale if the use or consumption of the property is necessary or essential to the manufacturing, processing or fabrication operation. However, effective October 1, 1997, this exemption has been limited to (i) tangible personal property directly used or consumed in manufacturing, processing or fabrication operations, and (ii) fabrication of tangible personal property as described above if the use or consumption of such property directly makes or causes a chemical or physical change to the product (or certain component parts) being manufactured, processed, or fabricated for ultimate sale.

With certain exceptions, sales and use taxes in the State are collected at the point of sale and are remitted to the Comptroller by the "taxpayer" who is, generally speaking, the business that collects the tax resulting from a taxable transaction. Taxpayers owing $500 or more sales and use tax dollars in a calendar month submit their tax collections to the Comptroller on a monthly basis; taxpayers owing less than $500 sales and use tax dollars in a calendar month or $1,500 or less in a calendar quarter submit their tax collections quarterly. Taxpayers are required to report and remit to the Comptroller by the 20th day of the month following the end of the reporting period. The reporting period for yearly filers ends each December 31; for quarterly filers, the reporting period ends at the end of each calendar quarter; and monthly filers report and remit by the 20th of each month for the previous month. The Comptroller is required by law to distribute funds to the receiving political subdivisions of the State at least twice each fiscal year and as promptly as feasible at other times. Historically, and at the present time, the Comptroller distributes the funds monthly with the largest payments being made quarterly in February, May, August and November. In 1989, the Comptroller initiated a direct deposit program using electronic funds transfers to expedite the distribution of monthly allocation checks and permitted municipalities to make application to the Comptroller to utilize this program. The City participates in this program. Otherwise, the Comptroller mails the monthly allocation check, which is typically received by the middle of the month following the month in which the taxpayer reports and remits payment on the tax.

The Comptroller is responsible for enforcing the collection of sales and use taxes in the State. Under State law, the Comptroller utilizes sales tax permits, sales tax payment bonds and audits to encourage timely payment of sales and use taxes. Any person or entity selling, renting, leasing or otherwise providing taxable goods or services is required to have a sales tax permit. Permits are required for each individual location of a taxpayer and are valid indefinitely. As a general rule, every person who applies for a sales tax permit for the first time, or who becomes delinquent in paying the sales or use tax, is required to post a payment bond in an amount sufficient to protect against the failure to pay taxes. The Comptroller's audit procedures include auditing the largest 2% of the sales and use tax taxpayers (who report about 65% of all sales and use tax in the State annually), every three or four years. Other taxpayers are selected at random or upon some other basis for audits. Effective October 1, 1999, a taxpayer may enter into an agreement with the Comptroller that allows the taxpayer to conduct a managed audit of the taxpayer's business to determine the taxpayer's sales and use tax liability for specified transactions during a set period of time. The Comptroller may agree to a managed audit in its sole discretion.

Once a taxpayer becomes delinquent in the payment of a sales or use tax, the Comptroller may collect the delinquent tax by using one or more of the following methods: (i) collection by an automated collection center or local field office, (ii) estimating the taxpayers' liability based on the highest amount due in the previous 12 months and billing them for it, (iii) filing liens and requiring a new or increased payment bond, and (iv) utilizing forced collection procedures such as seizing assets of the taxpayer (e.g., a checking account) or certifying the account to the Texas Attorney General's Office to file suit for collection. A municipality may not sue for delinquent taxes unless it joins the Texas Attorney General as a plaintiff or unless it first receives the permission of the Texas Attorney General and the Comptroller.

The Comptroller retains 2% of the tax receipts for collection of the tax; additionally, under State law, a taxpayer may deduct and withhold ½ of one percent of the amount of taxes due on a timely return as reimbursement for the cost of collecting the sales and use taxes. In addition, a taxpayer who prepays its tax liability on the basis of a reasonable estimate of the tax liability for a month or quarter in which a prepayment is made, may deduct and withhold 1¼% of the amount of the prepayment in addition of the ½ of one percent allowed for the cost of collecting the sales and use tax.

Gross Sales Tax Revenues

It is anticipated that the primary source of security for the Bonds will be the grant payments to be made by the City to the Corporation, primarily from receipts of the Sales Tax received by the City on the sale of a taxable item within the Zone (see "SECURITY AND SOURCE OF PAYMENT – The Grant Program and the Grant Agreement").

Historically, the Comptroller has remitted sales and use tax allocation checks to municipalities on a monthly basis, but State law currently requires that such allocation be made at least twice annually and such procedures could change in the future. Additionally, the taxable items and services subject to State and local sales and use taxes are subject to legislative action, and have been changed in recent years by the State Legislature.

In recent years the State Legislature has enacted laws permitting the State, together with its political subdivisions, to levy sales and use taxes of up to 8 ¼%, which is among the highest sales tax rates in the nation (although the State has no personal or corporate income tax), and the current total sales and use tax rate within the City's boundaries is 8 ¼% (including State and City taxes). The rate of the sales and use taxes authorized in the State could be further increased by the State Legislature and the City has no way of predicting any such increase or the effect that would have on the Sales Tax. State leaders have appointed committees to study methods of achieving greater tax equity within the State's tax system. Any changes which may be enacted by the State Legislature could effect the tax base against which the Sales Tax is levied; and the City, except in certain limited instances described below, has no control over the components of the tax base. The City currently has no statutory authority to increase or decrease the maximum authorized rate of the Sales Tax.

Sales Tax receipts received by the City are expected to be subject to seasonal variations and to variations caused by the State laws and administrative practices governing the remittance of sales and use tax receipts which authorize different taxpayers to remit the tax receipts at different times throughout the year. Sales tax receipts within the Zone are not only subject to the matters described above but also to factors related to the development of property within the Zone, particularly the type and level of commercial development within the Zone, over which neither the City nor the Corporation has any direct ability to dictate.

The Sales Tax is collected by the Comptroller and remitted to the City. Generally, sales and use taxes in the State are collected at the point of a taxable transaction and remitted by the taxpayer to the Comptroller. The Comptroller has the primary responsibility for enforcing sales and use tax laws and collecting delinquent taxes. The collection efforts of the Comptroller are subject to applicable federal bankruptcy code provisions with respect to the protection of debtors.

Changes in the tax base against which a sales and use tax is assessed, as well as changes in the rate of such taxes, make projections of future tax revenue collections very difficult.

Historical information regarding the State's sales tax base, gross sales within the City and sales within the City which are subject to the State sales and use tax is included herein, and while the City has no reason to expect that receipts of the Sales Tax will ever be insufficient to fund the grant at levels sufficient to enable the timely payment of debt service on the Bonds, it makes no representation that, over the term of the Bonds, sales and services within the city, specifically within the Zone, will provide sufficient Sales Tax receipts to pay the outstanding Bonds and Additional Bonds, if any, which are on a parity therewith.

INVESTMENTS

The Corporation will invest its funds in accordance with State law and the City's investment policies. The City invests its available funds in investments authorized by Texas law, specifically V.T.C.A. Government Code, Chapter 2256 (the Texas Public Funds Investment Act, referred to herein as the "PFIA"), and in accordance with investment policies approved by the City Council. Both State law and the City's investment policies are subject to change.

Legal Investments

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

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

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

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

Investment Policies

Under State law, the Corporation is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield and maturity; and also that address the quality and capability of investment personnel. The policy includes a list of authorized investments for Corporation funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All Corporation 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. The Corporation, acting on behalf of the City, is governed by the City's investment policy.

Under State law, Corporation 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 Corporation shall submit an investment report detailing: (1) the investment position of the Corporation, (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 Corporation funds without express written authority of the City Council or the Chief Financial Officer of the City.

Additional Provisions

Under Texas law, the Corporation 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 Corporation to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council, (3) require the registered representative of firms seeking to sell securities to the Corporation to (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; and (5) provide specific investment training for the Chief Financial Officer of the City, Treasurer and Investment Officers.

Current Investments

The Corporation currently has no funds or assets that have been invested in accordance with the City's investment policy. As of June 30, 2006, the City's investable funds were invested in the following categories.

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

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

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Resolution, the Corporation has made the following agreement for the benefit of the respective holders and beneficial owners of the Bonds. The Corporation is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the Corporation 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 Corporation will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all the quantitative financial information and operating data of the general type included (i) in the portions of the financial statements of the City appended to the Official Statement as APPENDIX B, but for the most recently concluded fiscal year end and (ii) in APPENDIX A with respect to the City, under the subcaption: "General Fund Revenues and Expenditures and Changes in Fund Balance," "Municipal Sales Tax," "Transfers From Utility Funds," "Tax Valuation" with respect to the appraised value as of January 1 during the fiscal year as to which such annual report relates, "Valuation and Funded Debt History," "Tax Rate, Levy and Collection History," "Ten Largest Taxpayers," "Property Tax Rate Distribution," and "Current Investments." The Corporation 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 2006 unless otherwise noted above. The Corporation will provide the update information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the United States Securities and Exchange Commission (the "SEC").

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

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

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

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

Availability of Information from NRMSIRs and SID – The Corporation 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.

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

Limitations and Amendments – The Corporation has agreed to update information and to provide notices of material events only as described above. The Corporation 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 Corporation 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 Corporation 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 Corporation to comply with its agreement.

The Corporation 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 Corporation, 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 Corporation (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 Corporation amends its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data will be provided.

Compliance with Prior Undertakings – The continuing disclosure agreement made by the Corporation in the Bond Resolution is the first such agreement made under the Rule by the Corporation.

TAX MATTERS

Opinion

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

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

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

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

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

Federal Income Tax Accounting Treatment of Original Issue Discount

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

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

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

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

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

Collateral Federal Income Tax Consequences

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

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

THE DISCUSSIONS CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE ANY OF THE BONDS.

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

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

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

State, Local and Foreign Taxes

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

OTHER RELEVANT INFORMATION

Ratings

The Bonds have received ratings of "AA" by Standard & Poor's Rating Services, a Division of The McGraw-Hill Companies ("S&P"), "AA" by Fitch Ratings, Inc. ("Fitch") and "Aa3" by Moody's Investors Service, Inc. ("Moody's"). The presently outstanding tax supported debt of the City is rated "AA+" by S&P, "AA+" by Fitch and "Aa1" by Moody's. 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 Corporation makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if in the judgment of one or all such companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or by any one of them, may have an adverse effect on the market price of the Bonds. The Corporation will undertake no responsibility to notify the owners of the Bonds of any such revisions or withdrawal of ratings.

Litigation

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

Registration and Qualification

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

Legal Investments and Eligibility to Secure Public Funds in Texas

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds are (i) negotiable instruments, (ii) investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (iii) legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the PFIA, the Bonds may have to be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital and savings and loan associations.

The Corporation has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The Corporation has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

Legal Opinions and No–Litigation Certificate

The Corporation will furnish complete transcripts of proceedings had incident to the authorization and issuance of the Bonds including the unqualified approving legal opinions of the Attorney General of the State of Texas approving the issuance of the Bonds, and to the effect that the Bonds are valid and legally binding obligations of the Corporation, and based upon examination of such transcript of proceedings, the approving legal opinions of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax consequences for corporations. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds or which would affect the provision made for their payment or security or in any manner questioning the validity of the Bonds will also be furnished. Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement to verify that such description conforms to the provisions of the Ordinances. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of each series of the Bonds are contingent on the sale and delivery of the Bonds. In connection with the transactions described in this Official Statement, Bond Counsel represents only the Corporation and the City.

Financial Advisor

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

Authenticity of Financial Data and Other Information

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

This Official Statement, and the execution and delivery of this Official Statement was authorized by the Bond Resolution adopted by the Corporation on August 24, 2006.

/s/ Toby Hammett Futrell
President
Mueller Local Government Corporation

/s/ John Stephens, CPA
Chief Financial Officer
City of Austin, Texas

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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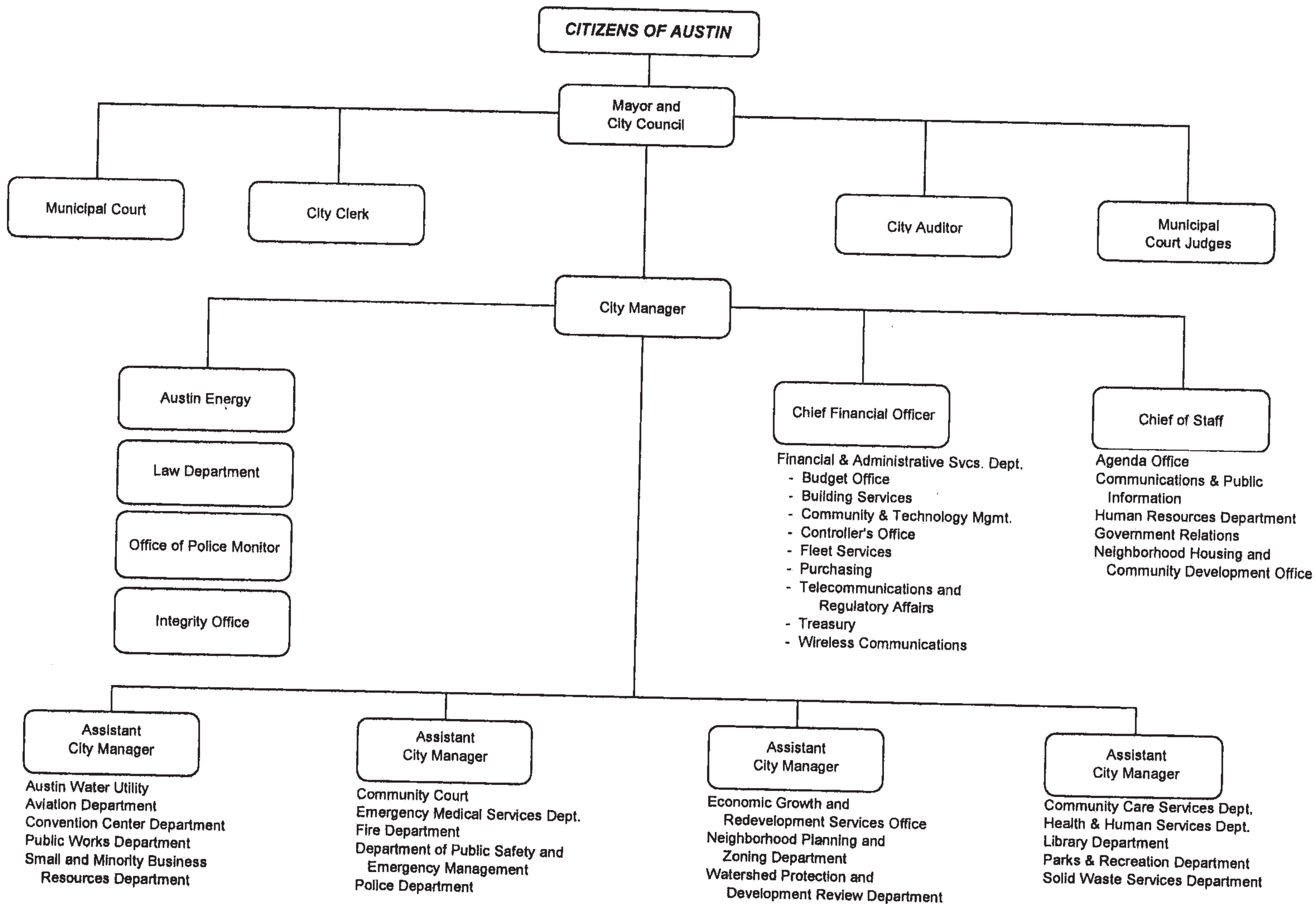
CITY OF AUSTIN, TEXAS
Organization Chart



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THE CITY

Administration

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

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

City Manager – Toby Hammett Futrell

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

Chief Financial Officer – John Stephens, CPA

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

Services Provided by the City

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

Employees

Municipal employees are prohibited from engaging in strikes and collective bargaining under State law. An exception allows fire and police employees to engage in collective bargaining (but not the right to strike) after a favorable vote of the electorate. A 2005 voter referendum approved collective bargaining for fire fighters, but police officers continue to use "Meet and Confer". Approximately 15% of the City's employees are members of the American Federation of State, County and Municipal Employees, 8% are members of the American Police Association and 7% are members of the International Association of Fire Fighters.

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

Pension Plans

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

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

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

The actuarial accrued liability for the Municipal Employees Fund as of December 31, 2005, was $1,794,181,675. The actuarial accrued liability for the Police Officers' Fund as of December 31, 2005, was $494,640,356. The actuarial accrued liability for the Firefighters' Pension Fund as of December 31, 2005, was $580,053,954. Actuarial studies were performed for the Municipal Employees Fund, Police Officers' Fund, and Firefighters' Pension Fund as of December 31, 2005. The Municipal Employees Fund had an infinite funding period at year end 2005. In May 2005, the City Council approved a resolution to provide the Municipal Employees Fund a subsidy. The subsidy should return the fund to actuarial soundness in the future. See Note 8 to the City's Financial Statements for additional information on the Pension Plans.

Other Post–Employment Benefits

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

The City recognizes the cost of providing these benefits as payroll expense/expenditure in an operating fund with corresponding revenue in the Employee Benefits Fund. The estimated cost for providing these benefits for 2,554 retirees was $13.3 million in 2005 and $13.7 million in 2004 for 2,448 retirees.

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

Insurance

The Liability Reserve Fund is the insurance fund of the City for settled claims, expenses, and reserves relating to third party liability claims for injury and property damage, including professional liability. The Liability Reserve Fund is used to pay for actual claims incurred and related expenses for settling these claims, for budgeted administrative costs for the fund's operations, and to estimate incurred, but not reported claims. The Liability Reserve Fund had accrued liabilities of approximately $13.9 million for claims and damages at the end of fiscal year 2005. Employee injuries are covered by the Workers' Compensation Fund, and health claims are protected by the Employee Benefits Fund.

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FISCAL MANAGEMENT

The Capital Improvements Program Plan and Capital Budget

The Capital Improvement Plan is a five-year list of capital improvements and a corresponding spending plan for financing these improvements. It is developed through public input and department prioritization of needs. The process includes neighborhood meetings, department requests, Budget Office assessment of requested projects, input from the Planning Commission's CIP Subcommittee and other Boards and Commissions, and citizen input from public hearings. Each year, the Planning Commission reviews the Capital Improvement Plan and submits a recommendation to the City Manager detailing specific projects to be included in the Capital Budget for the next fiscal year.

The City Manager considers the Planning Commission's recommended Plan to propose a Capital Budget to the City Council. The Capital Budget contains requested appropriations for new projects, additional appropriations for previously approved projects and any requests to revise prior year appropriations. Unlike the Operating Budget, which authorizes expenditures for only one fiscal year, Capital Budget appropriations are multi-year, lasting until the project is complete or until changed by the City Council.

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

2006-2007 Capital Budget

The 2006-2007 five-year Capital Improvement Program (CIP) plan was reviewed by the Planning Commission, the Bond Oversight Committee and other boards and commissions. Public input was received at a public hearing held by the Planning Commission and the Bond Oversight Committee. The plan estimates citywide capital spending in 2006-2007 of $440.7 million in enterprise funds and $127.7 million in general government funds.

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

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

Operating Budget

The City's Home Rule Charter and Texas law require the City Manager to prepare and submit to the City Council a balanced budget consisting of an estimate of the revenues and expenditures in the budget period and the undesignated General Fund balance available for reappropriation. The budget process in the City normally commences with all department heads submitting to the Chief Financial Officer of the City a detailed estimate of the appropriations required for their respective departments during the next fiscal year. The Chief Financial Officer of the City, in turn, forwards these estimates to the City Manager who submits them to the Mayor and City Council for their consideration and approval.

In June 1989, the City Council approved Financial Management Policies, which were last amended in September 2005. Among other items, these policies require that a General Fund Emergency Reserve Fund of at least $15,000,000 shall be budgeted. Additionally, a General Fund Contingency Reserve Fund of 1% of total budgeted departmental expenditures, but not less than $2,000,000, shall be budgeted annually. The 2006-2007 proposed budget includes revisions to the Financial Management Policies that increased the General Fund Emergency Reserve Funds from $15,000,000 to $40,000,000. The Contingency Reserve Fund of 1% remained unchanged. In addition, a General Fund Reserve for Budget Stabilization is budgeted at $33.4 million. At the end of each fiscal year, any excess revenue received in that year and any unspent appropriations at the end of that year will be deposited into General Fund Reserve for Budget Stabilization. The Budget Stabilization Reserve will then be available for appropriation for one-time expenditures such as capital equipment but no more than one-third of the reserve will normally be appropriated in any one year.

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2006–2007 Budget (Amounts are in thousands)

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

Beginning Balance, October 1, 2006 (Budget Basis) (000's omitted)		$ 0
Summary of Budgeted General Fund Resources		
Revenue:		
General Property Taxes	$156,529	
City Sales Tax	150,663	
Other Taxes	4,873	
Gross Receipts/Franchise Fees	30,454	
Miscellaneous	4,650	
Total Revenue		$417,169
Transfers In:		
Electric Light and Power System	$ 84,500	
Water and Wastewater System	21,971	
Other Transfers	1,620	
Total Transfers In		$108,091
Total General Fund Resources		$525,260
Summary of Budgeted General Fund Requirements		
Departmental Appropriations:		
Administrative Services	$ 10,134	
Urban Growth Management	18,945	
Public Safety	345,679	
Public Works	300	
Public Health and Human Services	30,943	
Public Recreation and Culture	52,410	
Total Departmental Appropriations		$458,411
Transfers Out:		
Support Services Fund	$ 23,099	
Other Funds	34,972	
Total Transfers Out		$ 58,071
Other Requirements		$ 8,778
Total General Fund Requirements		$525,260
Use of Beginning Balance		0
Ending Balance		$ 0
One-Time Retirement Increase – 1%		$ 1,009
One-Time Critical Equipment		$ 15,692
Transfer to/(from) Budget Stabilization Reserve		$ (16,701)
Adjusted Ending Balance		$ 0
Budgeted Reserve Requirements		
Emergency Reserve	$ 40,000	
Contingency Reserve	5,089	
Budget Stabilization Reserve Fund	33,408	
Total Budgeted Reserve Requirements		$ 78,497

Deficit Budgeting

The City is barred by Texas law and the City's Charter from deficit budgeting.

Accounting System

The City's accounting records for general governmental operations are maintained on a modified accrual basis, with the revenue being recorded when available and measurable and expenditures being recorded when the services or goods are received and the liabilities are incurred. Accounting records for the City's enterprise and internal service funds are maintained on an accrual basis.

Article VII, Section 15 of the City's Charter requires an annual audit of all accounts of the City by an independent certified public accountant. This charter requirement has been complied with and the accountant's report is included herein.

Short–Term Borrowing

Pursuant to Section 1431, V.T.C.A Government Code, the City has the authority to conduct short-term borrowings to provide for the payment of current expenses, through the issuance of anticipation notes. Such notes must mature before the first anniversary of the date the Attorney General approves the anticipation notes.

GASB Statement No. 34

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

AUSTIN'S GOVERNMENT, ECONOMY AND OUTLOOK

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

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

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

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

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

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

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

The Austin area economy is beginning to see a sustained improvement over conditions from the previous years. The unemployment rate for the Austin Metropolitan Statistical Area (MSA) has improved from 4.7 percent in December 2004 to 3.9 percent in December 2005. The statewide average unemployment rate for Texas was 6.0 percent in 2004 and 5.3 percent in 2005. Freescale Semiconductor, the former semiconductor division of Motorola, completed a spin off from the parent company and chose Austin as the permanent location of its global headquarters. Freescale employs approximately 5,600 people in the Austin area. An agreement between the City and Home Depot was finalized in early

2005. By the end of 2005, Home Depot made several improvements to its technology center and added 300 employees, representing $18.6 million in new payroll and monthly electric revenue of more than $80,000.

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

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

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

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

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

MAJOR INITIATIVES AND ACHIEVEMENTS

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

Hurricane Katrina and Rita Responses

Beginning Labor Day weekend and ending September 29, 2005, the City provided emergency shelter, basic needs resources and transition services to more than 28,000 evacuees from Louisiana and Texas. With less than 24 hours notice, Austin was told to prepare for as many as 6,000 Hurricane Katrina evacuees. With no time to spare, a disaster response team worked to create a city within a city. Inside of one week, the team transformed the Austin Convention

Center into an emergency response shelter and a basic needs resource center. The City eventually helped thousands of evacuees to transition into more permanent housing. With typical Austin flare, these services were provided with a passion and a commitment that could not be replicated anywhere else. By the time the first Katrina evacuees arrived at Austin-Bergstrom International Airport, the team, joined by community volunteers, created an emergency shelter at the Austin Convention Center. It included health screenings, sleeping quarters, a pharmacy, a family reunion service, one-on-one case management that customized social services and housing assistance for every guest at the center. Proactive disease surveillance ensured the overall health of the shelter population; a store, a beauty shop, and recreational and library services ensured a quality of life even during a crisis.

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

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

Economic Growth and Development

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

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

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

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

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

Environment and Quality of Life

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

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

Preserving and protection Austin waterways contributes to the quality of life that the City's residents value. In November 2005, the City Council voted unanimously to ban the sale and use of pollution-causing coal tar containing pavement sealants, a first in the nation response to this environmental risk. The proposed ban i0s based on two years of research by the City biologist s and other environmental scientists. Pavement sealants are protective finishes typically used for parking lots and driveways.

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

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

Utility Projects

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

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

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

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

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

Status of City Services

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

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

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

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

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

- Tax-related issues (including rates, fees and charges)
- Road conditions and new roads

- Pollution
- Mass transit
- Poverty
- Public education

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

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Employment by Industry in the Austin Metropolitan Area (a)

Employment Characteristics

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

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

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

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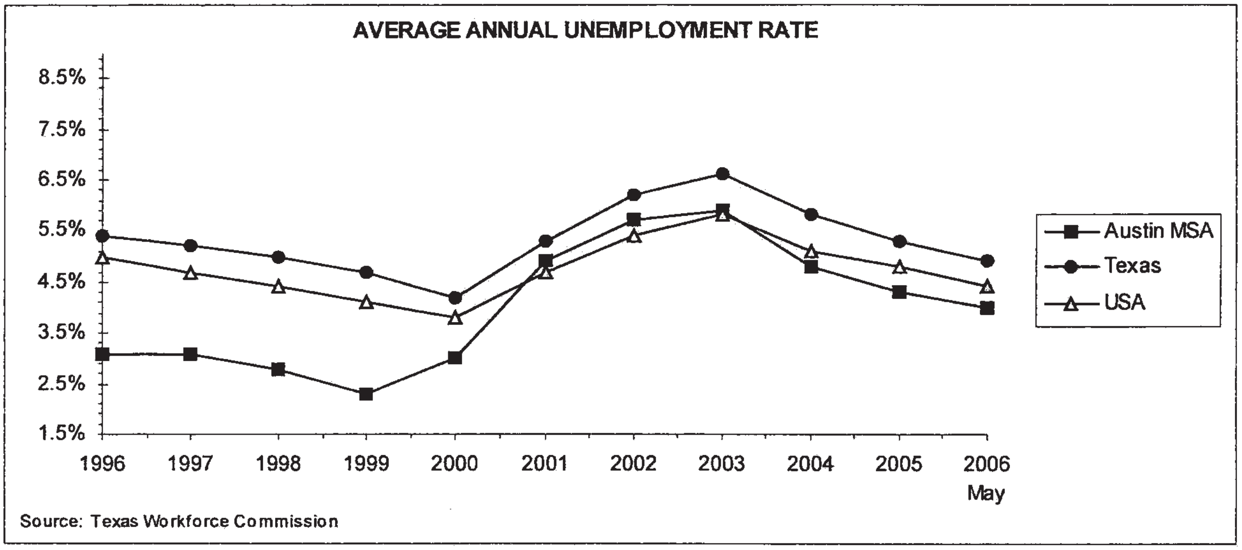
Average Annual Unemployment Rate



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

Note: Information is updated periodically, data contained herein is latest provided.
Source: 2005 Comprehensive Annual Financial Report, Texas Workforce Commission.

City Sales Tax Collections (In Millions)

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

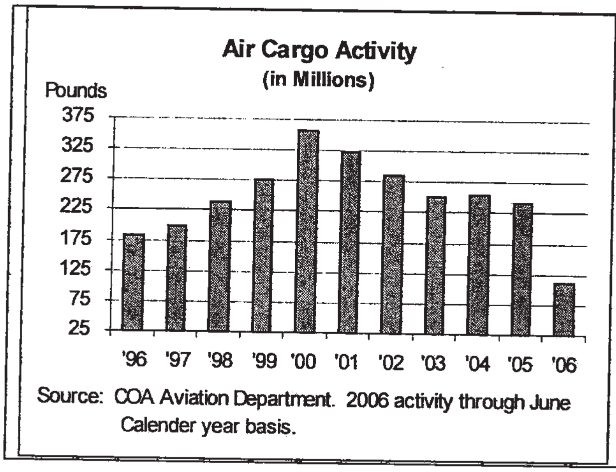
Source: City of Austin, Budget Office.

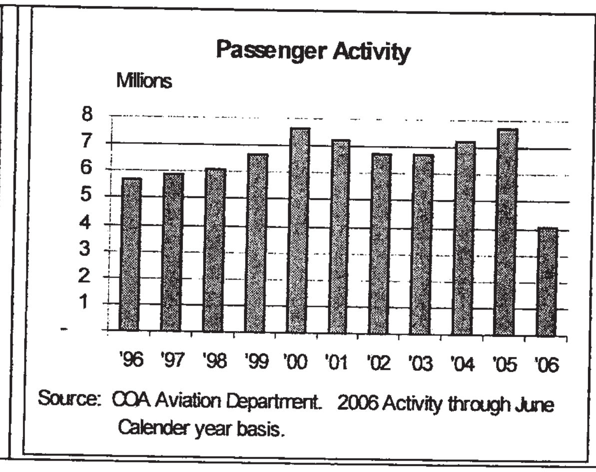
Ten Largest Employers (As of September 30, 2005)

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

Source: 2005 Comprehensive Annual Financial Report.

Transportation





Austin-Bergstrom International Airport

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

The City of Austin's Austin-Bergstrom International Airport, which opened for passenger service on May 23, 1999, is served by the following major airlines with scheduled air service: American, Continental, Delta, Frontier, Jet Blue, Northwest, Southwest, United, and US Airways. Non-stop service is available to 32 U.S. destinations.

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

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

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Growth Indicators

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

Population

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

(1) All years are estimates from the City's Neighborhood Planning and Zoning Department based on full purpose area as of September 30. Census years are modified to conform to U.S. Bureau of the Census data.
(2) U.S. Bureau of the Census official estimates as of July 31.

Connections and Permits

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

Source: 2005 Comprehensive Annual Financial Report.

Wealth and Income Indicators

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

Effective Buying Income and Retail Sales

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

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

Housing Units

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

Residential Sales Data

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

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

City-Wide Austin Office Occupancy Rate

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

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

Education

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

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

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

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

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

Tourism

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

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

APPENDIX B

EXCERPTS FROM THE CITY OF AUSTIN, TEXAS ANNUAL FINANCIAL REPORT

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KPMG

KPMG LLP
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111 Congress Avenue
Austin, TX 78701-4091

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

INDEPENDENT AUDITORS' REPORT

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

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

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

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

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

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

KPMG LLP

R. Mendoza & Company, P.C.

Austin, Texas
March 6, 2006

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

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

FINANCIAL HIGHLIGHTS

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

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

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

Total revenues for the City increased $265.7 million; revenues for governmental activities increased $77.5 million; revenues for business-type activities increased $188.2 million. Total expenses for the City increased $107 million; expenses for governmental activities increased $151 million; expenses for business-type activities decreased $44 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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

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

b -- Fund Financial Statements

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

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

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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

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

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

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

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

c -- Notes to the Financial Statements

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

d -- Other Information

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

a -- Net Assets

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

Net Assets
as of September 30
(in thousands)

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

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by $3.8 billion at the end of the current fiscal year. The largest portion of the City's net assets are invested in capital assets, net of related debt (e.g. land, building, and equipment), which are $2.9 billion, or 76% of the total amount of the City's net assets. Capital assets are generally not highly liquid; consequently, they are not considered future available resources. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion, $479 million of the City's net assets, represents resources that are subject to external restrictions that determine how they may be used in the future. The remaining balance, $444 million of unrestricted net assets, may be used to meet the government's future obligations.

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

b -- Changes in Net Assets

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

Changes in Net Assets
September 30
(in thousands)

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

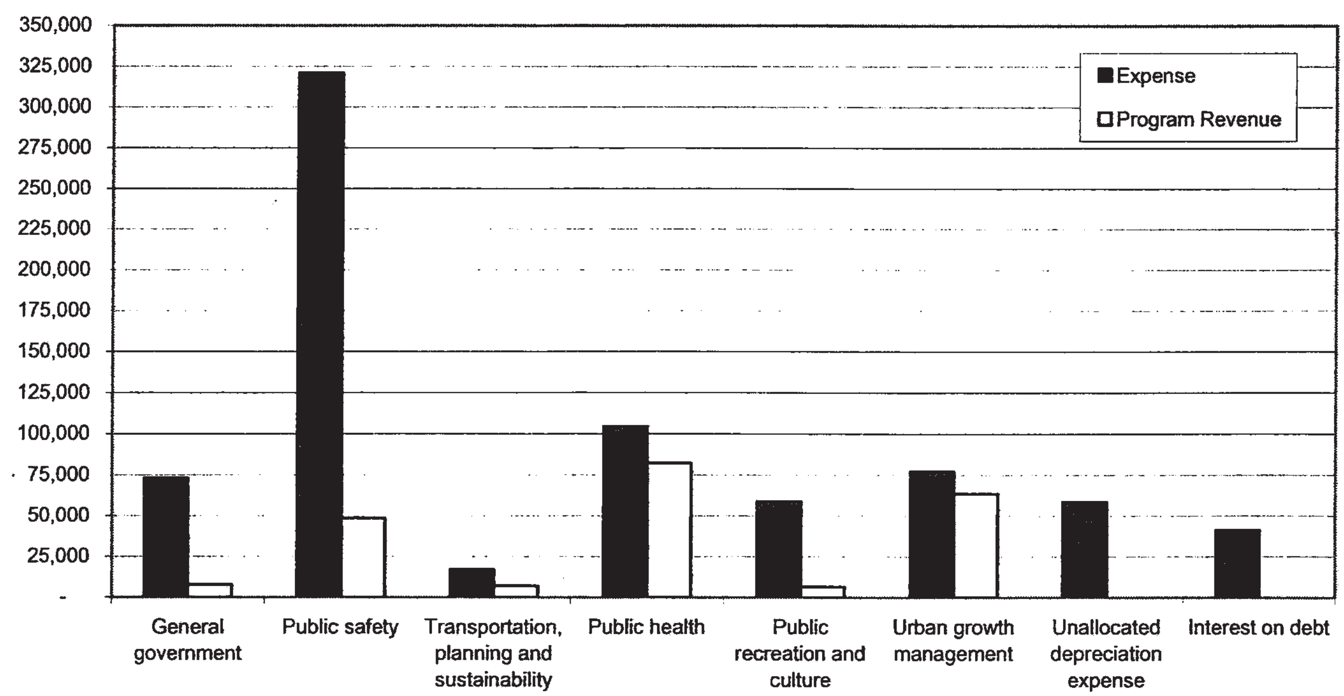
c -- Program Revenues and Expenses -- Governmental Activities

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

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

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

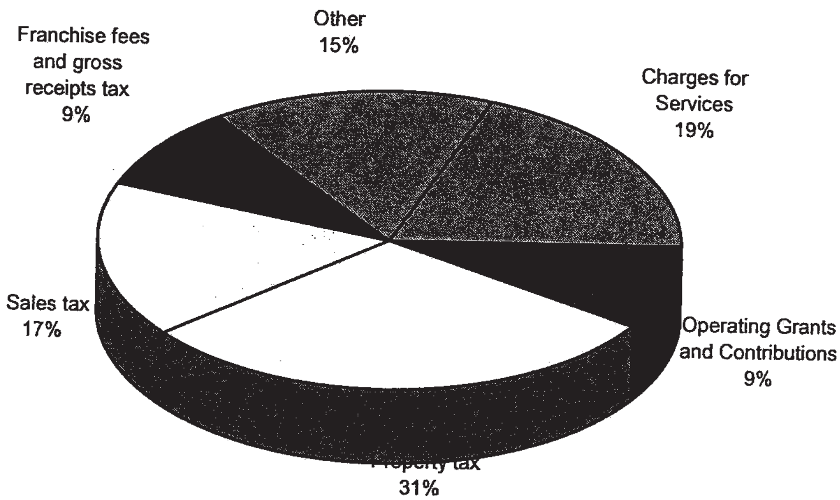
Government-wide Program Expenses and Revenues – Governmental Activities
(in thousands)



FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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

Government-wide Revenues by Source -- Governmental Activities



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

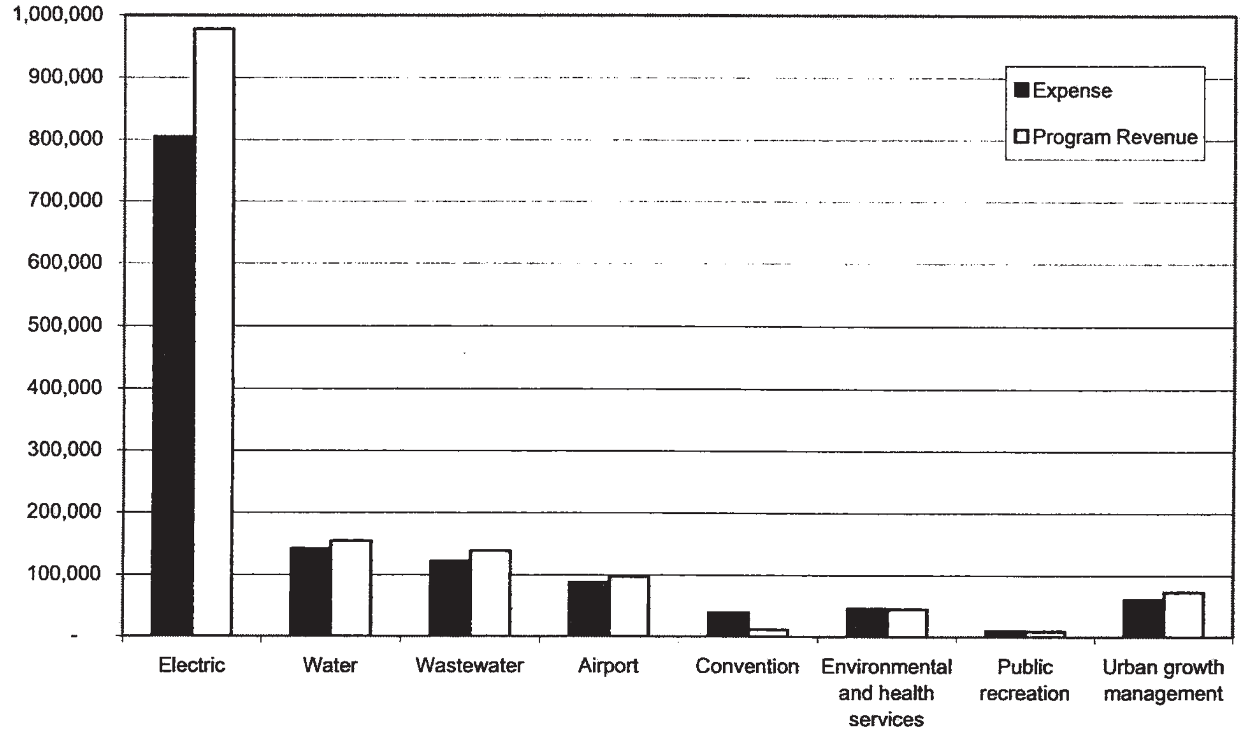
Business-type activities increased the City's net assets by approximately $109.6 million, accounting for a 3% increase in the City's total net assets. Key factors include:

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

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

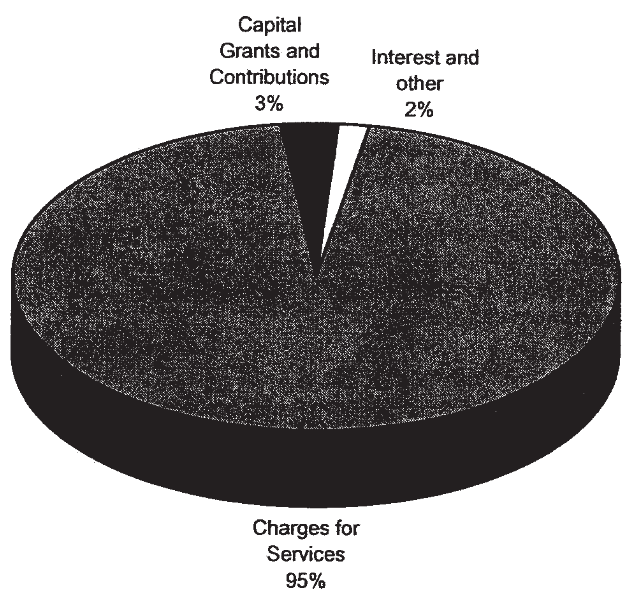
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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



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

Government-wide Revenue by Source – Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND LEVEL STATEMENTS

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

a -- Governmental funds

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

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

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

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

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

b -- Proprietary funds

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

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

OTHER INFORMATION

a -- General Fund budgetary highlights

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

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

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

b -- Capital Assets

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

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

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

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

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

OTHER INFORMATION, continued

c -- Debt Administration

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

Outstanding Debt
General Obligation and Revenue Debt
(in millions)

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds and other tax supported debt, net	$ 841	863	106	104	947	967
Commercial paper notes, net	–	–	357	316	357	316
Revenue notes	–	–	28	28	28	28
Revenue bonds, net	–	–	3,038	2,983	3,038	2,983
Capital lease obligations	1	1	9	13	10	14
Total	$ 842	864	3,538	3,444	4,380	4,308

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

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

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

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+
Commercial paper notes - taxable	P-1	A-1+	F1+
Utility revenue bonds - prior lien	A2	A+	A+
Utility revenue bonds - subordinate lien	A2	A	A+
Utility revenue bonds - separate lien:			
Electric	A3	A	A+
Water and Wastewater	A2	A	A+
Airport system revenue bonds	NUR(1)	A-	NUR(1)
Airport variable rate bonds	P-1	NUR(1)	NUR(1)

(1) No underlying rating

OTHER INFORMATION, continued

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

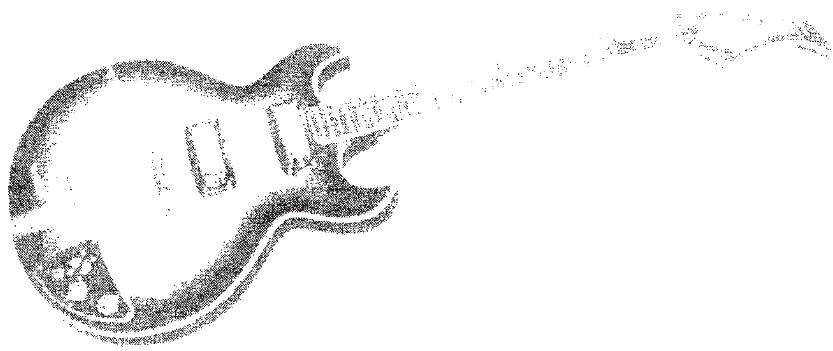
The local economy continues to grow steadily, as job growth and local sales tax revenues had strong increases from the previous year. The forecast for the upcoming year indicates the City is poised to continue its trend of economic growth, as consumer spending, tourism and job growth are predicted to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

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

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

e -- Requests for Information

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



(In thousands)

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

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

(Continued)

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

(In thousands)

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

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

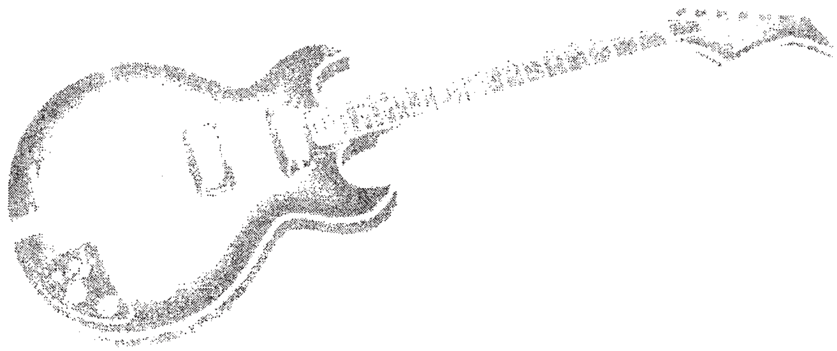
The accompanying notes are an integral part of the financial statements.

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

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

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

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



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

City of Austin, Texas
Exhibit B-1

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

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

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

Total fund balances - Governmental funds	$ 309,558
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,013,977
Other long-term assets are not available as current-period resources and are not reported in the funds.	4,450
Long-term liabilities are not payable in the current period and are not reported in the funds.	(893,251)
Internal service funds are used by management to charge the costs of capital project management, employee benefits, fleet maintenance, information systems, liability reserve, support services, wireless communication, and workers' compensation to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	60,184
Total net assets - Governmental activities	$ 1,494,918

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

(In thousands)

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

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

Net change in fund balances - Governmental funds	$	367
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		(16,154)
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		51,904
Revenues in the governmental funds are recognized when measurable and available, but are deferred in the statement of activities until earned, regardless of when collected.		(3,707)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		23,668
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.		(4,203)
Special item - Governmental assets transferred to Travis County Hospital District		(2,639)
The net revenue of certain activities of internal service funds is reported with governmental activities.		7,178
Change in net assets - Governmental activities	$	56,414

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

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

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

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

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

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

(Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(Continued)

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

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

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

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

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

(Continued)

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

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

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

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

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

(In thousands)

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

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

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

City of Austin, Texas
Exhibit D-2

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

a -- Reporting Entity

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

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

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

i. Capital Metropolitan Transit Authority (Capital Metro) - The City's accountability for this organization does not extend beyond appointing board members.
ii. Austin-Bergstrom International Airport (ABIA) Development Corporation – City Councilmembers appoint themselves as members of the board, but their function on the board is ministerial rather than substantive.
iii. Austin-Bergstrom Landhost Enterprises, Inc. and Austin Convention Enterprises, Inc. – City Councilmembers appoint members of these boards. Debt issues by these entities do not constitute a debt or pledge of the faith and credit of the City.
iv. Urban Renewal Agency - The Mayor, with consent of the City Council, appoints the board of commissioners for this agency, whose primary responsibility is to oversee the implementation and compliance of urban renewal plans adopted by the City Council.
v. Austin Housing Authority - The Mayor appoints the persons to serve as commissioners of this organization.
vi. Travis County Hospital District - City Councilmembers appoint four board managers, Travis County appoints four board managers, and the City and County mutually appoint one board manager. Travis County reports the Hospital District as a component unit on their financial statements.
vii. Mueller Local Government Corporation – Created in December 2004. Councilmembers appoint themselves as board members. To date, no further actions have occurred.

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

b -- Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

The City reports the following major governmental fund:

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

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

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

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

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

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

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

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

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

The City reports the following major enterprise funds:

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

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

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

d -- Budget

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

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

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

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

e -- Financial Statement Elements

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

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

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

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

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

Restricted assets – Restricted assets are assets whose use is subject to constraints that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Since the Electric Fund and Water and Wastewater Fund report in accordance with FASB Statement 71, enabling legislation also includes restrictions on asset use established by its governing board which is the City Council.

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

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

(1) Includes internal service funds

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

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

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

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

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

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

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

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

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

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

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

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

f -- Comparative Data

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

g -- Use of Estimates

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

2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

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

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

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

3 – DEFICITS IN FUND BALANCES AND NET ASSETS

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

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

4 – POOLED INVESTMENTS AND CASH

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

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

5 – INVESTMENTS AND DEPOSITS

a -- Investments

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

5 – INVESTMENTS AND DEPOSITS, continued

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

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

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

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

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

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

5 – INVESTMENTS AND DEPOSITS, continued

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

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

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

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

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

At September 30, 2005, the City of Austin was exposed to concentration of credit risk since it held investments with more than five percent of the total investment portfolio balances of the City in securities of the following issuers: Federal Home Loan Bank ($313,806 or 24%), Federal National Mortgage Association ($236,311 or 18%), and Federal Home Loan Mortgage Corporation ($199,529 or 15%).

b -- Investment categories

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

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

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

5 – INVESTMENTS AND DEPOSITS, continued

Operating Funds (excluding special project fund)

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

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

Credit Risk

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

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

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

Interest Rate Risk

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

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

5 – INVESTMENTS AND DEPOSITS, continued

Debt Service Funds

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

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

(1) Includes combined pledge debt service

Credit Risk

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

Interest Rate Risk

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

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

Special Project Fund

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

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

Credit Risk

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

5 – INVESTMENTS AND DEPOSITS, continued

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

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

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

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

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

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

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

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

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

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

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

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

5 – INVESTMENTS AND DEPOSITS, continued

Interest Rate Risk

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

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

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

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

c -- Deposits

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

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

All bank accounts were either insured or collateralized with securities held by the City or its agents in the City's name at September 30, 2005.

6 – PROPERTY TAXES

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

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

6 – PROPERTY TAXES, continued

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

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

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

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

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

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE

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

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

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

Interest is not capitalized on governmental capital assets.

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

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

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Governmental Activities

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

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

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

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

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Electric Fund

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

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

(1) Components of accumulated depreciation increases:

Current year depreciation	$ 104,843
Total increases in accumulated depreciation	$ 104,843

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Water and Wastewater Fund

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

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

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

(2) Components of accumulated depreciation increases:

Current year depreciation	
Water	$ 27,544
Wastewater	31,054
Total increases in accumulated depreciation	$ 58,598

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Airport Fund

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

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

(1) Components of accumulated depreciation increases:	
Current year depreciation	$ 17,526
Total increases in accumulated depreciation	$ 17,526

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Nonmajor Enterprise Funds

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

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

(1) Components of accumulated depreciation increases:

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities

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

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

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

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

Business-type activities:	
Electric	$ 104,843
Water	27,544
Wastewater	31,054
Airport	17,526
Convention Center	6,735
Other nonmajor enterprise funds	7,426
Total increases in accumulated depreciation	$ 195,128

8 – RETIREMENT PLANS

a -- Description

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

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

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

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

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

8 – RETIREMENT PLANS, continued

b -- Funding Policy

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

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

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

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

c -- Annual Pension Cost and Net Pension Obligation

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

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

8 – RETIREMENT PLANS, continued

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

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

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

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

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

9 – SELECTED REVENUES

a -- Major enterprise funds

Electric and Water and Wastewater

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

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

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

Airport

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

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES

a -- Long-Term Liabilities

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

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

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

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

Business-type activities (continued):

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

b -- Governmental Activities Long-Term Liabilities

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

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

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

(1) Interest is paid semiannually on March 1 and September 1.
(2) Interest is paid semiannually on May 1 and November 1.
(3) Interest is paid semiannually on May 15 and November 15.
(3) Interest is paid semiannually on May 15 and November 15.
(4) Includes Water and Wastewater Fund principal of $9,313 and interest of $4,227.

10 – DEBT AND NON-DEBT LIABILITIES, continued

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

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

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

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

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

c -- Business-Type Activities Long-Term Liabilities

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

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

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

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

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

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

Combined Utility Systems Debt -- Commercial Paper Notes - The City is authorized by ordinance to issue commercial paper notes in an aggregate principal amount not to exceed $350,000,000 outstanding at any one time. Proceeds from the notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2005, were P-1 (Moody's Investor Services, Inc.), A-1+ (Standard & Poor's), and F1+ (Fitch). The notes will be in denominations of $100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the notes are payable from the combined net revenues of the City's Electric Fund and Water and Wastewater Fund.

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

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

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

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

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

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

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

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

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

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

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

Airport -- Revenue Bonds - The City's Airport Fund issues airport system revenue bonds to fund Airport Fund capital projects. Principal and interest on these bonds are payable solely from the net revenues of the Airport Fund. At September 30, 2005, the total airport system obligation for prior lien bonds is $369,890,000 exclusive of discounts, premiums and loss on refundings. Aggregate interest requirements for all prior lien bonds are $182,619,715 at September 30, 2005. Revenue bonds authorized and unissued amount to $735,795,000.

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

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

Airport Debt -- Variable Rate Revenue Notes - The City is authorized to issue airport system variable rate revenue notes, pursuant to Ordinance No. 950817B, as amended and restated by Ordinance 980205A, adopted by the City Council on February 5, 1998. At September 30, 2005, the airport system had outstanding variable rate revenue notes of $28,000,000. The debt service fund required by the bond ordinance held assets of $4,758,486, including accrued interest, at September 30, 2005 and was restricted within the airport system. During fiscal year 2005, interest rates on the notes ranged from 1.52% to 3.06%, adjusted weekly at market rates; subsequent rate changes cannot exceed the maximum rate of 15%. Principal and interest on the notes are payable from the net revenues of the airport system.

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

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

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

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

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

d – Debt Service Requirements

Governmental Activities
(in thousands)

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Electric Business-Type Activities
(in thousands)

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Water and Wastewater Business-Type Activities
(in thousands)

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Water and Wastewater Business-Type Activities
(in thousands)

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Airport Business-Type Activities
(in thousands)

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Nonmajor Business-Type Activities
(in thousands)

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Business-Type Activities
(in thousands)

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

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Business-Type Activities
(in thousands)

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

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

11 – CONDUIT DEBT

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

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

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

12 – INTERFUND BALANCES AND TRANSFERS

Interfund receivables and payables at September 30, 2005, are as follows (in thousands):

Receivable Fund	Payable Fund	Amount Current	Amount Long-Term
Governmental funds:			
Nonmajor governmental funds	General Fund	$ 1	–
Nonmajor governmental funds	Nonmajor governmental funds	43,710	–
	Water and Wastewater	–	4,709
	Nonmajor enterprise funds	–	2,771
	Internal service funds	–	277
General Fund	Nonmajor governmental funds	302	–
Internal Service funds:			
Support Services	Nonmajor governmental funds	188	–
Business-type funds:			
Electric	Nonmajor enterprise funds	–	2,719
	Nonmajor governmental funds	–	1
Water and Wastewater (restricted)	Internal service funds	27	134
Airport (restricted)	General Fund	617	1,234
	Nonmajor governmental funds	–	223
Nonmajor enterprise funds	Nonmajor governmental funds	–	172
	Nonmajor enterprise funds	160	–
		$ 45,005	12,240

Interfund receivables and payables reflect loans between funds. Of the above current amount, $21.4 million is an interfund loan from the Fiscal Surety Fund, a special revenue fund, to other special revenue funds (primarily grant funds) to cover deficit pooled investments and cash. The above current amount also includes $20.9 million in interfund loans between capital project funds to cover deficit pooled investments and cash.

12 – INTERFUND BALANCES AND TRANSFERS, continued

Interfund transfers during fiscal year 2005 were as follows (in thousands):

	Transfers In			
Transfers Out	**General Fund**	**Nonmajor Governmental**	**Nonmajor Enterprise**	**Total**
General Fund	$ –	9,214	4,940	14,154
Nonmajor governmental funds	–	18,009	26,446	44,455
Electric	74,520	4,625	–	79,145
Water and Wastewater	19,596	3,147	–	22,743
Nonmajor enterprise funds	335	3,042	–	3,377
Internal service funds	–	9,916	–	9,916
Total transfers out	$ 94,451	47,953	31,386	173,790

Interfund transfers are authorized through City Council approval. Significant transfers include the electric and water and wastewater transfers to the General Fund, which are comparable to a return on investment to owners.

13 – LITIGATION

A number of claims against the City are pending with respect to various matters arising in the normal course of the City's operations. Legal counsel and city management are of the opinion that settlement of these claims and pending litigation will not have a material effect on the City's financial statements. The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2005. These liabilities include amounts for lawsuits settled subsequent to year-end, which are reported in the government-wide statement of net assets.

14 – COMMITMENTS AND CONTINGENCIES

a -- Fayette Power Project

Austin Energy's coal-fired electric generating units are located at the Fayette Power Project (FPP) and operate pursuant to a participation agreement with the Lower Colorado River Authority (LCRA, Project Manager). Austin Energy has an undivided 50 percent interest in Units 1 and 2, and LCRA wholly owns Unit 3. Austin Energy's investment is financed with city funds, and its pro-rata share of operations is recorded as if wholly owned. Austin Energy's equity in FPP was $30 million as of September 30, 2005. The equity interest in the FPP is calculated pursuant to the participation agreement and is reported in various asset and liability accounts within the City's financial statements.

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

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

b -- South Texas Project

Austin Energy is one of three participants in the South Texas Project (STP), which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the STP are Texas Genco LP, formerly known as Reliant Energy, and City Public Service of San Antonio. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. Austin Energy's 16 percent ownership in the STP represents 400 megawatts of plant capacity. At September 30, 2005, Austin Energy's investment in the STP was approximately $543 million, net of accumulated depreciation.

14 – COMMITMENTS AND CONTINGENCIES, continued

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

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

c -- South Texas Project Decommissioning

The South Texas Project (STP) is subject to regulation by the Nuclear Regulatory Commission (NRC). The NRC requires that each holder of a nuclear plant-operating license submit information to the NRC indicating the minimum funding required for plant decommissioning. In addition, reasonable assurance must be demonstrated that sufficient funds are being accumulated to provide the minimum requirement for decommissioning. This amount must be adjusted annually as required by the NRC. At September 30, 2005, Austin Energy funded its share of the estimated decommissioning liability as follows:

	2005	
Estimated cost to decommission STP	$ 257,866,572	
Decommissioning trust assets	108,452,720	(Includes other restricted assets of $3.4 million)

Austin Energy and other STP participants have provided the required information to the NRC and have been collecting decommissioning funds through rates since 1989. Austin Energy has established an external irrevocable trust for collecting sufficient funds for its share of the estimated decommissioning costs. For fiscal year 2005, Austin Energy collected $4,958,221 for decommissioning requirements.

d -- Energy Risk Management Program

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

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

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

The realized gains and losses related to these transactions are netted to fuel expense in the period realized. As of September 30, 2005, Austin Energy's options, futures, and basis swaps, valued at mark-to-market, net to an unrealized gain of $83,277,175. This reflects the difference between the cost and the fair value of these contracts on September 30, 2005. Initial margins are flat fees per contract and are paid in cash or equity. Fair values are calculated by multiplying the number of outstanding contracts by the forward prices as quoted by New York Mercantile Exchange. The unrealized gain/loss refers to the difference between the cost and fair value of the contracts, which is not included in the financial statements at September 30, 2005.

14 – COMMITMENTS AND CONTINGENCIES, continued

Futures	
Contracts effective date	August 2004 through September 2005
Contracts maturity date	Through January 2007
Initial margin	$ 5,318,949
Cost	38,859,450
Fair value	56,946,300
Unrealized Gain/ (Loss)	18,086,850

Options	
Contracts effective date	September 2004 through September 2005
Contracts maturity date	Through October 2010
Fair value	$576,455
Unrealized Gain/ (Loss)	576,455

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

Swaps	
Contracts effective date	August 2004 through September 2005
Contracts maturity date	Through December 2009
Cost	$205,389,125
Fair value	270,002,995
Unrealized Gain/ (Loss)	64,613,870

The swap agreements expose Austin Energy to credit, termination, and non-performance risk. However, Austin Energy does not expect the swap counterparties to fail to meet their obligations given their high credit rating, minimum of A- by Standard and Poor's. Austin Energy's exposure to termination and non-performance risk is minimal due to the high credit rating of the counterparties, and the contractual provisions under the ISDA (International Swaps and Derivatives Association) agreement applied to these contracts.

e -- Derivative Instruments

Swap for the Water & Wastewater System

Objective of the swap. In order to lower its borrowing costs the City entered into a swap in connection with its Series 2004 Water and Wastewater System Variable Rate Revenue Refunding Bonds (the "Series 2004 Bonds") on July 2, 2004. The variable rate bonds were issued to advance-refund various outstanding Combined Utility System Revenue Refunding Bonds. The swap was used to hedge the interest rate on the variable rate refunding bonds to a fixed rate and the synthetic fixed rate refunding produces a lower expected interest rate cost to the City. Interest rates on the variable rate bonds ranged from 1.4% to 3.0%, adjusted weekly at market rates, and subsequent rate changes cannot exceed the maximum rate of 12%. The swap had closing costs of $561,302.

14 – COMMITMENTS AND CONTINGENCIES, continued

Terms, fair values, and credit risk. The City's swap agreement contains scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2004 Bonds were issued on August 27, 2004, with a principal amount of $132,475,000. The swap was structured to match the principal amortization structure and dates of the Series 2004 Bonds. The counterparty to the swap is JPMorgan Chase Bank. A summary of the terms and fair value of the swap, as of September 30, 2005, is as follows:

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Fair Value
Water & Wastewater Variable Rate Revenue Refunding Bonds, Series 2004	May 15, 2024	JP Morgan	Aa2/AA-/AA-	68% of 1-month LIBOR	3.657%	$ (4,165,922)

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

Fair value. The swap had a fair value as of September 30, 2005, of $(4,165,922). This fair value takes into consideration the prevailing interest rate, the specific terms and conditions of a given transaction, and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the London InterBank Offered Rate (LIBOR) swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swap.

Credit risk. As of September 30, 2005, the City was not exposed to credit risk on its outstanding swap since the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the City's credit risk exposure is the amount of the positive fair value. Future interest rate increases or decreases determine the fair value and the extent of credit risk the City will incur. The current credit ratings of the JPMorgan Chase Bank are Aa2 (Moody's Investor Service Inc.), AA- (Standard and Poor's), AA- (Fitch). The City will be exposed to interest rate risk only if the counterparty defaults or if the swap is terminated.

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

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

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

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

14 – COMMITMENTS AND CONTINGENCIES, continued

Swap payments and associated debt. As of September 30, 2005, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows (as rates vary, variable-rate bond interest payments and net swap payments will vary):

Fiscal Year Ended September 30	Water and Wastewater Variable-Rate Bonds (in thousands) Principal	Interest	Interest Rate Swaps, Net	Total
2006	$ 3,000	3,447	1,120	4,567
2007	7,000	3,294	1,070	4,364
2008	1,200	3,207	1,041	4,248
2009	–	3,184	1,035	4,219
2010	–	3,184	1,035	4,219
2011-2015	39,040	14,128	4,591	18,719
2016-2020	45,775	5,844	1,899	7,743
2021-2025	30,560	1,836	597	2,433
Total	$ 126,575	38,124	12,388	50,512

Swap for the Airport System

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

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

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Fair Value
Airport System Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2005	Nov 15, 2025	Morgan Stanley	Aa3/A+/AA-	71% of 1-month LIBOR	4.051%	$ (17,021,267)

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

Fair value. The swap had a fair value as of September 30, 2005, of $(17,021,267). This fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. The method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates.

14 – COMMITMENTS AND CONTINGENCIES, continued

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

Credit risk. As of September 30, 2005, the City was not exposed to credit risk on its outstanding swap since the swap had a negative fair value. However, should interest rates change and the fair values of the swap become positive, the City's exposure is the amount of the swap's positive fair value. This amount may become positive if interest rates increase in the future. The current credit ratings of Morgan Stanley are Aa3 (Moody's Investor Services, Inc.) A+ (Standard & Poor's) and AA- (Fitch). The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

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

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

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

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

Swap payments and associated debt. As of September 30, 2005, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows (as rates vary, variable-rate bond interest payments and net swap payments will vary):

Fiscal Year Ended September 30	Airport Variable-Rate Bonds (in thousands) Principal	Interest	Interest Rate Swaps, Net	Total
2006	$ 5,375	8,336	4,345	12,681
2007	9,550	7,810	4,071	11,881
2008	10,000	7,546	3,934	11,480
2009	10,475	7,270	3,790	11,060
2010	10,975	6,981	3,638	10,619
2011-2015	61,100	30,388	15,839	46,227
2016-2020	63,100	22,458	11,706	34,164
2021-2025	110,900	9,973	5,198	15,171
2026-2030	24,750	138	71	209
Total	$ 306,225	100,900	52,592	153,492

14 – COMMITMENTS AND CONTINGENCIES, continued

Swaps for the Hotel Occupancy Tax

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

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

The counterparty to the swap that fixes the bonds at 3.4007% was Lehman Brothers Derivative Products, a Lehman Brothers subsidiary. The counterparty to the swap portion that eliminates basis risk for the escrow period is Lehman Brothers Special Financing Inc. with a guarantee from Lehman Brothers. The table below contains a summary of the terms and fair value of the swaps as of September 30, 2005:

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Fair Value
Hotel Occupancy Tax Subordinate Lein Variable Rate Revenue Refunding Bonds, Series 2005	Nov 15, 2029	Lehman Brothers Derivative Products	Aaa/AAAt/AAA	BMA + 0.0525% to 11/15/09; 67% of 1 Mo USD-LIBOR thereafter	3.401%	$ (340,992)
Hotel Occupancy Tax Subordinate Lein Variable Rate Revenue Refunding Bonds, Series 2005	Nov 15, 2009	Lehman Brothers Special Financing	A1/A/A+	VRRB Rate + 0.0525%	BMA + 0.0525%	$ –

The combination of variable rate bonds and a floating-to-fixed swap creates synthetic fixed-rate debt for the City. The transactions allowed the City to create a synthetic fixed rate on the Bonds in advance of issuance, protecting the City against potential increases in long-term interest rates, and eliminating basis risk during the escrow period of the refunded bonds.

Fair value. The swaps had a fair value as of September 30, 2005, of $(340,992). The fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. The payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

Credit risk. As of September 30, 2005, the City was not exposed to credit risk on its outstanding swaps since the swaps had a negative fair value. However, should interest rates change and the fair values of the swaps become positive, the City's exposure is the amount of positive fair value. The current credit ratings of Lehman Brothers are A1 (Moody's Investor Services, Inc.) A (Standard & Poor's) and A+ (Fitch). The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if it is terminated.

14 – COMMITMENTS AND CONTINGENCIES, continued

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

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

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

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

Swap payments and associated debt. As of September 30, 2005, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows (as rates vary, variable-rate bond interest payments and net swap payments will vary):

Fiscal Year Ended September 30	Convention Center Variable-Rate Bonds (in thousands) Principal	Interest	Interest Rate Swaps, Net	Total
2006	$ –	3,328	729	4,057
2007	–	3,328	729	4,057
2008	–	3,328	729	4,057
2009	–	3,328	729	4,057
2010	3,045	3,257	713	3,970
2011-2015	22,190	14,503	3,174	17,677
2016-2020	26,120	11,104	2,431	13,535
2021-2025	30,935	7,089	1,552	8,641
2026-2030	37,000	2,314	506	2,820
Total	$ 119,290	51,579	11,292	62,871

f -- Certificates of Participation

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

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

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

14 – COMMITMENTS AND CONTINGENCIES, continued

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

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

The following table presents information regarding these certificates:

Description	Electric Fund Office Project (1)	Water and Wastewater Fund Office Project (1)
Date issued	February 1987	August 1987
Amount issued	$ 23,060,000	$ 14,000,000
Interest rates	4.00% - 7.00%	5.25% - 8.00%
Interest payable on	March 15 and September 15	May 15 and November 15
Maturity dates	September 15 1988 – 2007	November 15 1989 - 2007
Present value of lease payments	$ 3,851,488	$ 3,798,935
Reserve Fund (2)	$ 2,000,000	$ 1,250,000

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

g -- Federal and State Financial Assistance Programs

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

h -- Arbitrage Rebate Payable

The City's financial advisor has determined that the City has earned interest revenue on unused bond proceeds in excess of amounts allowed by applicable Federal regulations. The City will be required to rebate funds to the federal government. The estimated amounts payable at September 30, 2005, are as follows (in thousands):

Governmental Activities	Business-type Activities: Electric	Water and Wastewater	Nonmajor	Total
$ 99	863	310	2	$ 1,274

i -- Capital Improvement Plan

As required by charter, the City has a *Capital Improvements Program* plan (capital budget) covering a five year period which details anticipated spending for projects in the upcoming and future years. The City's 2006 Capital Budget includes new appropriations of $188.1 million for the City's enterprise funds and $44.7 million for general government projects. The City has substantial contractual commitments relating to its capital improvement plan.

14 – COMMITMENTS AND CONTINGENCIES, continued

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

Project		Spent-to-Date	Remaining Commitment
Governmental activities:			
Parks development and improvements	$	108,080	8,394
Financial and administrative		86,021	7,852
Transportation improvements		346,946	39,279
Other governmental		24,924	16,952
Business-type activities:			
Electric system improvements		1,331,758	1,595,601
Water and wastewater system improvements and annexations		1,366,276	992,558
Airport improvements		85,718	96,339
Nonmajor enterprise		139,204	578,246
Total	$	3,488,927	3,335,221

j -- Landfill Closure and Postclosure Liability

State and federal regulations require the City to place a final cover on the City of Austin landfill site (located on FM 812) when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, a portion of these future closure and postclosure care costs are reported as an operating expense in each period as incurred in the Solid Waste Services Fund, a nonmajor enterprise fund. The amount of costs reported is based on landfill capacity as of the City's fiscal year-end. The $7.9 million reported as accrued landfill closure and postclosure costs at September 30, 2005, represents the cumulative amount reported to date based on the use of 83.6% of the estimated capacity of the landfill. The Solid Waste Services Fund will recognize the remaining estimated cost of closure and postclosure care of $1.6 million as the remaining estimated capacity is filled over the next eight years. The total estimated costs of $9.5 million include costs of closure in 2013 of $2.5 million and postclosure costs over the subsequent thirty years of $7 million. These amounts are based on current cost estimates to perform closure and postclosure care in 2005. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. State and federal laws require owners to demonstrate financial assurance for closure, postclosure, and/or corrective action. The City complies with the financial and public notice components of the local government financial test and government-guarantee of the test.

k -- Risk-Related Contingencies

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

Fund name	Description
Employee Benefits	City employees and retirees may choose a self-insured PPO or an HMO for health coverage. Approximately 29% of city employees and 52% of retirees use the HMO option; approximately 71% of city employees and 48% of retirees use the PPO. Costs are charged to city funds through a charge per employee per pay period.
Liability Reserve	This self-insured program includes losses and claims related to liability for bodily injury, property damage, professional liability and certain employment liability. Premiums are charged to other city funds each year based on historical costs.
Workers' Compensation	Premium charges for this self-insured program are assessed to other funds each year based on historical costs.

14 – COMMITMENTS AND CONTINGENCIES, continued

The City purchases stop loss insurance for the City's PPO. This stop loss insurance covers individual claims that exceed $500,000 per calendar year, up to a maximum of $1 million. During fiscal year 2005, two claims exceeded the stop loss limit of $500,000; during fiscal year 2004, no claim exceeded the stop loss limit of $500,000; and one claim exceeded the stop loss limit of $500,000 in fiscal year 2003. City coverage is limited to $1 million in lifetime benefits. The City does not purchase stop loss insurance for workers' compensation claims.

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

Liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The City utilizes actuarial information and historical claim settlement trends to determine the claim liabilities for the Employee Benefits Fund and Workers' Compensation Fund. Claims liabilities for the Liability Reserve Fund are calculated based on an estimate of outstanding claims, which may differ from the actual amounts paid. The amount to be paid out ultimately may vary from the amount accrued at September 30, 2005. Possible losses are estimated to range from $28.8 to $45.1 million. The City contributes amounts to an internal service fund based on an estimate of anticipated costs for claims each year.

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

	Employee Benefits		Liability Reserve		Workers' Compensation	
	2005	2004	2005	2004	2005	2004
Liability balances, beginning of year	$ 4,940	5,541	13,158	20,080	9,342	9,127
Claims and changes in estimates	3,252	4,460	6,091	3,601	4,295	4,592
Claim payments	(3,252)	(5,061)	(5,330)	(10,523)	(3,678)	(4,377)
Liability balances, end of year	$ 4,940	4,940	13,919	13,158	9,959	9,342

The Liability Reserve Fund claims liability balance at fiscal year end includes liabilities of $4 million discounted at 4.72% in 2005 and $4.4 million discounted at 4.78% in 2004.

I -- Environmental Remediation Contingencies

The Electric Fund may incur costs for environmental remediation of certain sites including the Holly and Seaholm Power Plants. The financial statements include a liability of $13 million at September 30, 2005. This amount includes the cost of penalties associated with an Environmental Protection Agency (EPA) PCB inspection and estimated remaining costs for the remediation of the contaminated sites. The Electric Fund anticipates payment of these costs in 2006 and future years.

The EPA issued an Administrative Order to the Water and Wastewater Utility on April 29, 1999. The Administrative Order requires the Utility to perform a series of activities designed to result in an improved system free from sanitary sewer overflows. These activities include Infiltration/Inflow, Sanitary Sewer Evaluation Studies, as well as subsequent design and construction of necessary improvements to the wastewater collection system to eliminate overflows by December 2009. Construction costs are estimated to be $300 million, and the Utility is on schedule to comply with the Administrative Order.

The Airport Fund may also incur costs for the environmental remediation of certain sites and has recorded an estimated liability of $1.1 million in the financial statements.

14 – COMMITMENTS AND CONTINGENCIES, continued

m -- Redevelopment of Robert Mueller Municipal Airport

In December 2004, City Council approved a master development agreement with Catellus Development Corporation (Catellus) to develop approximately 750 acres at the former site of the City's municipal airport near downtown Austin. Both the City and Catellus have numerous obligations under the agreement. Catellus will develop and market the property. The City will issue debt to fund infrastructure such as streets, drainage facilities, public parks and greenways, which will be supported by taxes generated from this development. Additional water and wastewater infrastructure will also be constructed to enhance utility services to this site. To date, a portion of the property has been sold and construction has begun on a new children's hospital. In August 2005, the developer filed a site plan for the regional retail portion of the property. This action triggers a requirement that the City or the Mueller Local Government Corporation (LGC), created by the City for this development, issue debt to be supported by the estimated sales tax revenue generated from the retail. It is expected that this debt will be issued by the LGC in spring 2006.

n -- Other Commitments and Contingencies

The City is committed under various leases for building and office space, tracts of land and rights of way, and certain equipment. These leases are considered operating leases for accounting purposes. Lease expense for the year ended September 30, 2005, was $17.5 million. The City expects these leases to be replaced with similar leases in the ordinary course of business. Future minimum lease payments for these leases will remain approximately the same.

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

The following summarizes assets recorded at September 30, 2005, under capital lease obligations (in thousands):

Assets	Governmental Activities	Business-type Activities				
		Electric	Water and Wastewater	Airport	Nonmajor	Total
Building and improvements	$ --	21,604	13,429	--	--	35,033
Equipment	2,164	528	180	917	476	2,101
Accumulated depreciation	(954)	(10,281)	(4,714)	(210)	(279)	(15,484)
Net assets	$ 1,210	11,851	8,895	707	197	21,650

o -- Hurricane Disaster Assistance

On September 2, 2005, the City began receiving displaced persons from Hurricane Katrina. Upon arrival, evacuees were transported to the Austin Convention Center, where emergency shelter and medical services were provided. Over the course of sheltering operations, which ended September 29th, approximately 4,500 evacuees were sheltered. As of end of the fiscal year, the City has accumulated approximately $3.5 million in costs eligible to be reimbursed by FEMA.

On September 23, 2005, Hurricane Rita struck the coast of Texas and Louisiana. Many residents of the coastal area fled prior to Rita making landfall. The City and other area entities provided sheltering operations for evacuees. The extent of costs incurred by the City is anticipated to be significantly less than costs incurred from the Hurricane Katrina disaster.

15 – OTHER POST-EMPLOYMENT BENEFITS

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

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

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

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

Years of Service	Retiree only	Dependent only
Less than 5 years	15% - 16%	9% - 13%
5 to 9 years	24%	15% - 20%
10 to 14 years	40%	25% - 33%
15 to 20 years	56%	35% - 46%
Greater than 20 years	80%	50% - 66%

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

Other post-employment benefits are expensed and funded on a pay-as-you-go basis. The City recognizes the cost of providing these benefits as an expense and corresponding revenue in the Employee Benefits Fund. Medical, dental and life insurance claims and premiums are reported in the Employee Benefits Fund. The estimated cost of providing these benefits for 2,554 retirees was $13.3 million in 2005, and $13.7 million in 2004 for 2,443 retirees.

As more fully described in Note 14, the City is a participant in the South Texas Project Nuclear Operating Company (STPNOC) and as such is liable for certain post-employment benefits for STPNOC employees. At December 31, 2004, the City's portion of this obligation, $7.8 million, is not reflected in the financial statements of the Electric Fund.

16 – SUBSEQUENT EVENTS

a -- Water and Wastewater System Revenue Bond Refunding Issues

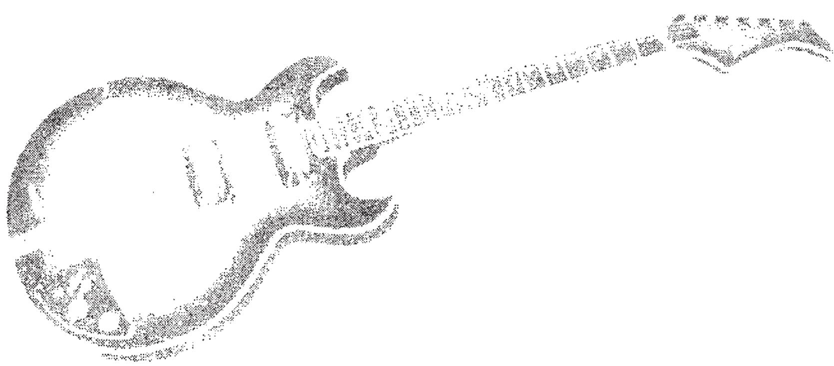
In October 2005, the City issued $142,335,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2005A. Proceeds from the bonds were used to refund $135,000,000 of the City's outstanding commercial paper and the Maple Run municipal utility district contract revenue bond, series 1992 in the amount of $6,560,000 for the water and wastewater utility system. The debt service requirements on the refunding bonds were $265,384,376, with interest rates ranging from 4% to 5%. The City realized an economic gain of $416,456 on this transaction. The change in net cash flows that resulted was a decrease of $455,450. An accounting loss of $672,747, which will be deferred and amortized in accordance with Statement of Financial Accounting Standards No. 71, was recognized on this refunding.

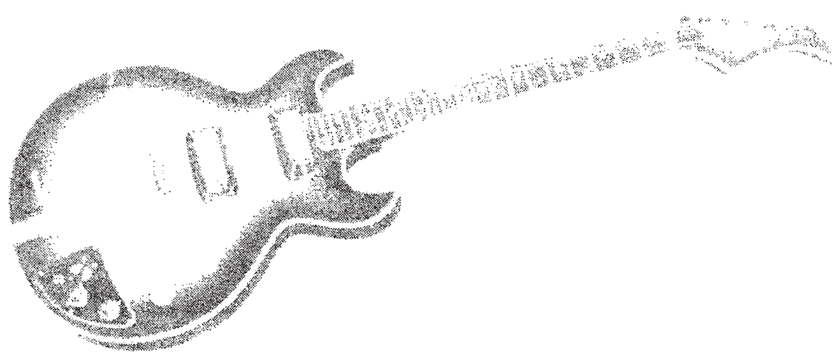
In November 2005, the City signed a bond purchase agreement with Morgan Keegan & Company, Inc. to issue $63,100,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2006. The bonds are expected to be available for delivery on or about August 17, 2006. The bonds will refund $63,360,000 of combined utility system revenue refunding bonds.

b -- Hurricane Katrina - Temporary Housing

In October 2005, the City received $12.8 million from the State of Texas for public assistance to help assist evacuees affected by Hurricane Katrina, of which $3.5 million was accrued at September 30, 2005. The funds were passed through the State from the Federal Emergency Management Agency (FEMA).

The City has entered into lease agreements with area housing facilities to assist evacuees with temporary housing. Costs include rent, utilities, and other housing-related costs; the approximate length of the lease agreements is six months. The City anticipates most, if not all costs to be eligible for reimbursement by FEMA.





(In thousands)

	2005					
	Actual	Adjustments (1) (2)	Actual-Budget Basis	Budget Original	Budget Final	Variance (3) Positive (Negative)
REVENUES						
Taxes	$ 264,786	--	264,786	263,534	263,534	1,252
Franchise fees	28,973	--	28,973	28,564	28,564	409
Fines, forfeitures and penalties	17,529	--	17,529	17,150	17,150	379
Licenses, permits and inspections	17,399	--	17,399	14,532	14,532	2,867
Charges for services/goods	23,064	--	23,064	22,556	22,556	508
Interest and other	10,691	(515)	10,176	8,202	8,202	1,974
Total revenues	362,442	(515)	361,927	354,538	354,538	7,389
EXPENDITURES						
General government						
Municipal Court	8,699	73	8,772	8,941	8,875	103
Public safety						
Police	173,358	(1,248)	172,110	172,314	172,114	4
Fire	91,530	(557)	90,973	89,827	89,827	(1,146)
Emergency Medical Services	30,831	(1,136)	29,695	30,120	30,120	425
Public Safety & Emergency Mgmt	616	(215)	401	--	368	(33)
Transportation, planning and sustainability						
Transportation, Planning and Sustainability	473	(184)	289	160	160	(129)
Public health:						
Health	26,715	(83)	26,632	26,859	26,860	228
Public recreation and culture						
Parks and Recreation	28,077	(145)	27,932	28,248	27,975	43
Austin Public Library	17,068	170	17,238	17,410	17,410	172
Urban growth management						
Neighborhood Planning and Zoning	3,505	--	3,505	3,744	3,844	339
Development Services and Watershed Protection	11,700	(28)	11,672	12,046	12,046	374
General city responsibilities (4)	52,044	(38,389)	13,655	13,866	13,866	211
Total expenditures	444,616	(41,742)	402,874	403,535	403,465	591
Excess (deficiency) of revenues over expenditures	(82,174)	41,227	(40,947)	(48,997)	(48,927)	7,980
OTHER FINANCING SOURCES (USES)						
Capital leases	932	(932)	--	--	--	--
Transfers in	94,451	8,615	103,066	94,966	95,066	8,000
Transfers out	(14,154)	(40,627)	(54,781)	(53,840)	(54,854)	73
Total other financing sources (uses)	81,229	(32,944)	48,285	41,126	40,212	8,073
Excess (deficiency) of revenues and other sources over expenditures and other uses	(945)	8,283	7,338	(7,871)	(8,715)	16,053
Special items - hospital district reserve payment	--	7,700	7,700	7,700	7,700	--
Fund balance at beginning of year	106,287	(53,768)	52,519	34,245	32,945	19,574
Fund balance at end of year	$ 105,342	(37,785)	67,557	34,074	31,930	35,627

(1) Includes adjustments to expenditures for current year encumbrances, payments against prior year encumbrances, accrued payroll, compensated absences, and amounts budgeted as operating transfers.
(2) Includes adjustments to revenues/transfers required for adjusted budget basis presentation.
(3) Variance is actual-budget basis to final budget.
(4) Actual expenditures include employee training costs and amounts budgeted as fund-level expenditures or operating transfers. Actual-budget basis expenditures include employee training costs, budgeted payroll accrual, and amounts budgeted as fund-level expenditures.

1 – BUDGET BASIS REPORTING

a -- General

The City of Austin prepares its annual operating budget based on the modified accrual basis. Encumbrances constitute the equivalent of expenditures for budgetary purposes. In order to provide a meaningful comparison of actual results to the budget, the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual-Budget Basis for the General Fund presents the actual and actual-budget basis amounts in comparison with original and final budgets.

The General Fund budget includes other revenues and requirements, which are presented in the general city responsibilities category. The expenditure budget for these general city requirements includes the following: tuition reimbursement ($85,000), accrued payroll ($1,427,122), expenditures for workers' compensation ($6,942,613), liability reserve ($2,500,000) and public safety ($2,411,190).

b -- Reconciliation of GAAP Basis and Budget Basis Amounts

The primary differences between GAAP-basis and budget-basis reporting for the General Fund are the reporting of encumbrances and the reporting of certain transfers. General Fund accrued payroll is recorded at the department level on a GAAP basis and as an expenditure in the general city responsibilities activity on the budget basis. Adjustments necessary to convert the excess revenues and other sources over expenditures and other uses on a GAAP basis to a budget basis for the General Fund are provided, as follows (in thousands):

	General Fund
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis	$ (945)
Adjustments - increases (decreases) due to:	
Net compensated absences accrual	(63)
Outstanding encumbrances established in current year	(3,730)
Payments against prior year encumbrances	3,678
Transfer to Airport Fund	(700)
Transfer from Budget Stabilization reserve	8,000
Other	1,098
Excess (deficiency) of revenues and other sources over expenditures and other uses - budget basis	$ 7,338

c -- Budget Amendments

The original budget of the General Fund was amended several times during fiscal year 2005 for increased public safety costs, capital improvements and transfers in, offset by decreases in expenditures and funding from remaining fund balances. The original and final budget is presented in the accompanying financial statements.

RETIREMENT PLANS

Trend Information

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

Valuation Date, December 31st	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
City Employees						
1995	$ 707,300	623,000	(84,300)	113.5%	221,000	(38.1%)
1997	856,423	832,140	(24,283)	102.9%	219,208	(11.1%)
1999	1,105,100	1,044,500	(60,600)	105.8%	244,500	(24.8%)
2001	1,311,288	1,360,270	48,982	96.4%	316,793	15.5%
2002	1,250,851	1,440,199	189,348	86.9%	322,008	58.8%
2003	1,348,800	1,551,800	203,000	86.9%	312,800	64.9%
2004	1,356,800	1,678,200	321,400	80.8%	326,600	98.4%
Police Officers						
1995	$ 127,572	164,865	37,293	77.4%	36,211	103.0%
1997	168,602	222,703	54,101	75.7%	47,189	114.6%
1999	226,913	257,850	30,937	88.0%	54,695	56.6%
2001	284,761	347,548	62,787	81.9%	69,707	90.1%
2002	298,782	384,992	86,210	77.6%	79,236	108.8%
2003	320,354	413,965	93,611	77.4%	80,959	115.6%
2004	343,447	451,580	108,133	76.1%	86,674	124.8%
Fire Fighters (2)						
1995	$ 213,403	236,994	23,591	90.0%	32,496	72.6%
1997	268,241	279,472	11,231	96.0%	35,130	32.0%
1999	341,593	317,223	(24,370)	107.7%	38,690	(63.0%)
2001	395,371	406,266	10,895	97.3%	49,726	21.9%
2003	421,136	452,669	31,533	93.0%	55,939	56.4%

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

APPENDIX C

BOND RESOLUTION

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RESOLUTION AUTHORIZING THE ISSUANCE OF MUELLER LOCAL GOVERNMENT CORPORATION CONTRACT REVENUE BONDS, SERIES 2006, IN THE AGGREGATE PRINCIPAL AMOUNT OF $12,000,000; APPROVING CONTRACT DOCUMENTS RELATING TO THE SERIES 2006 BONDS; AND CONTAINING OTHER PROVISIONS RELATED THERETO

BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE MUELLER LOCAL GOVERNMENT CORPORATION:

ARTICLE I

RECITALS

WHEREAS, the City has determined that it would be in the best interest of the City and the general public to redevelop property within the City formerly known as the Robert Mueller Municipal Airport ("Mueller"); and

WHEREAS, to facilitate the redevelopment of Mueller, the City entered into a Master Development Agreement with Catellus Austin, LLC, effective as of December 2, 2004 (the "Master Development Agreement"); and

WHEREAS, under the Master Development Agreement, the City agreed to issue debt to finance certain "Public Finance Reimbursement Project Costs" as defined in the Master Development Agreement, either directly or through the auspices of a local government corporation to be created by the City; and

WHEREAS, on December 16, 2004, the City Council of the City of Austin, Texas (the "City") authorized the creation of Tax Increment Financing Reinvestment Zone Number Sixteen, City of Austin, Texas ("TIRZ Sixteen") pursuant to Chapter 311, Texas Tax Code, and approved a preliminary project plan for TIRZ Sixteen and a preliminary reinvestment zone financing plan for TIRZ Sixteen; and

WHEREAS, by Resolution No. 041202-60, adopted on December 2, 2004, the City authorized the creation of the Mueller Local Government Corporation (the "Corporation") to aid, assist and act on behalf of the City in the performance of the City's governmental and proprietary functions to promote the common good and the general welfare of the City, including, without limitation, the development of the geographic area of the City included or to be included in TIRZ Sixteen and neighboring areas in furtherance of the promotion of economic development; and

WHEREAS, by Resolution No. 20060427-003, adopted on April 27, 2006, the City Council adopted a program pursuant to Chapter 380 of the Texas Local Government Code (the "Chapter 380 Program") whereby the City may make economic development loans or grants from City general funds to the Corporation in furtherance of the economic development objectives for TIRZ Sixteen, specifically with respect to the redevelopment of Mueller consistent with the provisions of the Master Development Agreement; and

WHEREAS, pursuant to the terms of a Grant Agreement between the City and the Corporation (the "Grant Agreement") the City has agreed, subject to the terms of the Grant Agreement, to make Grant Payments (as herein defined) to the Corporation to provide funds that may be used by the Corporation for the payment of debt service on Contract Revenue Bonds issued by the Corporation to finance "Public Finance Reimbursable Project Costs" in accordance with the Master Development Agreement, in furtherance of the economic development objectives of the Chapter 380 Program; and

WHEREAS, as permitted by Chapter 431, Texas Transportation Code, as amended, the Corporation desires to issue bonds upon the terms and conditions and for the purposes herein provided.

ARTICLE II

DEFINITIONS AND INTERPRETATIONS

Section 2.1: Definitions. In this Resolution, the following terms shall have the following meanings, unless the context clearly indicates otherwise. Terms not defined herein shall have the meanings assigned to such terms in the Indenture:

The term "Audit" shall mean the audited annual financial statements of the Corporation prepared by an independent auditor.

The term "Authorized Denominations" shall mean $5,000 or any integral multiple of $5,000.

The term "Authorized Representative" shall mean the President or any Vice President of the Corporation, the Treasurer of the Corporation, or any other person designated by the Board of Directors of the Corporation to act in such capacity.

The term "Code" shall mean the Internal Revenue Code of 1986.

The term "Comptroller" shall mean the Comptroller of Public Accounts of the State of Texas.

The term "Dated Date" shall mean, with respect to the Series 2006 Bonds, August 1, 2006.

The term "Designated Payment/Transfer Office" shall mean the designated corporate trust office of the Registrar, which, as of the date of adoption of this Resolution, is located in New York, New York.

The term "Grant Agreement" shall have the meaning given said term in the preamble to this Resolution.

The term "Grant Payments" shall mean the payments the City shall make to the Corporation on an annual basis in accordance with the terms of the Grant Agreement.

The term "Indenture" shall mean the Indenture of Trust dated as of August 1, 2006 between the Corporation and Deutsche Bank Trust Company Americas, and its successors in that capacity.

The term "Issuance Date" shall mean the date on which the Series 2006 Bonds are authenticated by the Registrar and delivered to and paid for by the Purchasers.

The term "MAC" shall mean the Municipal Advisory Council of Texas.

The term "Master Development Agreement" shall mean the Master Development Agreement between the City and Catellus Austin, LLC, effective as of December 2, 2004.

The term "MSRB" shall mean the Municipal Securities Rulemaking Board.

The term "NRMSIR" shall mean each person whom the SEC or its staff has determined to be a nationally recognized municipal securities information repository within the meaning of the Rule from time to time.

The terms "Paying Agent", "Paying Agent/Registrar" and "Registrar" shall mean Deutsche Bank Trust Company Americas, and its successors in that capacity.

The term "Project" shall mean the following public infrastructure improvements within the meaning of the term "Project Costs" as defined in the Indenture, to-wit: the demolition of existing structures and runways at Mueller, and the design, engineering and construction of streets, drainage, water distribution and wastewater collection systems, and park and recreational facilities.

The term "Purchasers" shall have the meaning given said term in Section 7.1.

The term "Record Date" shall mean, for any Interest Payment Date, the fifteenth day of the month next preceding each Interest Payment Date.

The term "Resolution" or "Bond Resolution" shall mean this resolution, and all amendments hereof and supplements hereto.

The term "Rule" shall mean SEC Rule 15c2-12, as amended from time to time.

The term "SEC" shall mean the United States Securities and Exchange Commission.

The term "Series 2006 Bonds" or "Bonds" shall mean the Corporation's Contract Revenue Bonds, Series 2006, authorized by this Resolution.

The term "SID" means any person designated by the State of Texas or an authorized department, officer, or agency thereof as, and determined by the SEC or its staff to be, a state information depository within the meaning of the Rule from time to time.

Section 2.2: Interpretations. All terms defined herein and all pronouns used in this Resolution shall be deemed to apply equally to singular and plural and to all genders. The titles and headings of the articles and sections of this Resolution have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof. References to any constitutional, statutory or regulatory provision means such provision as it exists on the date this Resolution is adopted by the Corporation and any future amendments thereto or successor provisions thereof. This Resolution and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to sustain the validity of the Parity Bonds and the validity of the lien on and pledge of the Pledged Revenues to secure the payment of the Parity Bonds.

ARTICLE III

TERMS OF THE BONDS

Section 3.1: Bonds to be Sold; Principal Amount, Purpose. The Series 2006 Bonds shall be issued in fully registered form, without coupons, in the aggregate principal amount of $12,000,000 for the purpose of (1) paying costs of constructing the Project and (2) paying Costs of Issuance, all under and pursuant to the authority of the Act and all other applicable law.

Section 3.2: Maturity Schedule; Interest Rates; Redemption Features. (a) That the Series 2006 Bonds shall be dated the Dated Date, shall be in any Authorized Denomination, shall be numbered consecutively from R-1 upward, and shall mature on the maturity date, in each of the years, and in the amounts, respectively, as set forth in the following schedule:

MATURITY DATE: SEPTEMBER 1

YEARS	AMOUNTS ($)	YEARS	AMOUNTS ($)
2009	450,000	2018	660,000
2010	470,000	2019	690,000
2011	490,000	2020	720,000
2012	510,000	2021	755,000
2013	530,000	2022	790,000
2014	555,000	2023	830,000
2015	580,000	2024	****
2016	605,000	2025	1,780,000
2017	630,000	2026	955,000

(b) That the Series 2006 Bonds scheduled to mature during the years, respectively, set forth below shall bear interest at the following rates per annum:

maturities 2009, 4.250%	maturities 2018, 4.250%
maturities 2010, 4.125%	maturities 2019, 4.250%
maturities 2011, 4.125%	maturities 2020, 4.250%
maturities 2012, 4.125%	maturities 2021, 4.375%
maturities 2013, 4.125%	maturities 2022, 4.375%
maturities 2014, 4.250%	maturities 2023, 4.375%
maturities 2015, 6.000%	****
maturities 2016, 4.250%	maturities 2025, 5.000%
maturities 2017, 4.250%	maturities 2026, 4.000%

Said interest shall be payable to the registered owner of any such Series 2006 Bond in the manner provided and on the dates stated in the FORM OF BOND. Interest shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.

(c)(i) That the Corporation reserves the right to redeem the Series 2006 Bonds maturing on or after September 1, 2017, in whole, or in part in any Authorized Denomination, on September 1, 2016, or on any date thereafter, for the principal amount thereof, without premium, plus accrued interest thereon to the date fixed for redemption. The years of maturity of the Series 2006 Bonds called for redemption at the option of the Corporation prior to stated maturity shall be selected by the Corporation. The Series 2006 Bonds or portions thereof redeemed within a maturity shall be selected by lot or other method by the Paying Agent/Registrar (hereinafter defined); *provided*, that during any period in which ownership of the Bonds is determined only by a book entry at a securities depository for the Series 2006 Bonds, if fewer than all of the Series 2006 Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Series 2006 Bonds of such maturity and bearing such interest rate shall be selected in accordance with the arrangements between the Corporation and the securities depository.

(ii) The Series 2006 Bonds maturing September 1, 2025 are subject to mandatory sinking fund redemption prior to their scheduled maturity in the manner provided in the FORM OF BOND.

(iii) At least 30 days prior to the date fixed for any such redemption the Corporation shall cause a written notice of such redemption to be deposited in the United States mail, first class postage prepaid, addressed to each such registered owner at his address shown on the Registration Books (hereinafter defined) of the Paying Agent/Registrar. By the date fixed for any such redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the Series 2006 Bonds or the portions thereof which are to be so redeemed, plus accrued interest thereon to the date fixed for redemption. If such notice of redemption is given, and if due provision for such payment is made, all as provided above, the Series 2006 Bonds or the portions thereof which are to be so redeemed, thereby automatically shall be redeemed prior to their scheduled maturities, and shall not bear interest after the date fixed for their redemption, and shall not be regarded as being outstanding except for the right of the registered owner to receive the redemption price plus accrued interest to the date fixed for redemption from the Paying Agent/Registrar out of the funds provided for such payment. The Paying Agent/Registrar shall record in the Registration Books all such redemptions of principal of the Series 2006 Bonds or any portion thereof. If a portion of any Series 2006 Bond shall be redeemed a substitute Series 2006 Bond or Series 2006 Bonds having the same maturity date, bearing interest at the same rate, in any Authorized Denomination, at the written request of the registered owner, and in an aggregate principal amount equal to the unredeemed portion thereof, will be issued to the registered owner upon the surrender thereof for cancellation, at the expense of the Corporation, all as provided in this Ordinance. In addition to the foregoing, the Corporation shall cause the Paying Agent/Registrar to give notice of any such redemption in the manner set forth in Section 5(h) hereof. The failure to cause such notice to be given, however, or any defect therein, shall not affect the validity or effectiveness of such redemption.

Section 3.3: Execution of Series 2006 Bonds. The Series 2006 Bonds shall be signed on behalf of the Corporation by an Authorized Representative and countersigned by the Secretary by their manual, lithographed, or facsimile signatures. Such facsimile signatures on the Series 2006 Bonds shall have the same effect as if each of the Series 2006 Bonds had been signed manually and in person by each of said officers. If any officer of the Corporation whose manual or facsimile signature shall appear on the Series 2006 Bonds shall cease to be such officer before the authentication of such Series 2006 Bonds or before the delivery of such Series 2006 Bonds, such manual or facsimile signature shall nevertheless be valid and sufficient for all purposes as if such officer had remained in such office.

Section 3.4: Approval By Attorney General; Registration by Comptroller. The Series 2006 Bonds to be initially issued shall be delivered to the Attorney General of Texas for examination and approval and shall be registered by the Comptroller. The manually executed registration certificate of the Comptroller substantially in the form provided in Exhibit A to this Resolution shall be affixed or attached to the Series 2006 Bonds to be initially issued and delivered to the Underwriters.

Section 3.5: Authentication. Except for the Series 2006 Bonds to be initially issued, which need not be authenticated by an authorized representative of the Registrar, only such Series 2006 Bonds as shall bear thereon a certificate of authentication substantially in the form provided in Exhibit A to this Resolution, manually executed by an authorized representative of the Registrar, shall be entitled to the benefits of this Resolution or shall be valid or obligatory for any purpose. Such duly executed certificate of authentication shall be conclusive evidence that the Series 2006 Bond so authenticated was delivered by the Registrar hereunder.

The Registrar, when it authenticates a Series 2006 Bond, shall cause the Dated Date to be stamped, typed or imprinted on such Series 2006 Bond. Series 2006 Bonds issued on transfer of or in exchange for other Series 2006 Bonds shall bear the same Dated Date as the Series 2006 Bond or Series 2006 Bonds presented for transfer or exchange.

Section 3.6. Payment of Principal and Interest. The Registrar is hereby appointed as the registrar and paying agent for the Series 2006 Bonds. The principal of the Series 2006 Bonds shall be payable, without exchange or collection charges, in any coin or currency of the United States of America which, on the date of payment, is legal tender for the payment of debts due the United States of America, upon their presentation and surrender as they respectively become due and payable, whether at maturity or by prior redemption, at the Designated Payment/Transfer Office. The interest on each Series 2006 Bond shall be payable by check payable on the Interest Payment Date, mailed by the Registrar on or before each Interest Payment Date to the Owner of record as of the Record Date, to the address of such Owner as shown on the Register, or by such other method, acceptable to the Registrar, requested by and at the risk and expense of the Owner.

If the date for the payment of principal or interest on any Series 2006 Bond is not a Business Day, then the date for such payment shall be the next succeeding Business Day, and payment on such date shall have the same force and effect as if made on the original date such payment was due.

Section 3.7. Successor Registrars. The Corporation covenants that at all times while any Series 2006 Bonds are Outstanding it will provide a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to act as Registrar for the Series 2006 Bonds. The Corporation reserves the right to change the Registrar for the Series 2006 Bonds on not less than sixty (60) days written notice to the Registrar, so long as any such notice is effective not less than sixty (60) days prior to the next succeeding Principal Installment Payment Date or Interest Payment Date on the Series 2006 Bonds. Promptly upon the appointment of any successor Registrar, the previous Registrar shall deliver the Register or a copy thereof to the new Registrar, and the new Registrar shall notify each Owner, by United States mail, first class postage prepaid, of such change and of the address of the new Registrar. Each Registrar hereunder, by acting in that capacity, shall be deemed to have agreed to the provisions of this Section.

Section 3.8. Special Record Date. If interest on any Series 2006 Bond is not paid on any Interest Payment Date and continues unpaid for thirty (30) days thereafter, the Registrar shall establish a new record date for the payment of such interest, to be known as a "Special Record Date." The Registrar shall establish a Special Record Date when funds to make such interest payment are received from or on behalf of the Corporation. Such Special Record Date shall be fifteen (15) days prior to the date fixed for payment of such past due interest, and notice of the date of payment and the Special Record Date shall be sent by United States mail, first class postage prepaid, not later than five (5) days prior to the Special Record Date, to each Owner or record of an affected Series 2006 Bond as of the close of business on the day prior to the mailing of such notice.

Section 3.9. Ownership; Unclaimed Principal and Interest. Subject to the further provisions of this Section, the Corporation, the Registrar and any other person may treat the person in whose name any Series 2006 Bond is registered as the absolute Owner of such Series 2006 Bond for the purpose of making and receiving payment of the principal of or interest on such Series 2006 Bond, and for all other purposes, whether or not such Series 2006 Bond is overdue, and neither the Corporation nor the Registrar shall be bound by any notice or knowledge to the contrary. All payments made to the person deemed to be the Owner of any Series 2006 Bond in accordance with this Section 3.9 shall be valid and effectual and shall discharge the liability of the Corporation and the Registrar upon such Series 2006 Bond to the extent of the sums paid.

Amounts held by the Registrar which represent principal of and interest on the Series 2006 Bonds remaining unclaimed by the Owner after the expiration of three (3) years from the date such amounts have become due and payable shall be reported and disposed of by the Registrar in accordance with the applicable provisions of Texas law including, to the extent applicable, Title 6 of the Texas Property Code, as amended.

Section 3.10. Registration, Transfer, and Exchange. So long as any Series 2006 Bonds remain Outstanding, the Registrar shall keep the Register at the Designated Payment/Transfer Office and, subject to such reasonable regulations as it may prescribe, the Registrar shall provide for the registration and transfer of Series 2006 Bonds in accordance with the terms of this Resolution.

Each Series 2006 Bond shall be transferable only upon the presentation and surrender thereof at the Designated Payment/Transfer Office of the Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in form satisfactory to the Registrar. Upon due presentation of any Series 2006 Bond in proper form for transfer, the Registrar shall authenticate and deliver in exchange therefor, within three (3) Business Days after such presentation, a new Series 2006 Bond or Series 2006 Bonds, registered in the name of the transferee or transferees, in Authorized Denominations and of the same maturity, aggregate principal amount, and Dated Date, and bearing interest at the same rate as the Series 2006 Bond or Series 2006 Bonds so presented.

All Series 2006 Bonds shall be exchangeable upon presentation and surrender thereof at the Designated Payment/Transfer Office of the Registrar for a Series 2006 Bond or Series 2006 Bonds of the same maturity, Dated Date, and interest rate and in any Authorized Denomination, in an aggregate amount equal to the unpaid principal amount of the Series 2006 Bond or Series 2006 Bonds presented for exchange. The Registrar shall be and is hereby authorized to authenticate and deliver exchange Series 2006 Bonds in accordance with the provisions of this Section 3.10. Each Series 2006 Bond delivered in accordance with this Section 3.10 shall be entitled to the benefits and security of this Resolution to the same extent as the Series 2006 Bond or Series 2006 Bonds in lieu of which such Series 2006 Bond is delivered.

The Corporation or the Registrar may require the Owner of any Series 2006 Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Series 2006 Bond. Any fee or charge of the Registrar for such transfer or exchange shall be paid by the Corporation.

The Registrar shall not be required to transfer or exchange any Series 2006 Bond during the period beginning on a Record Date or a Special Record Date and ending on the next succeeding Interest Payment Date or to transfer or exchange any Series 2006 Bond called for redemption during the period beginning thirty days prior to the date fixed for redemption and ending on the date fixed for redemption; provided, however, that this limitation shall not apply to the exchange by the Owner of the unredeemed portion of a Series 2006 Bond called for redemption in part.

Section 3.11. Cancellation of Series 2006 Bonds. All Series 2006 Bonds paid or redeemed in accordance with this Resolution, and all Series 2006 Bonds in lieu of which exchange Series 2006 Bonds or replacement Series 2006 Bonds are authenticated and delivered in accordance herewith, shall be canceled and thereafter treated in accordance with the Registrar's document retention policies.

Section 3.12. Mutilated, Lost, or Stolen Series 2006 Bonds. Upon the presentation and surrender to the Registrar of a mutilated Series 2006 Bond Bond, the Registrar shall authenticate and deliver in exchange therefor a replacement Series 2006 Bond of like maturity, Dated Date, interest rate and principal amount, bearing a number not contemporaneously Outstanding. The Corporation or the Registrar may require the Owner of such Series 2006 Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith and any other expenses connected therewith, including the fees and expenses of the Registrar.

If any Series 2006 Bond is lost, apparently destroyed, or wrongfully taken, the Corporation, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Series 2006 Bond has been acquired by a bona fide purchaser, shall execute and the Registrar shall authenticate and deliver a replacement Series 2006 Bond of like maturity, Dated Date, interest rate and principal amount, bearing a number not contemporaneously Outstanding, provided that the Owner thereof shall have:

(1) furnished to the Registrar satisfactory evidence of the ownership of and the circumstances of the loss, destruction or theft of such Series 2006 Bond;

(2) furnished such security or indemnity as may be required by the Registrar to save it and the Corporation harmless;

(3) paid all expenses and charges in connection therewith, including, but not limited to, printing costs, legal fees, fees of the Registrar and any tax or other governmental charge that may be imposed; and

(4) met any other reasonable requirements of the Corporation and the Registrar.

If, after the delivery of such replacement Series 2006 Bond, a bona fide purchaser of the original Series 2006 Bond in lieu of which such replacement Series 2006 Bond was issued presents for payment such original Series 2006 Bond, the Corporation and the Registrar shall be entitled to recover such replacement Series 2006 Bond from the person to whom it was delivered or any person taking therefrom, except a bona fide purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the Corporation or the Registrar in connection therewith.

If any such mutilated, lost, apparently destroyed or wrongfully taken Series 2006 Bond has become or is about to become due and payable, the Corporation in its discretion may, instead of issuing a replacement Series 2006 Bond, authorize the Registrar to pay such Series 2006 Bond.

Each replacement Series 2006 Bond delivered in accordance with this Section 3.12 shall be entitled to the benefits and security of this Resolution to the same extent as the Series 2006 Bond or Series 2006 Bonds in lieu of which such replacement Series 2006 Bond is delivered.

Section 3.13: Limited Obligations. THE SERIES 2006 BONDS ARE A LIMITED OBLIGATION OF THE CORPORATION, PAYABLE SOLELY OUT OF THE TRUST ESTATE, WHICH IS THE SOLE ASSET OF THE CORPORATION PLEDGED THEREFOR. THE SERIES 2006 BONDS ARE OBLIGATIONS SOLELY OF THE CORPORATION AND DO NOT CONSTITUTE, WITHIN THE MEANING OF ANY STATUTORY OR CONSTITUTIONAL PROVISION, AN INDEBTEDNESS, AN OBLIGATION OR A LOAN OF CREDIT OF THE CITY OF AUSTIN, TEXAS, THE STATE OF TEXAS, OR ANY OTHER MUNICIPALITY, COUNTY, OR OTHER MUNICIPAL OR POLITICAL CORPORATION OR SUBDIVISION OF THE STATE OF TEXAS. THE CITY OF AUSTIN, TEXAS IS NOT OBLIGATED TO MAKE PAYMENTS ON THE SERIES 2006 BONDS, OTHER THAN AS OTHERWISE PROVIDED FOR IN THE INDENTURE.

ARTICLE IV

FORM OF SERIES 2006 BONDS AND CERTIFICATES

Section 4.1: Forms. The form of the Series 2006 Bonds, including the form of the Registrar's authentication certificate, the form of assignment, and the form of the Comptroller's Registration Certificate for the Series 2006 Bonds to be initially issued, shall be in substantially the form as set forth in Exhibit A to this Resolution.

Section 4.2: Legal Opinion; Cusip Numbers; Bond Insurance. The approving opinion of Bond Counsel and CUSIP Numbers may be printed on the Series 2006 Bonds, but errors or omissions in the printing of such opinion or such numbers shall have no effect on the validity of the Series 2006 Bonds. If bond insurance is obtained by the Purchasers, the Series 2006 Bonds may bear an appropriate legend as provided by the insurer.

ARTICLE V

ADDITIONAL BONDS

Section 5.1: Additional Parity Bonds. The Corporation reserves the right to issue, for any lawful purpose (including the refunding of any previously issued Parity Bonds), one or more series of Additional Parity Bonds payable from and secured by a first lien on the Pledged Revenues, on a parity with the Series 2006 Bonds; provided, however, that Additional Parity Bonds may be issued only in accordance with the provisions of Article III of the Indenture.

Section 5.2: Subordinate Lien Obligations. The Corporation reserves the right to issue, for any lawful purpose, Subordinate Lien Obligations secured in whole or in part by liens on the Pledged Revenues that are junior and subordinate to the lien on Pledged Revenues securing payment of the Parity Bonds. Such Subordinate Lien Obligations may be further secured by any other source of payment lawfully available for such purposes.

ARTICLE VI

GENERAL COVENANTS

Section 6.1: Punctual Payment of Parity Bonds. The Corporation will punctually pay or cause to be paid the interest on and principal of, all Parity Bonds according to the terms thereof and will faithfully do and perform, and at all times fully observe, any and all covenants, undertakings, stipulations and provisions contained in this Resolution and in any resolution authorizing the issuance of Additional Parity Bonds.

Section 6.2: Accounts, Records, and Audits. So long as any Parity Bonds remain Outstanding, the Corporation covenants and agrees that it will maintain a proper and complete system of records and accounts pertaining to the Corporation in which full, true and proper entries will be made of all dealings, transactions, business and affairs which in any way affect or pertain to the Corporation or the Pledged Revenues. The Corporation shall after the close of each fiscal year cause an Audit to be prepared by an independent certified public accountant or independent firm of certified public accountants. All expenses incurred in preparing Audits shall be maintenance and operation expenses.

Section 6.3: Pledge and Encumbrance of Pledged Revenues. (a) The Corporation represents that it has the lawful power to create a lien on and to pledge the Pledged Revenues to secure the payment of the Parity Bonds and has lawfully exercised such power under the Constitution and laws of the State of Texas. The Corporation further covenants and represents that, other than to the payment of the Parity Bonds, 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 Corporation, unless such lien, pledge or encumbrance is junior and subordinate to the lien and pledge securing payment of the Parity Bonds.

(b) Pursuant to the terms of the Chapter 380 Program and the Grant Agreement, the City has agreed to make Grant Payments to the Corporation, subject to annual appropriation by the City Council, from its general fund. The Corporation will cause the Grant Payments so received to be paid to the Pledged Revenue Fund and used in accordance with the terms of the Grant Agreement and the Indenture.

(c) By approving this Resolution, the City agrees that for so long as any Parity Bond is Outstanding, (i) commencing on the Issuance Date, the City will not amend the Grant Agreement in a manner that is adverse to the interests of the owners of the Parity Bonds, and (ii) on or before the last day of each Fiscal Year, the City will deliver to the Corporation and the Trustee written certification of its appropriation of moneys sufficient to fund Grant Payments to be made by the City to the Corporation under the terms of the Grant Agreement during the succeeding Fiscal Year.

Section 6.4: Owners' Remedies. This Resolution shall constitute a contract between the Corporation and the Owners of the Parity Bonds from time to time Outstanding and this Resolution shall be and remain irrepealable until the Parity Bonds and the interest thereon shall be fully paid or discharged or provision therefor shall have been made as provided herein. In the event of a default in the payment of the principal of or interest on any of the Parity Bonds or a default in the performance of any duty or covenant provided by law or in this Resolution, the Owner or Owners of any of the Parity Bonds may pursue all legal remedies afforded by the Constitution and laws of the State of Texas to compel the Corporation 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 that any Owner of any of the Parity 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 Corporation under this Resolution, the deposit of the Pledged Revenues into the special funds herein provided, and the application of such Pledged Revenues in the manner required in this Resolution. The foregoing notwithstanding, acceleration of the Parity Bonds is not an available remedy. The sole source of the Corporation available for the payment of debt service on the Parity Bonds is and shall be the Pledged Revenues.

Section 6.5: Discharge by Deposit. The Corporation may discharge its obligation to the Owners of any or all of the Parity Bonds to pay principal, interest and redemption premium (if any) thereon in any manner then permitted by law, including, but not limited to, by depositing with any paying agent for such Parity Bonds either: (i) cash in an amount equal to the principal amount and redemption premium, if any, of such Parity Bonds plus interest thereon to the date of maturity or redemption, or (ii) pursuant to an escrow or trust agreement, cash and/or direct noncallable, nonprepayable obligations of the United States of America, in principal amounts and maturities and bearing interest at rates sufficient to provide for the timely payment of the principal amount and redemption premium, if any, of such Parity Bonds plus interest thereon to the date of maturity or redemption; provided, however, that if any of such Parity Bonds are to be redeemed prior to their respective dates of maturity, provision shall have been made for giving notice of redemption as provided in the resolution authorizing such Parity Bonds. Upon such deposit, such Parity Bonds shall no longer be regarded to be Outstanding or unpaid.

Section 6.6: Registrar and Trustee May Own Parity Bonds. The Registrar and Trustee for the Parity Bonds, in their individual or any other capacity, may become holders or pledges of the Parity Bonds with the same rights they would have if they were not the Registrar or Trustee.

Section 6.7: No Recourse Against Corporation Officials. No recourse shall be had for the payment of principal of or interest on any Parity Bonds or for any claim based thereon or on this Resolution against any official of the Corporation or any person executing any Parity Bonds. No member of the Board of Directors of the Corporation or any officer, agent, employee or representative of the Corporation in his individual capacity, nor the officers, agents, employees or representatives of the Corporation nor any person executing the Series 2006 Bonds shall be personally liable thereon or be subject to any personal liability or accountability by reason of the issuance thereof, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty, or otherwise, all such liability being expressly released and waived as a condition of and in consideration for the adoption of this Resolution and the issuance of the Series 2006 Bonds.

ARTICLE VII

PROVISIONS CONCERNING SALE AND APPLICATION OF PROCEEDS OF SERIES 2006 BONDS

Section 7.1: Sale of Bonds. The sale of the Series 2006 Bonds to Southwest Securities, Inc. and associates (the "Purchasers"), at a price of par and accrued interest on the Series 2006 Bonds to the date of delivery, is hereby authorized, ratified and confirmed. The Series 2006 Bonds were sold pursuant to the terms of a "Notice of Sale and Bidding Instructions", "Official Bid Form" and "Official Statement", the use of which documents, a true and correct copy of each such document is attached hereto, is hereby approved. It is hereby officially found, determined and declared that the Series 2006 Bonds were sold to the highest bidder at terms that were the most advantageous reasonably obtained. One Series 2006 Bond in the principal amount maturing on each maturity date as set forth in Section 3.2 shall be delivered to the Purchasers, and the Purchasers shall have the right to exchange such certificates as provided in Section 3.10 without cost. The use of the "Preliminary Official Statement" prepared in connection with the sale of the Series 2006 Bonds is hereby ratified. By approving this Resolution, the City Council authorizes the payment of the fee of the Office of the Attorney General of the State of Texas for the examination of the proceedings relating to the issuance of the Series 2006 Bonds, in the amount determined in accordance with the provisions of Section 1202.004, Texas Government Code.

Section 7.2: Execution of Documents to Effect Sale of Series 2006 Bonds. An Authorized Representative and other appropriate officers, agents and representatives of the Corporation are hereby authorized to do any and all things necessary or desirable to provide for the issuance and delivery of the Series 2006 Bonds.

Section 7.3: Application of Proceeds. Proceeds from the sale of the Series 2006 Bonds shall, promptly upon receipt by the Trustee, be applied in the manner provided for in a certificate executed by an Authorized Representative. The foregoing notwithstanding, any accrued interest received in connection with the sale of the Series 2006 Bonds shall be deposited to the Debt Service Fund, and any premium received in connection with the sale of the Series 2006 Bonds shall be used in a manner consistent with the provisions of V.T.C.A., Government Code, Section 1201.042(d).

ARTICLE VIII

FEDERAL INCOME TAX MATTERS

Section 8.1: General Tax Covenants. The Corporation covenants to refrain from any action which would adversely affect, or to take any action to assure, the treatment of the Series 2006 Bonds as obligations described in section 103 of the Code, the interest on which is not includable in the "gross income" of the holder for purposes of federal income taxation. In furtherance thereof, the Corporation covenants as follows:

(a) to take any action to assure that no more than 10 percent of the proceeds of the Series 2006 Bonds or the projects financed therewith (less amounts deposited to a reserve fund, if any) are used for any "private business use", as defined in section 141(b)(6) of the Code or, if more than 10 percent of the proceeds are so used, that amounts, whether or not received by the Corporation, with respect to such private business use, do not, under the terms of this Resolution or any underlying arrangement, directly or indirectly, secure or provide for the payment of more than 10 percent of the debt service on the Series 2006 Bonds, in contravention of section 141(b)(2) of the Code;

(b) to take any action to assure that in the event that the "private business use" described in subsection (a) hereof exceeds 5 percent of the proceeds of the Series 2006 Bonds or the projects financed therewith (less amounts deposited into a reserve fund, if any) then the amount in excess of 5 percent is used for a "private business use" which is "related" and not "disproportionate", within the meaning of section 141(b)(3) of the Code, to the governmental use;

(c) to take any action to assure that no amount which is greater than the lesser of \$5,000,000, or 5 percent of the proceeds of the Series 2006 Bonds (less amounts deposited into a reserve fund, if any), is directly or indirectly used to finance loans to persons, other than state or local governmental units, in contravention of section 141(c) of the Code;

(d) to refrain from taking any action which would otherwise result in the Series 2006 Bonds being treated as "private activity bonds" within the meaning of section 141(a) of the Code;

(e) to refrain from taking any action that would result in the Series 2006 Bonds being "federally guaranteed" within the meaning of section 149(b) of the Code;

(f) to refrain from using any portion of the proceeds of the Series 2006 Bonds, directly or indirectly, to acquire or to replace funds which were used, directly or indirectly, to acquire investment property (as defined in section 148(b)(2) of the Code) which produces a materially higher yield over the term of the Series 2006 Bonds, other than investment property acquired with --

(1) proceeds of the Series 2006 Bonds invested for a reasonable temporary period of three years or less until such proceeds are needed for the purpose for which the Series 2006 Bonds are issued,

(2) amounts invested in a bona fide debt service fund, within the meaning of section 1.148-1(b) of the Regulations, and

(3) amounts deposited in any reasonably required reserve or replacement fund to the extent such amounts do not exceed 10 percent of the proceeds of the

Series 2006 Bonds;

(g) to otherwise restrict the use of the proceeds of the Series 2006 Bonds or amounts treated as proceeds of the Series 2006 Bonds, as may be necessary, so that the Series 2006 Bonds do not otherwise contravene the requirements of section 148 of the Code (relating to arbitrage) and, to the extent applicable, section 149(d) of the Code (relating to advance refundings); and

(h) to pay to the United States of America at least once during each five-year period (beginning on the date of delivery of the Series 2006 Bonds) an amount that is at least equal to 90 percent of the "Excess Earnings", within the meaning of section 148(f) of the Code and to pay to the United States of America, not later than 60 days after the Series 2006 Bonds have been paid in full, 100 percent of the amount then required to be paid as a result of Excess Earnings under section 148(f) of the Code.

The Corporation understands that the term "proceeds" includes "disposition proceeds" as defined in the Treasury Regulations and, in the case of a refunding bond, transferred proceeds (if any) and proceeds of the refunded bonds expended prior to the date of the issuance of the Series 2006 Bonds. It is the understanding of the Corporation that the covenants contained herein are intended to assure compliance with the Code and any regulations or rulings promulgated by the U.S. Department of the Treasury pursuant thereto. In the event that regulations or rulings are hereafter promulgated which modify or expand provisions of the Code, as applicable to the Series 2006 Bonds, the Corporation will not be required to comply with any covenant contained herein to the extent that such failure to comply, in the opinion of nationally-recognized bond counsel, will not adversely affect the exemption from federal income taxation of interest on the Series 2006 Bonds under section 103 of the Code. In the event that regulations or rulings are hereafter promulgated which impose additional requirements which are applicable to the Series 2006 Bonds, the Corporation agrees to comply with the additional requirements to the extent necessary, in the opinion of nationally-recognized bond counsel, to preserve the exemption from federal income taxation of interest on the Series 2006 Bonds under section 103 of the Code. In furtherance of the foregoing, any Authorized Representative may execute any certificates or other reports required by the Code and to make such elections, on behalf of the Corporation, which may be permitted by the Code as are consistent with the purpose for the issuance of the Series 2006 Bonds. In order to facilitate compliance with the above clause (h), there has been established in the Indenture a "Rebate Fund" for the sole benefit of the United States of America, and such Rebate Fund shall not be subject to the claim of any other person, including without limitation the Registered Owners of the Series 2006 Bonds. The Rebate Fund is established for the additional purpose of compliance with section 148 of the Code.

Section 8.2: Allocation of, and Limitation on, Expenditures for the Project. The Corporation covenants to account for on its books and records the expenditure of proceeds from the sale of the Series 2006 Bonds and any investment earnings thereon to be used for the payment of costs of the Project by allocating proceeds to expenditures within 18 months of the later of the date that (a) the expenditure on a Project is made or (b) each such Project is completed. The foregoing notwithstanding, the Corporation shall not expend such proceeds or investment earnings more than 60 days after the later of (a) the fifth anniversary of the date of delivery of the Series 2006 Bonds or

(b) the date the Series 2006 Bonds are retired, unless the Corporation obtains an opinion of nationally-recognized bond counsel substantially to the effect that such expenditure will not adversely affect the tax-exempt status of the Series 2006 Bonds. For purposes of this Section, the Corporation shall not be obligated to comply with this covenant if it obtains an opinion of nationally-recognized bond counsel to the effect that such failure to comply will not adversely affect the excludability for federal income tax purposes from gross income of the interest.

Section 8.3: Disposition of Project. The Corporation covenants that the property constituting a Project will not be sold or otherwise disposed in a transaction resulting in the receipt by the Corporation of cash or other compensation, unless the Corporation obtains an opinion of nationally-recognized bond counsel substantially to the effect that such sale or other disposition will not adversely affect the tax-exempt status of the Series 2006 Bonds. For purposes of this Section, the portion of the property comprising personal property and disposed of in the ordinary course of business shall not be treated as a transaction resulting in the receipt of cash or other compensation. For purposes of this Section, the Corporation shall not be obligated to comply with this covenant if it obtains an opinion of nationally-recognized bond counsel to the effect that such failure to comply will not adversely affect the excludability for federal income tax purposes from gross income of the interest on the Series 2006 Bonds.

ARTICLE IX

CONTINUING DISCLOSURE UNDERTAKING

Section 9.1: Annual Reports. (a) That the Corporation shall provide annually, within six months after the end of each Fiscal Year ending in or after 2006, financial information and operating data with respect to the Corporation of the general type described in Exhibit B hereto provided that such information and data is customarily prepared by the Corporation. Any financial statements so to be provided shall be (1) prepared in accordance with the accounting principles described in Exhibit B hereto, or such other accounting principles as the Corporation may be required to employ from time to time pursuant to state law or regulation, and (2) audited, if the Corporation commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within such period, then the Corporation shall provide unaudited financial statements by the required time and shall provide audited financial statements for the applicable fiscal year to each NRMSIR and any SID, when and if the audit report on such statements become available.

(b) If the Corporation changes its fiscal year, it will notify the SID of the change (and of the date of the new fiscal year end) prior to the next date by which the Corporation otherwise would be required to provide financial information and operating data pursuant to this Section. The financial information and operating data to be provided pursuant to this Section may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document, if it is available from the MSRB) that theretofore has been provided to the SID or filed with the SEC.

Section 9.2: Material Event Notices. The Corporation shall notify any SID and the MSRB, in a timely manner, of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
7. Modifications to rights of holders of the Bonds;
8. Bond calls;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the Bonds; and
11. Rating changes.

The Corporation shall notify any SID and the MSRB, in a timely manner, of any failure by the Corporation to provide financial information or operating data in accordance with Section 9.1 by the time required by such Section. Any filing under this Section may be made solely by transmitting such filing to the MAC as provided at http://www.disclosureusa.org, unless the SEC has withdrawn the interpretive advice stated in its letter to the MAC dated September 7, 2004.

Section 9.3: Limitations, Disclaimers, and Amendments. (a) The Corporation shall be obligated to observe and perform the covenants specified in this Article for so long as, but only for so long as, the Corporation remains an "obligated person" with respect to the Bonds within the meaning of the Rule, except that the Corporation in any event will give notice of any deposit made in accordance with this Resolution or applicable law that causes Bonds no longer to be Outstanding.

(b) The provisions of this Article are for the sole benefit of the holders and beneficial owners of the Bonds, and nothing in this Article, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The Corporation undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Article and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the Corporation's financial results, condition, or prospects or hereby undertake to update any information provided in accordance with this Article or otherwise, except as expressly provided herein. The Corporation does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

(c) UNDER NO CIRCUMSTANCES SHALL THE CORPORATION BE LIABLE TO THE HOLDER OR BENEFICIAL OWNER OF ANY SERIES 2006 BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE CORPORATION, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS ARTICLE, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

(d) No default by the Corporation in observing or performing its obligations under this Article shall comprise a breach of or default under this Resolution for purposes of any other provision of this Resolution. Nothing in this Article is intended or shall act to disclaim, waive, or otherwise limit the duties of the Corporation under federal and state securities laws.

(e) The provisions of this Article may be amended by the Corporation from time to time 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 Corporation, but only if (1) the provisions of this Article, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (A) the holders of a majority in aggregate principal amount (or any greater amount required by any other provision of this Resolution that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (B) a person that is unaffiliated with the Corporation (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the holders and beneficial owners of the Bonds. If the Corporation so amends the provisions of this Article, it shall include with any amended financial information or operating data next provided in accordance with Section 9.1 an explanation, in narrative form, of the reason for the amendment and of the impact of any change in the type of financial information or operating data so provided. The Corporation may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

ARTICLE X

AUTHORIZATION OF AGREEMENTS

The Board hereby approves issuance of the Series 2006 Bonds and all agreements determined by the Board to be necessary in connection with the issuance of the Series 2006 Bonds, including without limitation the following: the Indenture of Trust by and between the Corporation and Deutsche Bank Trust Company Americas, as Trustee, in substantially the form attached hereto as Exhibit B; the Paying Agent/Registrar Agreement by and between the Corporation and Deutsche Bank Trust Company Americas, in substantially the form attached hereto as Exhibit C; the Grant Agreement, in substantially the form attached hereto as Exhibit D; and any and all other documents and agreements reasonable and necessary to issue the Series 2006 Bonds, including, without limitation, any documents and agreements necessary to obtain municipal bond insurance in support of the debt service on the Series 2006 Bonds (collectively, the "Agreements"). To that end, should a municipal bond insurance policy be obtained, for so long as such policy is in effect, the requirements of the bond insurer relating to the issuance of said policy is incorporated by reference into this Resolution and made a part hereof for all purposes, notwithstanding any other provision of this

Resolution to the contrary. The Board, by a majority vote of its members, at a regular meeting, hereby approves the form, terms, and provisions of the Agreements and authorizes the execution and delivery of the Agreements.

ARTICLE XI

MISCELLANEOUS

Section 11.1: Further Proceedings. The President, any Vice President, the Secretary, the Treasurer and other appropriate officials of the Corporation are hereby authorized and directed to do any and all things necessary and/or convenient to carry out the intent, purposes and terms of this Resolution, including the execution and delivery of the Agreements and such certificates, documents or papers necessary and advisable.

Section 11.2: Severability. If any Section, paragraph, clause or provision of this Resolution shall for any reason be held to be invalid or unenforceable, the invalidity or unenforceability of such Section, paragraph, clause or provision shall not affect any of the remaining provisions of this Resolution.

Section 11.3: Open Meeting. It is hereby officially found and determined that the meeting at which this Resolution was adopted was open to the public, and that public notice of the time, place and purpose of said meeting was given, all as required by the Texas Open Meetings Act, Chapter 551, Texas Government Code.

Section 11.4: Parties Interested. Nothing in this Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the Corporation, the Registrar, and the Owners of the Series 2006 Bonds, any right, remedy or claim under or by reason of this Resolution or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in this Resolution shall be for the sole and exclusive benefit of the Corporation, the Registrar, and the Owners of the Series 2006 Bonds.

Section 11.5: Repealer. All orders, resolutions and ordinances, or parts thereof, inconsistent herewith are hereby repealed to the extent of such inconsistency.

Section 11.6: Effective Date. This Resolution shall become effective immediately upon passage by this Corporation and signature of the President of the Corporation.

PASSED AND APPROVED this 24th day of August, 2006.

By: ______________________

Name: Toby Hammett Futrell

Title: President

ATTEST:

By: ______________________

Name: Sue Edwards

Title: Secretary

EXHIBIT A:

FORM OF BOND

United States of America
State of Texas

Registered	Registered

MUELLER LOCAL GOVERNMENT CORPORATION
CONTRACT REVENUE BOND
SERIES 2006

INTEREST RATE: MATURITY DATE: DATED DATE: CUSIP:

REGISTERED OWNER:

PRINCIPAL AMOUNT: DOLLARS

The MUELLER LOCAL GOVERNMENT CORPORATION (the "Issuer"), a not-for-profit local government corporation created under authority of Chapter 431, Subchapter D, Texas Transportation Code (the "Act") by the City of Austin, Texas (the "City"), for value received, promises to pay, but solely from certain Pledged Revenues as hereinafter provided, to the Registered Owner identified above or registered assigns, on the Maturity Date specified above, upon presentation and surrender of this Bond at the designated corporate trust office in New York, New York (the "Designated Payment/Transfer Office") of Deutsche Bank Trust Company Americas, as registrar (the "Registrar"), the principal amount identified above, in any coin or currency of the United States of America which on the date of payment of such principal is legal tender for the payment of debts due the United States of America, and to pay, solely from such Pledged Revenues, interest thereon at the rate shown above, calculated on the basis of a 360-day year of twelve 30-day months, from the later of the Dated Date of the Bonds specified above, or the most recent interest payment date to which interest has been paid or duly provided for. Interest on this Bond is payable by check on September 1 and March 1, beginning on September 1, 2007, mailed to the Registered Owner as shown on the books of registration kept by the Registrar as of the fifteenth day of the month next preceding each interest payment date (the "Record Date"), or by such other method, acceptable to the Registrar, requested by and at the risk and expense of the Registered Owner. If interest on this Bond is not paid on any interest payment date specified above, and continues unpaid for thirty (30) days thereafter, the Registrar shall establish a new Record Date for the payment of such interest (a "Special Record Date"). Such Special Record Date shall be established in accordance with the terms of the hereinafter defined Resolution.

IF THE DATE for the payment of the principal of or interest on this Bond shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

THIS BOND IS ONE OF A DULY AUTHORIZED SERIES OF BONDS dated as of the Dated Date of the Bonds specified above, aggregating $12,000,000, issued for the purpose of (1) paying costs of public infrastructure improvements, as described in the Resolution and (2) paying Costs of Issuance, all under and pursuant to the authority of the Act and all other applicable laws, an Indenture of Trust dated as of August 1, 2006 (the "Indenture"), between the Issuer and Deutsche Bank Trust Company Americas, as trustee (the "Trustee"), and a resolution adopted by the Issuer on August 24, 2006 (the "Resolution"). All defined terms not herein defined shall have the meaning attributed thereto in accordance with the terms of the Resolution.

THIS BOND AND THE SERIES OF WHICH IT IS A PART are limited obligations of the Issuer that are payable from, and are equally and ratably secured by a first lien on the "Pledged Revenues", as defined and provided in the Indenture of Trust, which Pledged Revenues are required to be set aside and pledged to the payment of the Bonds and all additional bonds and parity contractual obligations issued or entered into on a parity therewith, in the Debt Service Fund maintained for the payment of all such Bonds, all as more fully described and provided for in the Resolution. This Bond and the series of which it is a part, together with the interest thereon, are payable solely from such Pledged Revenues.

ON SEPTEMBER 1, 2016, or on any date thereafter, the Bonds of this Series maturing on September 1, 2017 and thereafter may be redeemed prior to their scheduled maturities, at the option of the Issuer, in whole, or in part, at par and accrued interest to the date fixed for redemption. The years of maturity of the Bonds called for redemption at the option of the Issuer prior to stated maturity shall be selected by the Issuer. The Bonds or portions thereof redeemed within a maturity shall be selected by lot or other method by the Paying Agent/Registrar; *provided*, that during any period in which ownership of the Bonds is determined only by a book entry at a securities depository for the Bonds, if fewer than all of the Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds of such maturity and bearing such interest rate shall be selected in accordance with the arrangements between the Issuer and the securities depository.

THE BONDS maturing on September 1, 2025 are subject to mandatory sinking fund redemption prior to maturity in the respective amounts, on the respective dates, at a price of par plus accrued interest to the respective redemption dates as follows:

Redemption Date	Principal Amount
September 1, 2024	$870,000
September 1, 2025*	$910,000*

* Stated Maturity

THE PRINCIPAL AMOUNT of the Bonds required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the Issuer by the principal amount of any Bonds of the stated maturity which, at least 50 days prior to a mandatory redemption date, (1) shall have been acquired by the Issuer at a price not exceeding the principal amount of such Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and cancelled by the Paying Agent/Registrar at the request of the Issuer with monies in the Debt Service Fund at a price not exceeding the principal amount of the Bonds plus accrued interest to the date of purchase thereof, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory sinking fund redemption requirement.

AT LEAST 30 days prior to the date fixed for any such redemption a written notice of such redemption shall be given to the registered owner of each Bond or a portion thereof being called for redemption by depositing such notice in the United States mail, first class postage prepaid, addressed to each such registered owner at his address shown on the Registration Books of the Paying Agent/Registrar, and to major securities depositories, national bond rating agencies and bond information services. By the date fixed for any such redemption due provision shall be made by the Issuer with the Paying Agent/Registrar for the payment of the required redemption price for this Bond or the portion hereof which is to be so redeemed, plus accrued interest thereon to the date fixed for redemption. If such notice of redemption is given, and if due provision for such payment is made, all as provided above, this Bond, or the portion hereof which is to be so redeemed, thereby automatically shall be redeemed prior to its scheduled maturity, and shall not bear interest after the date fixed for its redemption, and shall not be regarded as being outstanding except for the right of the registered owner to receive the redemption price plus accrued interest to the date fixed for redemption from the Paying Agent/Registrar out of the funds provided for such payment. The Paying Agent/Registrar shall record in the Registration Books all such redemptions of principal of this Bond or any portion hereof. If a portion of any Bond shall be redeemed a substitute Bond or Bonds having the same maturity date, bearing interest at the same rate, in any denomination or denominations in any integral multiple of $5,000, at the written request of the registered owner, and in aggregate principal amount equal to the unredeemed portion thereof, will be issued to the registered owner upon the surrender thereof for cancellation, at the expense of the Issuer, all as provided in the Resolution.

THIS BOND IS TRANSFERABLE only upon presentation and surrender at the Designated Payment/Transfer Office of the Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Owner or his authorized representative, subject to the terms and conditions of the Resolution.

THIS BOND IS EXCHANGEABLE at the Designated Payment/Transfer Office of the Registrar for Bonds in principal amounts only in Authorized Denominations, subject to the terms and conditions of the Resolution.

NEITHER THE ISSUER NOR THE REGISTRAR shall be required (i) to make any transfer or exchange of any Bond during the period beginning at the opening of business 15 days before the day of the first mailing of a notice of redemption of Bonds and ending at the close of business on the day of such mailing, or (ii) to transfer or exchange any Bonds so selected for redemption when such redemption is scheduled to occur within 30 calendar days; provided, however, such limitation shall not be applicable to an exchange by the registered owner of the uncalled principal balance of a Bond.

DURING ANY PERIOD in which ownership of the Bonds is determined only by a book entry at a securities depository for the Bonds, if fewer than all of the Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds of such maturity and bearing such interest rate shall be selected in accordance with the arrangements between the Issuer and the securities depository; provided, however, that no Bonds shall be redeemed in a manner where the beneficial owner thereof shall own Bonds in any Authorized Denomination.

THIS BOND shall not be valid or obligatory for any purpose or be entitled to any benefit under the Resolution unless this Bond is either (i) registered by the Comptroller of Public Accounts of the State of Texas by registration certificate attached or affixed hereto or (ii) authenticated by the Registrar by due execution of the authentication certificate endorsed hereon.

THE ISSUER HAS RESERVED THE RIGHT to issue additional parity Tax Increment Contract Revenue Bonds, subject to the restrictions contained in the Indenture and the Resolution, which may be equally and ratably payable from, and secured by a first lien on and pledge of, the Pledged Revenues in the same manner and to the same extent as this Bond and the series of which it is a part.

THE BONDS ARE A LIMITED OBLIGATION OF THE CORPORATION, PAYABLE SOLELY OUT OF THE TRUST ESTATE HELD BY THE TRUSTEE UNDER THE TERMS OF THE INDENTURE, WHICH IS THE SOLE ASSET OF THE CORPORATION PLEDGED THEREFOR. THE BONDS ARE OBLIGATIONS SOLELY OF THE CORPORATION AND DO NOT CONSTITUTE, WITHIN THE MEANING OF ANY STATUTORY OR CONSTITUTIONAL PROVISION, AN INDEBTEDNESS, AN OBLIGATION OR A LOAN OF CREDIT OF THE CITY, THE STATE OF TEXAS, OR ANY OTHER MUNICIPALITY, COUNTY, OR OTHER MUNICIPAL OR POLITICAL CORPORATION OR SUBDIVISION OF THE STATE OF TEXAS. THE CITY IS NOT OBLIGATED TO MAKE PAYMENTS ON THE BONDS, OTHER THAN AS OTHERWISE PROVIDED FOR IN THE INDENTURE.

IT IS HEREBY DECLARED AND REPRESENTED that this Bond has been duly and validly issued and delivered; that all acts, conditions, and things required or proper to be performed, exist, and be done precedent to or in the issuance and delivery of this Bond have been performed, existed, and been done in accordance with law; that the Bonds do not exceed any statutory limitation; and that provision has been made for the payment of the principal of and interest on this Bond and all of the Bonds by the creation of the aforesaid lien on and pledge of the Pledged Revenues.

IN WITNESS WHEREOF, the Issuer has caused this Bond to be executed by the manual or facsimile signatures of the President and the Secretary.

MUELLER LOCAL GOVERNMENT CORPORATION

____
President, Board of Directors

____
Secretary, Board of Directors

(SEAL)

FORM OF REGISTRATION CERTIFICATE

COMPTROLLER'S REGISTRATION CERTIFICATE: REGISTER NO. _____

I hereby certify that this Bond has been examined, certified as to validity, and approved by the Attorney General of the State of Texas, and that this Bond has been registered by the Comptroller of Public Accounts of the State of Texas.

WITNESS MY SIGNATURE AND SEAL this ______________________.

____
Comptroller of Public Accounts
of the State of Texas

(SEAL)

FORM OF REGISTRAR'S AUTHENTICATION CERTIFICATE

AUTHENTICATION CERTIFICATE

It is hereby certified that this Bond has been delivered pursuant to the Bond Resolution described in the text of this Bond; and that this Bond is one of a series of Bonds approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

Deutsche Bank Trust Company Americas, as Registrar

By: ______________________________
Authorized Signature

Date of Authentication: ______________

FORM OF ASSIGNMENT

ASSIGNMENT

For value received, the undersigned hereby sells, assigns, and transfers unto

____

(Please print or type name, address, and zip code of Transferee)

____

(Please insert Social Security or Taxpayer Identification Number of Transferee)
the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints

____

attorney to transfer said Bond on the books kept for registration thereof, with full power of substitution in the premises.

DATED:____________________ ______________________________________

Signature Guaranteed: ______________________________________

Registered Owner

NOTICE: The signature above must correspond to the name of the Registered Owner as shown on the face of this Bond in every particular, without any alteration, enlargement or change whatsoever.

____

NOTICE: Signature must be guaranteed by an institution which is a participant in the Securities Transfer Agent Medallion Program ("STAMP") or similar program.

Exhibit B
to
Resolution

DESCRIPTION OF ANNUAL FINANCIAL INFORMATION

The following information is referred to in Section 9.1 of this Resolution.

Annual Financial Statements and Operating Data

The quantitative financial information and operating data with respect to the City of the general type included in the Official Statement under the heading"General Fund Revenues and Expenditures and Changes in Fund Balance"; under the subheadings "Municipal Sales and Use Tax" and "Transfers from Utility Fund" under the heading "Certain General Fund Receipts other than Ad Valorem Taxes"; the subheadings "Tax Valuation" (with respect to the appraised value as of January 1 during the fiscal year as to which such annual report relates), "Valuation and Funded Debt History", "Tax Rate, Levy and Collection History", "Ten Largest Taxpayers", and "Property Tax Rate Distribution" under the heading "Tax Information"; and under the heading "Current Investments".

The portions of the financial statements of the City appended to the Official Statement as Appendix B, but for the most recently concluded fiscal year.

Accounting Principles

The accounting principles referred to in such Section are the accounting principles described in the notes to the financial statements referred to in the above paragraph.

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

Reference is hereby made to the Indenture for a complete description of the terms and conditions set forth therein. A copy of the Indenture can be obtained from the representative of the City shown in the Official Statement.

Section 1.01. Definitions. Unless otherwise expressly provided or unless the context clearly requires otherwise, the following terms shall have the respective meanings specified below or in the Bond Resolutions for all purposes of the Indenture:

"Accounting Principles" shall mean the accounting principles described in the notes to the Audit as such principles may be changed from time to time to comply with State laws or regulations.

"Act" shall mean Chapter 431, Texas Transportation Code.

"Additional Parity Bonds" shall mean the additional parity Contract Revenue Bonds permitted to be issued by the Corporation pursuant to Section 3.02 of the Indenture.

"Annual Debt Service" shall mean for any annual period (any Fiscal Year or any other twelve (12) consecutive calendar month period), while Bonds are Outstanding, an amount equal to the sum of (i) all interest on such Bonds which is due during such period, plus (ii) that portion of the Principal Installment or Installments of such Bonds which is due during such period, as limited and calculated in the following manner:

(a) Except as modified below, (i) for any twelve (12) consecutive calendar month period other than the calendar year, whether or not such period constitutes the Corporation's current Fiscal Year or any future Corporation Fiscal Year, the aggregate amount of interest on and Principal Installment of the Bonds which was paid or redeemed or is scheduled to accrue and be paid or redeemed during such twelve (12) consecutive month period; and (ii) for any Fiscal Year while the Corporation's Fiscal Year is the same as the calendar year, the aggregate amount of interest on and Principal Installment of the Bonds which was paid or redeemed or is scheduled to accrue and be paid or redeemed after a Principal Installment Payment Date within such Fiscal Year and on or before the next following Principal Installment Payment Date; and

(b) As to any annual period prior to the date of any calculation, such requirements shall be calculated solely on the basis of Bonds which were Outstanding as of the first (1st) day of such period; and as to any future year such requirements shall be calculated solely on the basis of Bonds Outstanding as of the date of calculation; and

(c) Notwithstanding the foregoing, all amounts which have been or are expected to be realized as interest and investment earnings on amounts on deposit in the Debt Service Fund (other than those amounts which are to be deposited into the Rebate Fund pursuant to Section 4.05 of the Indenture) and which are used or scheduled to be used to pay interest on or Principal Installments of Bonds during any annual period, shall be deemed to reduce the Annual Debt Service for any such annual period to the extent of such deposits; and the amount of such deposits shall be excluded from and shall not constitute Annual Debt Service for any such annual period.

"Authorized Representative" shall mean the President or any Vice President of the Corporation, the Treasurer of the Corporation, or any other person designated to perform a specified act, to sign a specified document or to act generally on behalf of the Corporation by a written instrument furnished to the Trustee.

"Average Annual Debt Service" shall mean the total Debt Service (as of the date of the calculation) divided by the remaining number of years until the final maturity of the Bonds. The Average Annual Debt Service calculated under the Indenture shall remain in effect until the next date when such calculation is required under the Indenture. For the purposes of calculating the Average Annual Debt Service, any fractional year shall be included in the calculation as a full year.

"Board" shall mean the Board of Directors of the Corporation.

"Bond Counsel" shall mean such nationally recognized firm expert in matters relating to public finance law and the federal income tax laws relating to the issuance of municipal bonds engaged by the Corporation.

"Bond Resolutions" shall mean the resolutions from time to time adopted by the Corporation authorizing the Contract Revenue Bonds.

"Bonds" or "Contract Revenue Bonds" shall mean one or more Series of bonds issued by the Corporation pursuant to the Indenture and the Bond Resolutions.

"Business Day" shall mean any day which is not a Saturday, Sunday, a day on which banking institutions in the city where the Designated Payment/Transfer Office (as defined in a Bond Resolution) of the Paying Agent/Registrar is located are authorized by law or executive order to close, or a legal holiday.

"Certificate of Appropriation" shall have the meaning given said term in Section 6.14 of the Indenture.

"Chapter 380 Program" shall mean the economic development grant program the City Council adopted pursuant to Chapter 380 of the Texas Local Government Code.

"City" shall mean the City of Austin, Texas.

"Code" shall mean the Internal Revenue Code of 1986, as amended, and the applicable provisions of any future federal income tax laws.

"Corporation" shall mean the Mueller Local Government Corporation.

"Costs of Issuance" shall mean all charges, costs and expenses of the Corporation incurred in connection with the authorization, issuance, sale and delivery of Contract Revenue Bonds including, but not limited to, legal fees, financial advisory fees, bond insurance premiums, fiscal or escrow agent fees, printing fees, accounting fees, consultant fees, verification fees, travel expenses, rating agency fees, fees of the Trustee and its counsel and Attorney General fees.

"Debt Service" shall mean the Principal Installments and interest on the Bonds.

"Debt Service Fund" shall mean the fund so designated and created pursuant to Article IV of the Indenture.

"Eligible Investments" shall mean any investments which the City is permitted to make under the laws of the State of Texas, including the Public Funds Investment Act, Chapter 2256, Texas Government Code, as described in the City's investment policy approved by the City Council.

"Event of Nonappropriation" shall mean the failure of the City to deliver a Certificate of Appropriation in accordance with the provisions of Section 6.14 of the Indenture.

"Event of Default" shall mean any Event of Default described in Section 6.01 of the Indenture.

"Exempt Securities" shall mean bonds or other evidences of obligations, the interest on which is exempt from federal income taxation under Section 103(a) of the Code.

"Fair Market Value" shall mean as of any particular date:

(a) as to Eligible Investments the bid and asked prices of which are published on a regular basis in a financial journal or publication of general circulation in the United States of America, the bid price for such Eligible Investments so published on, or most recently prior to, the date of valuation by the Trustee, or, in the alternative, the bid price for such Eligible Investments as provided by a pricing service selected by the Trustee, or

(b) as to Eligible Investments the bid and asked prices of which are not published on a regular basis in a financial journal or publication of general circulation in the United States of America, the average bid price on such Eligible Investments at the date of valuation by the Trustee, as reported to the Trustee by any two nationally recognized dealers (in the opinion of the Trustee) in such Eligible Investments.

"Fiscal Year" shall mean the twelve (12) month period commencing on October1 of a calendar year and ending September 30 of the next succeeding calendar year, or such other consecutive twelve (12) month period as determined by the Corporation.

"Fund" shall mean any one or more, as the case may be, of the separate special Funds created and established or required to be maintained pursuant to the Indenture.

"Grant Agreement" shall mean the Grant Agreement between the City and the Corporation.

"Grant Payments" shall mean payments granted to the Corporation by the City pursuant to the Chapter 380 Program in accordance with the terms and provisions of the Grant Agreement.

"Interest Account" shall mean the account so designated and created within the Debt Service Fund pursuant to Article IV of the Indenture.

"Interest Payment Date" shall mean March 1 and September 1 in such years as shall be determined in accordance with the terms of the Bond Resolution governing the issuance of the Series of Bonds.

"Mandatory Redemption Installment" shall mean, as of any particular date of calculation and with respect to any Series of Bonds, the amount of money to be applied to the mandatory redemption (including any mandatory redemption premium, if any) of Bonds in any Fiscal Year prior to maturity pursuant to the Indenture or any Bond Resolution, as such Mandatory Redemption Installment shall have been previously reduced by the principal amount of any Bonds of such Series of the maturity with respect to which such Mandatory Redemption Installment is payable which are purchased or redeemed by the Trustee in accordance with the provisions of the Indenture or of any Bond Resolution, other than a Mandatory Redemption Installment redemption or purchase.

"Master Development Agreement" shall mean the Master Development Agreement with Catellus Austin, LLC, effective as of December 2, 2004.

"Maximum Annual Debt Service" shall mean the greatest amount of the Annual Debt Service calculated for any future Fiscal Year, taking into account any Mandatory Redemption Installments scheduled to be payable on any Series of Bonds.

"Other Revenues" shall mean any monies deposited to the credit of the Pledged Revenue Fund that are designated by the Corporation to be pledged as a Pledged Revenue.

"Outstanding" when used with reference to Bonds, shall mean, as of a particular date, all Bonds theretofore and thereupon delivered except: (a) any Bond cancelled by or on behalf of the Corporation or delivered to the Registrar for cancellation at or before said date, (b) any Bond defeased or no longer considered Outstanding pursuant to the provisions of the Resolution or otherwise defeased as permitted by applicable law, and (c) any such Bond in lieu of or in substitution for which another Bond shall have been delivered pursuant to the Resolution.

"Owner" or "Registered Owner", when used with respect to any Bond shall mean the person or entity in whose name such Bond is registered in the 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 the Resolution.

"Parity Bonds" shall mean the Bonds and each Series of Additional Parity Bonds from time to time hereafter issued, but only to the extent such Parity Bonds remain Outstanding.

"Paying Agent/Registrar" shall mean the bank or trust company so designated in the Bond Resolutions.

"Pledged Revenue Fund" shall mean the fund so designated and created pursuant to Article IV of the Indenture.

"Pledged Revenues" shall have the meaning assigned to that term in Article II of the Indenture.

"Principal Account" shall mean the account so designated and created within the Debt Service Fund pursuant to Article IV of the Indenture.

"Principal Installment" shall mean, as of any particular date of computation, an amount of money equal to the aggregate of (a) the principal amount of Outstanding Bonds of a Series which mature on a single future date, reduced by the aggregate principal amount of such Outstanding Bonds of such Series which would at or before said future date be retired as a result of Mandatory Redemption Installments applied in accordance with the Indenture plus (b) the amount of any Mandatory Redemption Installment payable on said future date for the retirement of any Outstanding Bonds of said Series.

"Principal Installment Payment Date", when used in connection with any Bond, shall mean September 1 in each year such Bonds are scheduled to mature, as determined in accordance with the terms of the Bond Resolution governing the issuance of the Series of such Bonds.

"Project Costs" shall mean the Public Finance Reimbursable Project Costs as defined in the Master Agreement, and as further described in a Bond Resolution.

"Public Finance Fund" shall mean the fund so designated and created pursuant to Article IV of the Indenture.

"Rebate Fund" shall mean the fund so designated and created pursuant to Article IV of the Indenture.

"Register" or "Bond Register" shall mean the books of registration kept by the Registrar in which are maintained the names and addresses of, and the principal amounts of the Bonds registered to, each Owner.

"Regulations" shall mean the Income Tax Regulations promulgated under the Code.

"Series" shall mean all of the Bonds authenticated and delivered on issuance and pursuant to the Indenture or any Bond Resolution authorizing the issuance of such Bonds as a separate series of Bonds or any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds.

"State" shall mean the State of Texas.

"Subordinate Lien Obligations" shall mean any bonds, notes or other obligations, including contractual obligations incurred by the Corporation, secured in whole or in part by liens on the Pledged Revenues that are junior and subordinate to the lien on Pledged Revenues securing payment of the Contract Revenue Bonds.

"TIRZ Sixteen" shall mean Tax Increment Financing Reinvestment Zone Number Sixteen, City of Austin, Texas.

"Transfer Date" shall mean February 15, 2007, and each August 15 and February 15 thereafter for so long as the Indenture is in effect.

"Trustee" shall mean Deutsche Bank Trust Company Americas, and its successors in that capacity.

Section 2.01. Granting Clauses. In order to secure the payment of the principal of, redemption premium, if any, and interest on all Contract Revenue Bonds as the same are issued and become due and payable, whether at maturity or by prior redemption, and the performance and observance of all of the covenants and conditions herein contained, and in consideration of the premises, the acceptance by the Trustee of the trusts hereby created, the purchase and acceptance of the Contract Revenue Bonds by the Owners thereof, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Corporation does hereby GRANT, BARGAIN, CONVEY, ASSIGN and PLEDGE to the Trustee and its successors in trust hereunder, subject to the provisions of the Indenture, all of the Corporation's right, title and interest in and to the following described properties and interests, direct or indirect, whether now owned or hereafter acquired (collectively, the "Pledged Revenues" or the "Trust Estate"):

(a) All of the Corporation's right, title and interest under the Grant Agreement, including the right, title and interest of the Corporation to the Grant Payments the Corporation is entitled to receive thereunder.

(b) Other Revenues.

(c) All moneys deposited or required to be deposited in the Pledged Revenue Fund, the Debt Service Fund and the Public Finance Fund held by the Trustee pursuant to the provisions of the Indenture and all interest earnings and investment income therefrom, other than any amount required to be rebated to the United States under Section 148(f) of the Code and deposited to Rebate Fund pursuant to Section 4.05.

(d) Any and all property of every kind and nature (including without limitation, cash, obligations or securities) which may from time to time hereafter be conveyed, assigned, hypothecated, endorsed, pledged, mortgaged, granted, or delivered to or deposited with, the Trustee as additional security hereunder by the Corporation, or anyone on behalf of the Corporation, or which pursuant to any of the provisions hereof may come into the possession or control of the Trustee as security hereunder, or of a receiver lawfully appointed hereunder, all of which property the Trustee is authorized to receive, hold and apply according to the terms hereof.

Section 3.01. Authorization of Contract Revenue Bonds. (a) The Contract Revenue Bonds may be authorized from time to time by the Corporation pursuant to Bond Resolutions duly adopted by the Board, which Bond Resolutions shall specify or provide for the dates, denominations, principal amounts, interest rates, maturities, redemption provisions, forms of bonds, manner of payment, provision for execution and authentication, application of proceeds and all other terms and provisions of the Contract Revenue Bonds not otherwise provided herein.

(b) At or prior to the issuance of each series of Contract Revenue Bonds pursuant to any Bond Resolution, the Corporation shall provide to the Trustee the following:

(1) a certified copy of the Bond Resolution;

(2) the approving opinion of the Corporation's Bond Counsel with respect to such Series of Contract Revenue Bonds to the effect (i) that the Bonds are valid and binding obligations of the Corporation except to the extent that their enforceability may be limited by applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and except that such enforceability is subject to general principles of equity and the exercise of judicial discretion (regardless of whether such enforceability is considered in a proceeding in law or at equity), and (ii) that the Bonds are issued pursuant to the terms of the Indenture;

(3) if such Series of Contract Revenue Bonds are being issued to refund any previously issued Contract Revenue Bonds, the identity, redemption date and redemption price of the Contract Revenue Bonds to be refunded; and

(4) a Debt Service schedule with regard to such Series of Contract Revenue Bonds and all Contract Revenue Bonds that will then be Outstanding after the issuance of such series of Contract Revenue Bonds and refunding of any Contract Revenue Bonds being refunded thereby.

Section 3.02. Additional Parity Bonds. The Corporation reserves the right to issue, for any lawful purpose (including the refunding of any previously issued or incurred Contract Revenue Bonds), one or more series of Additional Parity Bonds payable from and secured by a first lien on the Pledged Revenues, on a parity with the Bonds, and any previously issued Additional Parity Bonds; provided, however, that no Additional Parity Bonds may be issued unless:

(a) The Additional Parity Bonds mature on, and interest is payable on, the Principal Installment Payment Dates and Interest Payment Dates, respectively; and

(b) The Corporation is not in material default with the terms of the Indenture, any Bond Resolution, the Grant Agreement or any other agreement to which it is a party and has so certified.

The foregoing notwithstanding, the aggregate principal amount of Contract Revenue Bonds that may be issued that are secured by a first lien on and pledge of the Trust Estate shall not exceed $15,000,000.

Section 3.03. Subordinate Lien Obligations. The Corporation reserves the right to issue, for any lawful purpose, Subordinate Lien Obligations secured in whole or in part by liens on the Pledged Revenues that are junior and subordinate to the lien on Pledged Revenues securing payment of the Contract Revenue Bonds. Such Subordinate Lien Obligations may be further secured by any other source of payment lawfully available for such purposes.

Section 4.01. Creation of Funds. There are hereby created the following Funds:

(A) Pledged Revenue Fund;

(B) Debt Service Fund;

(C) Public Finance Fund; and

(D) Rebate Fund.

Each Fund shall be maintained by the Trustee separate and apart from all other funds of the Corporation. The Pledged Revenue Fund, the Debt Service Fund and the Public Finance Fund shall constitute trust funds which shall be held in trust by the Trustee solely for the benefit of the Owners of the Contract Revenue Bonds. The Trustee, at its discretion or upon the written direction of the Corporation, may establish accounts within any Fund to enable the more efficient management of the monies on deposit in any such Fund.

Section 4.02. Pledged Revenue Fund. There is hereby created and established with the Trustee a fund to be designated the "Pledged Revenue Fund". Immediately upon receipt thereof, the Corporation shall deposit into the Pledged Revenue Fund all Grant Payments and any Other Revenues. Money in the Pledged Revenue Fund shall be held in trust by the Trustee and, upon receipt of written instructions from an Authorized Representative, shall be applied on each Transfer Date in the following manner and order of priority:

(A) First, to the Interest Account amounts necessary to make the amounts on deposit therein equal to the interest due on the Contract Revenue Bonds on the next succeeding Interest Payment Date;

(B) Second, to the Principal Account amounts necessary to make the amounts on deposit therein equal to one-half of the Principal Installments, and premium, if any, due on the Bonds on the next succeeding Principal Installment Payment Date;

(C) Third, to the payment of the fees and expenses of the Trustee and Paying Agent/Registrar due and owing, for the next six (6) month period;

(D) Fourth, to any fund or account created for the benefit of any Subordinate Lien Obligations issued or incurred by the Corporation; provided that immediately prior to any such transfers the deposits required by Sections 4.02(A) through (C) above have been made or provided for; and

(E) Fifth, as directed by the Corporation, for any lawful purpose as may be approved by the City for the payment of Project Costs; provided that immediately prior to any such transfers the deposits required by Sections 4.02(A) through (D) above have been made or provided for.

The written directions provided by the Corporation shall be delivered to the Trustee on or before each Business Day next preceding a Transfer Date. The Trustee is hereby authorized to rely upon such written directions delivered to it by the Corporation.

Section 4.03. Debt Service Fund. There is hereby created and established with the Trustee a fund to be designated the "Debt Service Fund". Within the Debt Service Fund, there are hereby created and established accounts to be designated the "Interest Account" and the "Principal Account". Money in the Debt Service Fund shall be held in trust by the Trustee. The Corporation shall deposit or cause to be deposited into the Debt Service Fund accrued interest on the Contract Revenue Bonds, moneys designated by the Corporation as capitalized interest on the Contract Revenue Bonds, transfers from the Pledged Revenue Fund as provided in Section 4.02, and, to the extent necessary, other Pledged Revenues in such amounts and at such times to provide that amounts necessary to pay interest and Principal Installments due on the Contract Revenue Bonds in the then current Fiscal Year. The Trustee shall transfer on each Interest Payment Date and each Principal Installment Payment Date to the Paying Agent/Registrar such amounts in the Principal Account and the Interest Account to pay, respectively, Principal Installments and interest on the Contract Revenue Bonds as the same becomes due. The Trustee shall make all such transfers such that the Corporation shall be in compliance with the Principal and Interest Guidelines in the Operational Arrangement of The Depository Trust Company, as amended from time to time.

Section 4.04. Public Finance Fund. There is hereby created and established with the Trustee a fund to be designated the "Public Finance Fund". The Trustee, at the direction of the Corporation, may establish and create within the Public Finance Fund such number of accounts and subaccounts as the Corporation deems appropriate.

The Public Finance Fund and any accounts or subaccounts thereof shall initially be funded as provided in the Bond Resolutions. The money and securities in the Public Finance Fund shall be held in trust by the Trustee and applied as provided herein, and until such application, the money and securities in such fund shall be subject to a lien and charge in favor of the Owners of the Bonds.

(A) The Trustee is hereby authorized and directed to make disbursements from the Public Finance Fund and to issue its checks therefor or otherwise pay upon receipt of a requisition in accordance with Section 4.04(B). The Trustee shall keep and maintain adequate records pertaining to the Public Finance Fund and all disbursements therefrom.

(B) The Trustee shall use money in the Public Finance Fund solely to pay or reimburse the Corporation for Project Costs including Costs of Issuance and the repayment of any advances, loans, notes or other obligations used to finance Project Costs. Before any payment shall be made from the Public Finance Fund, there shall be filed with the Trustee a completed requisition, in the form attached hereto as Exhibit A, signed by an Authorized Representative of the Corporation. Upon receipt of such requisition, the Trustee shall make payment from the Public Finance Fund in accordance with such requisition.

Section 4.06. Investments; Earnings. Monies deposited into the Pledged Revenue Fund, the Debt Service Fund, and the Public Finance Fund shall be invested and reinvested in Eligible Investments as directed in writing to the Trustee by the Corporation; provided that all such Eligible Investments shall be directed by the Corporation in such manner that the money required to be expended from any Fund will be available at the proper time or times.

(A) All investments and any profits realized from or interest accruing on such investments shall belong to the Fund from which the monies for such investments were taken (except as otherwise expressly provided in the Indenture). All losses on investments shall be charged against the Fund to which such investments are credited. The Trustee shall have the right to have sold in the open market a sufficient amount of any such investments at any time that a Fund does not have sufficient uninvested funds on hand to meet the obligations payable out of such Fund. The Trustee shall not be liable or responsible for any loss resulting from any such investment or resulting from the sale of any such investment as herein authorized. The Trustee shall not be responsible for determining whether any Eligible Investments are legal investments under the laws of the State.

(B) At the direction of the Corporation, a portion of the investment income from any Fund may be paid directly to the Rebate Fund, free and clear of the lien and pledge of the Indenture, without regard to the provisions of Section 4.02, for payment to the United States pursuant to Section 4.05 in order to maintain the tax-exempt status of the Bonds.

(C) The Trustee may make any investment through its own investment department. As amounts invested are needed for disbursement from any Funds, the Trustee shall cause a sufficient amount of the investments credited to that Fund to be redeemed or sold and converted into cash to the credit of that Fund. Securities transaction charges incident to any purchase, sale, or redemption of Eligible Investments shall be charged to the Corporation.

(D) The Corporation by its execution of the Indenture covenants to restrict the investment of money in the Funds created under the Indenture in such manner and to such extent, if any, as may be necessary, after taking into account reasonable expectations at the time the Bonds are delivered to their original purchaser, so that the Bonds will not constitute arbitrage bonds under the Code and applicable Regulations, and the Trustee hereby agrees to comply with the Corporation's instructions with respect to the investment of money in the Funds created under the Indenture.

(E) The Corporation has covenanted to provide the Trustee with written instructions to assure that any amounts that, in accordance with the Code and applicable regulations, are required to be invested at a restricted yield will be invested either (i) in Exempt Securities or (ii) at a yield that is not materially higher than the yield on the Bonds, determined in accordance with the Code and applicable Regulations, unless in the opinion of Bond Counsel, investment of such at a higher rate will not adversely affect the exclusion from gross income of interest on the Contract Revenue Bonds for federal income tax purposes. For the purpose of applying this Section, amounts on deposit in each Fund shall be accounted for on a first in, first out basis. The Trustee, at the Corporation's direction, is authorized to yield restrict any investment in accordance with Article VIII of the Bond Resolutions.

(F) For the purpose of determining the amount on deposit to the credit of any such Fund, obligations in which money in such Fund shall have been invested shall be valued at the Fair Market Value. The Trustee shall provide a valuation of the Eligible Investments in the Funds established under the Indenture as of the last Business Day of each month and at the time or times withdrawals are made therefrom. If the Corporation shall fail to so direct investments, the Trustee shall invest the affected moneys in a money market mutual fund managed by the Trustee whose underlying assets meet the requirements of Chapter 2256, Texas Government Code, and which is rated in the highest rating category issued by a nationally recognized municipal securities rating agency.

Section 5.01. Payment of Contract Revenue Bonds. The Corporation covenants to promptly pay or cause to be paid the principal of, redemption premium, if any, and interest on the Contract Revenue Bonds as the same become due and payable, whether at maturity or by prior redemption, in accordance with the terms of the Contract Revenue Bonds and the Bond Resolutions; to pay when due all fees, charges and other amounts due to the Trustee and the Paying Agent/Registrar for the discharge of their duties hereunder; and to faithfully keep and perform all of its covenants, undertakings and agreements contained in the Indenture, the Grant Agreement, the Bond Resolutions and the Contract Revenue Bonds.

Section 5.04. Pledged Revenues Not Encumbered. The Pledged Revenues are not in any manner pledged to the payment of any debt or obligation of the Corporation other than the Contract Revenue Bonds. The Corporation covenants that it will not in any manner pledge or further encumber the Pledged Revenues unless such pledge or encumbrance is junior and subordinate to the lien and pledge hereunder securing the Contract Revenue Bonds.

Section 5.05. Amendment of Grant Agreement. The Corporation covenants not to cause any amendment of the Grant Agreement that will in any manner impair the rights of the Owners of the Contract Revenue Bonds.

Section 6.01. Events of Default. An Event of Default hereunder shall consist of any of the following acts or occurrences:

(A) failure to pay when due Principal Installments or interest on any Contract Revenue Bond; or

(B) failure to deposit to the Debt Service Fund money sufficient for the payment of any Principal Installments or interest payable on the Contract Revenue Bonds by no later than the date when such Principal Installment or interest becomes due and payable; or

(C) an Event of Nonappropriation shall have occurred and is continuing; or

(D) failure by the Corporation to observe or perform any other covenant, agreement or obligation on its part to be observed or performed contained in the Indenture or in the Contract Revenue Bonds, which failure shall have continued for a period of thirty (30) days after written notice, either by registered or certified mail, to the Corporation specifying the failure and requiring that it be remedied, which notice may be given by the Trustee in its discretion and shall be given by the Trustee at the written request of the Holders of not less than 25 percent (25%) in aggregate principal amount of the Contract Revenue Bonds then outstanding.

Section 6.04. Remedies in General. If an Event of Default hereunder shall occur and be continuing, then, in addition to all of the other rights and remedies granted to the Trustee hereunder, the Trustee in its discretion, subject to the provisions of the Indenture, may proceed to protect and enforce its rights and the rights of the Owners of Contract Revenue Bonds by suit, action or proceeding in equity or at law or otherwise, whether for the specific performance of any covenant or agreement contained in the Indenture, the Bond Resolutions or the Contract Revenue Bonds or in aid of the execution of any power granted in the Indenture or for the enforcement of any other legal, equitable or other remedy, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce any of the rights of the Trustee or such Owners of the Contract Revenue Bonds, including, without limitation, the right to seek a writ of mandamus issued by a court of competent jurisdiction compelling the members of the Board or other officers of the Corporation or the City to observe and perform such covenant, obligations or conditions of the Indenture or the Grant Agreement.

Section 6.05. Appointment of Receivers. If an Event of Default hereunder shall occur and be continuing, and upon filing of a bill in equity or commencement of other judicial proceedings to enforce the rights of the Trustee and the Owners hereunder, the Trustee shall be entitled as a matter of right, and to the extent permitted by law, to the appointment of a receiver or receivers of the Pledged Revenues and the income, rents, profits and use thereof pending such proceedings, with such powers as the court making such appointment shall confer.

Section 6.06. Trustee May Act Without Possession of Contract Revenue Bonds. All rights of action under the Indenture or under any Contract Revenue Bonds may be enforced by the Trustee without possession of any of the Contract Revenue Bonds or the production thereof on any trial or other proceedings relative thereto, and any such suit or proceedings instituted by the Trustee shall be brought in its name, as Trustee for the ratable benefit of the Owners of the Contract Revenue Bonds, subject to the provisions of the Indenture.

Section 6.08. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or under the Contract Revenue Bonds, or now or hereafter existing at law or in equity or by statute. Anything to the contrary herein notwithstanding, acceleration shall not be a remedy if an Event of Default occurs and is continuing. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

Section 6.09. Limitation on Suits. All rights of action in respect of the Indenture shall be exercised only by the Trustee, and no Owner of any Bond secured hereunder shall have any right to institute any suit, action or proceeding at law or in equity for the appointment of a receiver or for any other remedy hereunder or by reason hereof, unless and until the Trustee shall have received written request of the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Contract Revenue Bonds then Outstanding and shall have been furnished reasonable indemnity and shall have refused or neglected for ten (10) days thereafter to institute such suit, action or proceedings. The making of such request and the furnishing of such indemnity shall in each and every case be conditions precedent to the execution and enforcement by any Owner of any Bond of the powers and remedies given to the Trustee hereunder and to the institution and maintenance by any such Owner of any action or cause of action for the appointment of a receiver or for any other remedy hereunder, but the Trustee may, in its discretion, and when duly requested in writing by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Contract Revenue Bonds then Outstanding and when furnished indemnity satisfactory to protect it against expenses, charges and liability shall, forthwith, take such appropriate action by judicial proceedings or otherwise in respect of any existing default on the part of the Corporation as the Trustee may deem expedient in the interest of the Owners of the Contract Revenue Bonds.

Nothing contained in this Article, however, shall affect or impair the right of any Owner, which shall be absolute and unconditional, to enforce the payment of the Principal Installments and interest on the Contract Revenue Bonds of such Owner, but only out of the moneys for such payment as herein provided, or the obligation of the Corporation, which shall also be absolute and unconditional, to make payment of the Principal Installments and interest on the Contract Revenue Bonds issued hereunder, but only out of the funds provided herein for such payment, to the respective Owners thereof at the time and place stated in the Contract Revenue Bonds.

Section 6.10. Right of Owners of the Contract Revenue Bonds to Direct Proceedings. Notwithstanding any provision of the Indenture to the contrary, the Owners of a majority of the aggregate principal amount of the Contract Revenue Bonds then Outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture or for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee or any other proceedings hereunder; provided, however, that such direction shall not be contrary to law or the provisions of the Indenture, and the Trustee shall have the right to decline to follow any such direction if the Trustee in good faith shall determine that the proceeding so directed would involve it in personal liability or would be unjustly prejudicial to the Owners of the Contract Revenue Bonds not consenting. The Trustee may take any other action which is not inconsistent with the provisions of the Indenture or with any direction under this Section. Anything to the contrary herein notwithstanding, acceleration shall not be a remedy available to the Owners.

Section 6.14. Notices of Appropriation and Nonappropriation.

(a) The City is required, in accordance with the terms of the Grant Agreement, on or before the last day of each Fiscal Year, to deliver to the Corporation and the Trustee written certification of its appropriation of moneys in its budget sufficient to fund Grant Payments to be made by the City to the Corporation under the terms of the Grant Agreement during the succeeding Fiscal Year (a "Certificate of Appropriation").

(b) The Corporation shall additionally require the City to provide the Corporation and the Trustee with written notice within 72 hours of the action taken by the City that constitutes failure by the City to appropriate funds sufficient to pay the Grant Payments in the next succeeding Fiscal Year.

(c) In the event that the Trustee does not receive the Certificate of Appropriation from the City within the time period required in Section 6.14(a) hereof, the Trustee shall promptly give written notice thereof to the City and the Corporation. Thereafter, if the City fails to deliver the Certificate of Appropriation within ten calendar days of its receipt of the foregoing notice from the Trustee, the Trustee shall promptly give written notice to the Bondholders of its failure to timely receive the Certificate of Appropriation. The Trustee shall also give prompt written notification to the Bondholders of its receipt of a notice from the City pursuant to Section 6.14(b) hereof.

Section 7.01. Discharge and Release of Lien. When all Contract Revenue Bonds have been paid in full as to principal and as to interest and premium, if any, or when all Contract Revenue Bonds have become due and payable, whether at maturity or by prior redemption or otherwise, and the Corporation shall have provided for the payment of the whole amount due or to become due on all Contract Revenue Bonds then outstanding, including all interest which has accrued thereon or which may accrue to the date of maturity or redemption by depositing with the Trustee or the Paying Agent/Registrar, for payment of such outstanding Contract Revenue Bonds and the interest thereon and any premium which may be due thereon, the entire amount due or to become due thereon, or amounts and investments sufficient to provide for such payment as provided in the Bond Resolutions, and the Corporation shall also have paid or caused to be paid all sums payable hereunder by the Corporation, including the compensation due or to become due the Trustee, then the Trustee shall, upon receipt of a letter of instructions from the Corporation requesting the same, discharge and release the lien of the Indenture and execute and deliver to the Corporation such releases or other instruments as shall be required to release the lien hereof.

Section 9.01. Supplemental Indentures Not Requiring Consent of Owners of the Contract Revenue Bonds. The Corporation and the Trustee may, without the consent of the Owners of any of the Contract Revenue Bonds, enter into one or more supplemental indentures, which shall form a part hereof, for any one or more of the following purposes:

(a) to cure any ambiguity, inconsistency or formal defect or omission in the Indenture;

(b) to grant to or confer upon the Trustee for the benefit of the Owners of the Contract Revenue Bonds any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Owners of the Contract Revenue Bonds or the Trustee or either of them;

(c) to subject to the lien of the Indenture additional revenues, properties or collateral;

(d) to modify, amend or supplement the Indenture or any supplemental indenture in such manner as to provide further assurances that interest on the Contract Revenue Bonds will, to the greatest extent legally possible, be excludable from gross income for federal income tax purposes;

(e) to obtain bond insurance for any Contract Revenue Bond; and

(f) to permit the assumption of the Corporation's obligations hereunder by any other entity that may become the legal successor to the Corporation, or by the City;

provided, however, that no provision in such supplemental indenture shall be inconsistent with the Indenture or shall impair in any manner the rights of the Owners of the Contract Revenue Bonds.

The Trustee shall not be obligated to enter into any such supplemental indenture which adversely affects the Trustee's own rights, duties or immunities under the Indenture.

Section 9.02. Supplemental Indentures Requiring Consent of Owners of the Contract Revenue Bonds. Except as otherwise provided in the preceding Section, any modification, change or amendment of the Indenture may be made only by a supplemental indenture adopted and executed by the Corporation and the Trustee with the consent of the Owners of not less than a majority of the aggregate principal amount of the Contract Revenue Bonds then Outstanding.

Notwithstanding the preceding paragraph of this Section, no modification, change or amendment to the Indenture shall, without the consent of the Owner of each Bond so affected, extend the time of payment of the Principal Installments or interest thereon, or reduce the Principal Installments or premium, if any, thereon, or the rate of interest thereon, or make the Principal Installments or interest thereon payable in any coin or currency other than that hereinbefore provided, or deprive such Owner of the lien hereof on the revenues pledged hereunder. Moreover, without the consent of the Owner of each Bond then Outstanding, no modification, change or amendment to the Indenture shall permit the creation of any lien on the revenues pledged hereunder equal or prior to the lien hereof, or reduce the aggregate principal amount of Contract Revenue Bonds, the Owners of which are required to approve any such modification, change or amendment of the Indenture.

Section 9.03. Consents. Consents required pursuant to this Article shall be valid only if given following the giving of notice by or on behalf of the Corporation requesting such consent, setting forth the substance of the supplemental indenture in respect of which such consent is sought and stating that copies thereof are available at the office of the Trustee for inspection, to the Owners of Contract Revenue Bonds whose consent is required in accordance with the provisions of this Article. Such notice shall be given by sending such notice by United States mail, first class postage prepaid, to the registered Owners of such Contract Revenue Bonds. Any consent or other action by an Owner of any Bond in accordance with this Article shall bind every future owner of the same Bond and the Owner of any Bond issued in exchange therefor or in lieu thereof.

Section 9.04. Delivery of Counsel's Opinion with Respect to Supplemental Indentures. Subject to the provisions of Section 8.01, the Trustee in executing or accepting the additional trusts permitted by this Article or the modifications thereby of the trusts created by the Indenture may rely, and shall be fully protected in relying, on an opinion of counsel acceptable to it stating that (a) the execution of such supplemental indenture is authorized or permitted by the Indenture and (b) all conditions precedent to the execution and delivery of such supplemental indenture have been complied with, and an opinion of Bond Counsel that the execution and performance of such supplemental indenture shall not, in and of itself, adversely affect the federal income tax status of the Contract Revenue Bonds.

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APPENDIX E

FORM OF BOND COUNSEL'S OPINION

MUELLER LOCAL GOVERNMENT CORPORATION
CONTRACT REVENUE BONDS, SERIES 2006,
IN THE PRINCIPAL AMOUNT OF $12,000,000

AS BOND COUNSEL for Mueller Local Government Corporation (the "Issuer"), the issuer of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the date and mature on the dates specified on the face of the Bonds, all in accordance with the resolution of the Board authorizing the issuance of the Bonds (the "Bond Resolution"). Terms used herein and not otherwise defined shall have the meaning assigned to such terms as provided in the Bond Resolution.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, and a transcript of certified proceedings of the Issuer and the City of Austin, Texas (the "City"), and other pertinent instruments authorizing and relating to the issuance of the Bonds, including one of the Bonds (Bond Number R-1). In addition, we have examined various certificates and documents executed by authorized representatives of the Issuer and the City, upon which certificates and documents we rely as to certain matters stated below.

IN OUR OPINION, the Issuer is a local development corporation duly and validly incorporated, existing, and functioning under and pursuant to Subchapter D, Chapter 431, Texas Transportation Code; that the Bond Resolution authorizing the execution of the Indenture and the issuance of the Bonds has been duly and lawfully adopted and constitutes a valid and binding obligation of the Issuer; and that the Bonds have been authorized and issued in accordance with law, and that the Bonds constitute valid, legally binding, and enforceable special revenue obligations of the Issuer, in accordance with their terms, with the principal of, redemption premium, if any, and interest on the Bonds, and other payments with respect to the Bonds, being payable from the payments to be made or paid, or caused to be made or paid, to the Trustee pursuant to the Indenture and together with bonds and other obligations of the Issuer that may be hereafter issued or incurred in accordance with the terms of the Indenture, are payable from, and secured by a first lien on and pledge of, the Pledged Revenues. All such bonds and obligations are secured ratably by such pledge of the Pledged Revenues in such manner that no one Bond shall have priority of lien over any other Bond so secured. Neither the faith and credit nor the taxing power of the State of Texas, the City, the Issuer, or any other political subdivision of the State of Texas has been pledged to the payment of the principal of or interest on the Bonds. The Bonds do not constitute an indebtedness or obligation of the City or any other city, county, or other municipal or political corporation or subdivision of the State of Texas, or of the State of Texas, or a loan of the credit of any of them within the meaning of any constitutional or statutory provisions. The Bonds are not secured by a mortgage or security interest in any of the property financed with the proceeds of the Bonds. The rights of the holder or holders of the Bonds to receive payment from the Pledged Revenues may be subject to the rights, if any, of the holders of bonds or other obligations issued by the City, that are payable from and secured by a general levy of ad valorem taxes throughout the City.

THE BONDS are further secured by an Indenture of Trust dated as of August 1, 2006 (the "Indenture"), whereunder Deutsche Bank Trust Company Americas, or its successor as trustee (the "Trustee"), is custodian of the Pledged Revenue Fund, the Debt Service Fund, the Reserve Fund and the Public Finance Fund created in the Indenture, and is obligated to enforce the rights of the Issuer and the owners of the Bonds, and to perform other duties, in the manner and under the conditions stated in the Indenture; and it is our further opinion that the Indenture has been duly and lawfully authorized, executed, and delivered by the Issuer, and that it is a valid and binding agreement of the Issuer enforceable in accordance with its terms and conditions. We are relying upon the opinion of the counsel to the Trustee, to the effect that the Indenture has been duly and lawfully authorized, executed, and delivered by the Trustee, and that the Indenture is valid and binding upon the Trustee in accordance with its terms and conditions.

THE ISSUER reserves the right, subject to the restrictions stated, and adopted by reference, in the bond ordinance, to incur contractual obligations and to issue additional parity revenue bonds in all things on a parity with the Bonds and payable from and equally secured by a first lien on and pledge of the aforesaid Pledged Revenues.

THE OPINIONS HEREINBEFORE EXPRESSED are qualified to the extent that the obligations of the Issuer and the Trustee, and the enforceability thereof, with respect to the Bonds and the Indenture, are subject to applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally and to the exercise of judicial discretion in accordance with general principles of equity.

IT IS FURTHER OUR OPINION that the Grant Agreement between the City and the Issuer ("the Grant Agreement") has been duly and lawfully authorized, executed, and delivered by, and is a legal, valid and binding obligation of, the Issuer, enforceable against the Issuer in accordance with its terms and conditions. We are relying upon the opinions, dated this date, of the office of the City Attorney of the City to the effect that the Grant Agreement has been duly and lawfully authorized, executed and delivered by the Issuer and the City, respectively, pursuant to the laws of the State of Texas, and is a legal, valid and binding obligation of the Issuer and the City, respectively, enforceable in accordance with its terms and conditions. The enforceability of the Grant Agreement may be limited by applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors generally, and such enforceability is subject to general principles of equity and the exercise of judicial discretion (regardless of whether such enforceability is considered in a proceeding in law or at equity).

THE OBLIGATION OF THE CITY to make periodic payments under the Grant Agreement is a current expense, payable solely from funds annually appropriated for such use. The City has no obligation to make periodic payments regardless of whether any Bonds remain outstanding. The Grant Agreement and the obligations of the City thereunder do not constitute a pledge, a liability, or a charge upon the funds of the City and do not constitute a debt or general obligation of the State of Texas, the City, the Issuer, or any other political subdivision of the State of Texas.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the City to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Bonds, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds. We have relied solely on representations by officials of the Issuer and the City as to the availability and sufficiency of the Pledged Revenues, and make no representations regarding the sufficiency of the Pledged Revenues to pay the debt service on the Bonds. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions.

Respectfully,

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